



# International Franchise Annual Review 2025: Navigating a cyclical bull market



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## Market background

International equity markets posted robust gains in 2025, with performance broadly positive but still heavily conditioned by the macro environment. Strength was concentrated in capital-intensive and cyclical sectors—banks, defence, and other beneficiaries of fiscal stimulus, easier monetary conditions, and historically depressed valuations, particularly in Europe. Emerging markets also outperformed global indices, supported by a weaker US dollar and exceptional contributions from economies such as South Korea, where export momentum, capital-market reform, and AI-related technology leadership were decisive tailwinds.

AI remained a powerful but uneven market driver. Companies tied to the physical build-out of AI infrastructure—foundries, semiconductor manufacturers, and hardware enablers—delivered outsized returns. Software-exposed businesses lagged as investors focused more narrowly on the risk that AI tools could automate or erode elements of their business models.

## International Franchise performance

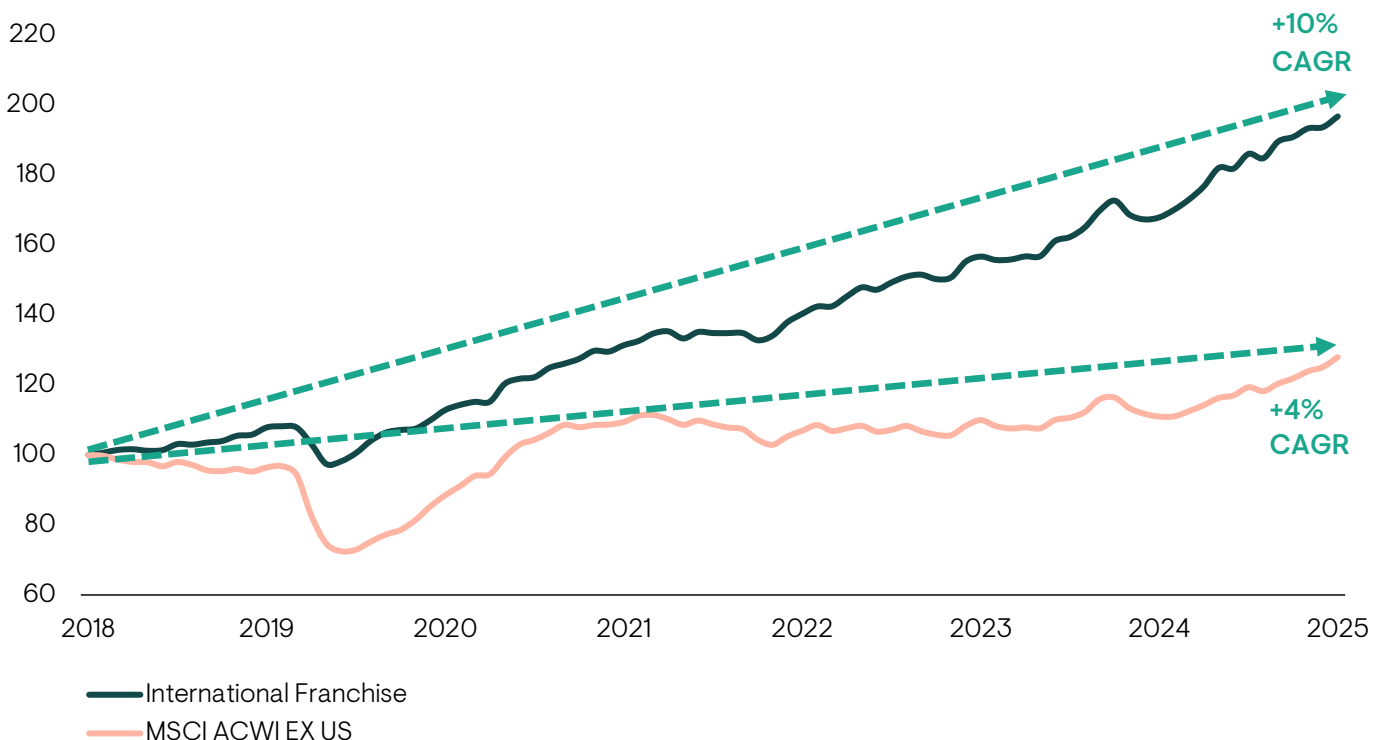
Despite delivering robust absolute returns close to the Strategy’s long-term track record, the calendar year 2025 presented a challenging environment on a relative basis for the Quality approach of the International Franchise strategy. The International Franchise Strategy delivered net returns of 10.1% (US Dollars) versus 32.4% for the MSCI AC World ex US Index.

Although generating robust excess returns in the early part of the year and during periods of most acute volatility (‘Liberation Day’), the rally in cyclical sectors which began in February and reaccelerated in May, proved a significant headwind to relative performance. Furthermore, the market’s more myopic stance of the disruption AI may present proved a headwind in the latter part of the year for many software-oriented holdings.

The confluence of macro drivers paved the way for the MSCI ACWI ex US to post its best year in over a decade and almost over 5x its historical average. Given the strategy applies a differentiated quality approach to seek consistent compounding of fundamental value across a full-market cycle, we avoid cyclical and commoditized, capital-intensive business models. As a result, the strategy’s performance typically lags cyclical-driven bull markets, as 2025 proved to be.

While a tough market environment to navigate, encouragingly the strategy’s performance remained closely aligned with underlying fundamentals of our holdings. As figure 1 highlights, in aggregate the strategy’s holdings have compounded earnings since inception at 10% per annum; faster and more sustainable than the benchmark across a full market cycle. Positively in 2025, the strategy maintained its fundamental lead over the market, even without the support from cyclical areas of the market we do not hold.

**Figure 1: International Franchise EPS growth vs MSCI ACWI ex US, since inception**



Past performance does not predict future returns; losses may be made. Clients’ actual separate managed accounts may differ.

Source: Ninety One, FactSet Bloomberg, 31 December 2025. Earnings are based on Blended 12 month forward EPS

The above reflects the portfolio characteristics reweighted excluding cash and cash equivalents.

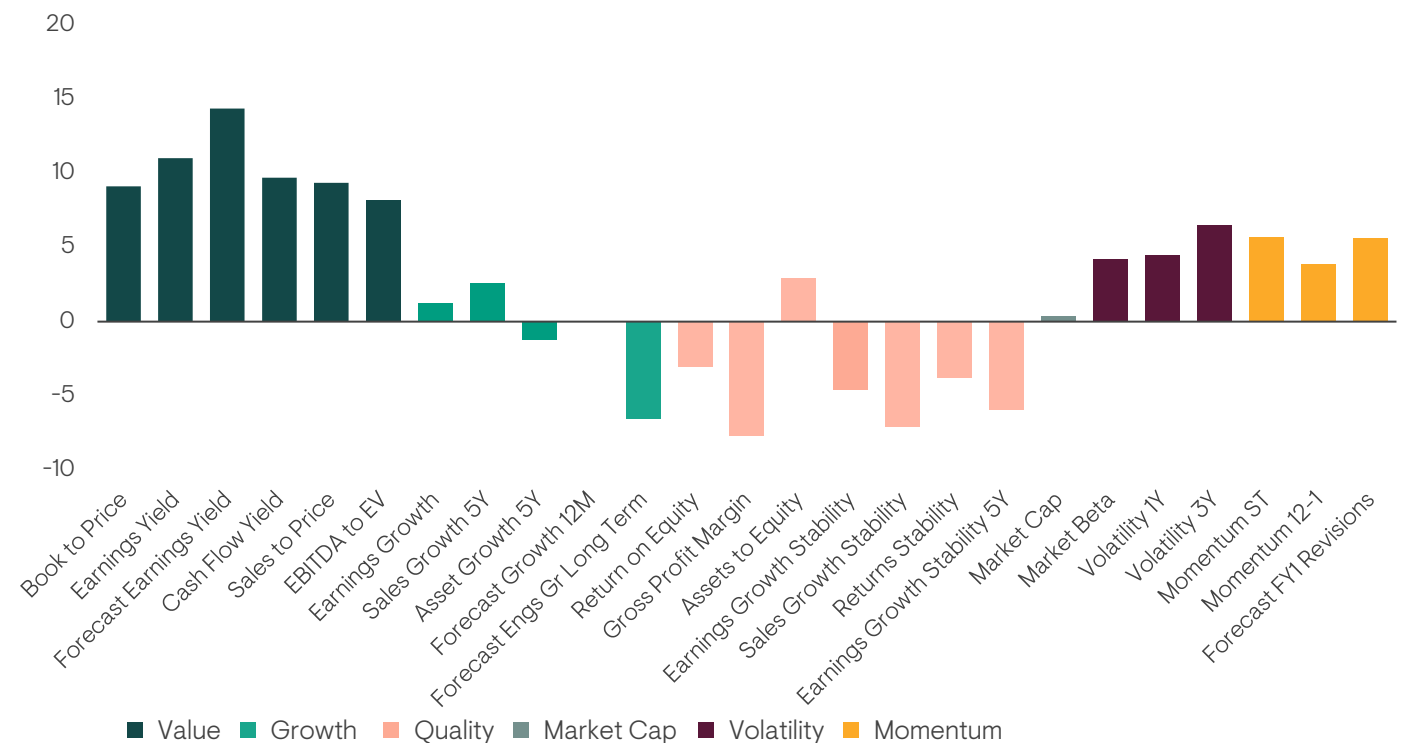
Inception date: December 2018. Index: MSCI AC World ex USA (USD). The portfolio may change significantly over a short period of time.

CAGR is the compounded annual growth rate of earnings per shares on a 12 month forward basis on a weighted average basis that is based on portfolio holdings through time.

## Unpacking the attribution

Against this backdrop, momentum and value factors were strongly favoured, while quality and low-volatility styles underperformed and served as funding sources for the cyclical rotation. For an approach like ours—anchored in a differentiated, fundamentals-driven definition of Quality prioritising profitability, earnings resilience, and return stability—these conditions constituted a material headwind. By design, we avoid the more cyclical, commoditised, or capital-intensive models that led markets in 2025, maintaining a consistent focus on compounding fundamental value across the full investment cycle.

**Figure 2: MSCI ACWI ex US factor relative returns, 1 year to 31 December 2025\***



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Source: Ninety One, Style Analytics 31 December 2025

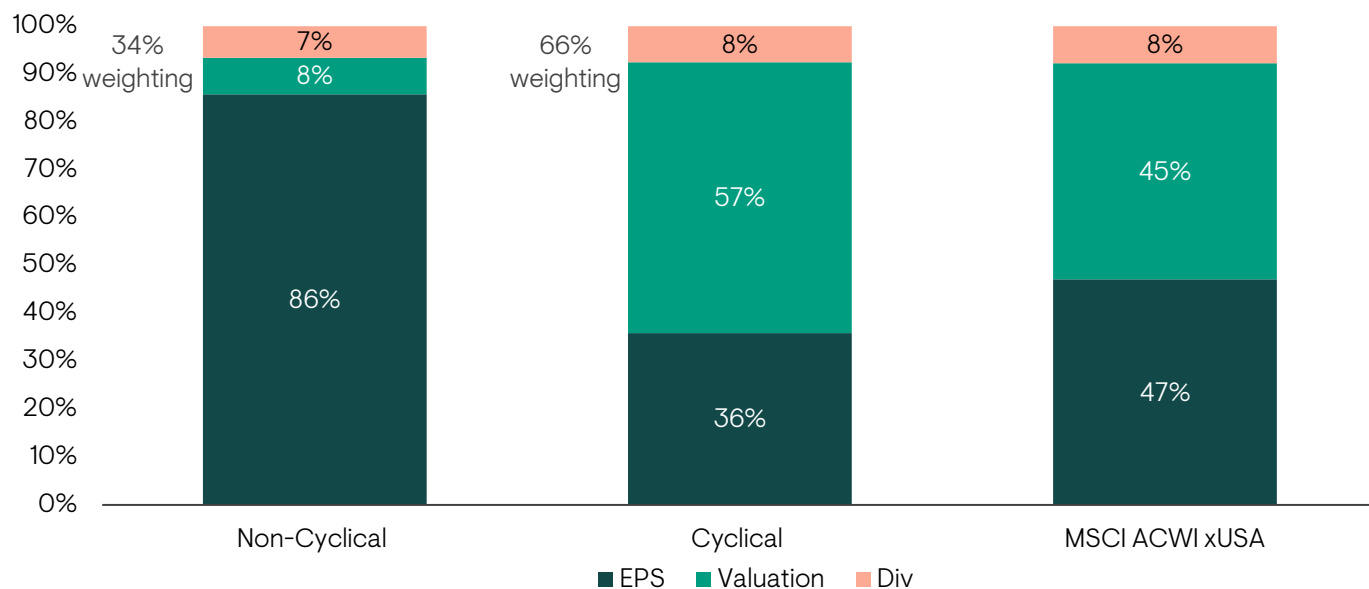
\*Average relative performance vs MSCI ACWI ex US of the top 50% of companies in each factor ranking

For further information on indices, please see the Important information section.

The above headwinds are reflected in the attribution analysis, where the allocation effect at a subsector level was a key detractor from returns. Subsectors most affected by AI-related dynamics - namely Software & Services, Financial Services, and Commercial and Professional Services - were relative laggards, given our preference for these types of businesses and resulting overweight positioning. In addition, our zero exposure to cyclical subsectors such as Capital Goods - home to several beneficiaries of increased defence spending - and to Banks further detracted from relative performance, as both subsectors performed strongly over the past 12 months.

As is typical in a short-term, momentum and cyclically driven market, valuations have become a significant driver of market returns. As the chart below highlights, a re-rating has driven around half of the market's overall total shareholder return in 2025. However, the picture becomes more evident when one decomposes the market returns into both cyclical and non-cyclical sectors. Within cyclicals, which account for 66% of the index composition, valuation was the largest contributing factor to returns. However, in non-cyclicals re-rating contributed less than 10% of total shareholder returns, with earnings compounding the primary driver.

Figure 3: MSCI ACWI ex US total Total Shareholder Return Decomposition Percentage Contribution to return-1 Year



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Source: Ninety One, Bloomberg, 31 December 2025, Earnings based on Blended 12mth forward EPS. Valuation based on residual from TSR, EPS and DPS. Chart highlights each elements proportional contribution to returns

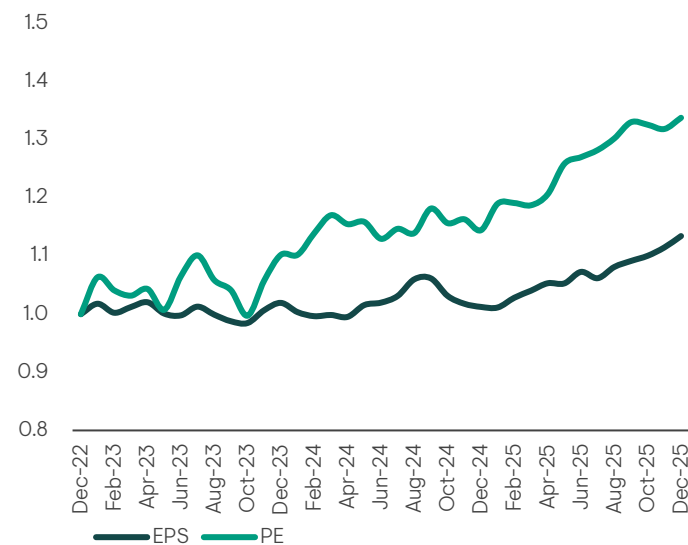
Non-Cyclicals – IT, Healthcare, Consumer Staples, Communication services. Cyclical – Financials, Consumer discretionary, Industrials, Energy, Materials, Utilities, Real estate. Based on weighted average for MSCI ACWI EX US sector index TSR in USD.

For further information on indices, please see the Important information section.

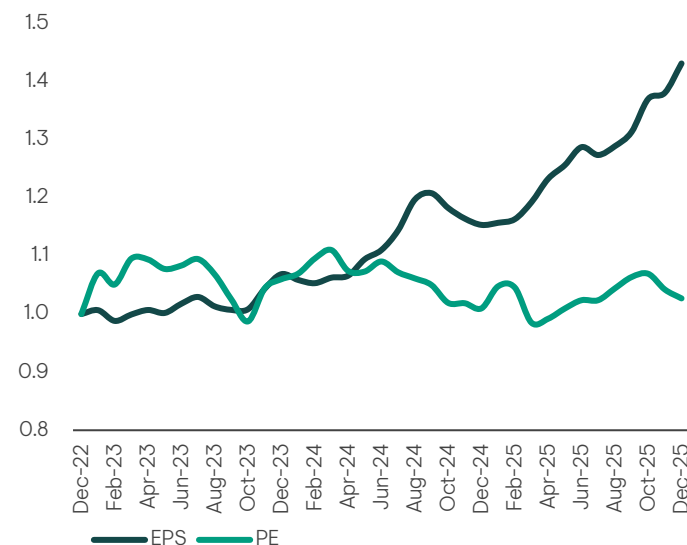
The extent of the valuation-earnings disconnect in cyclical sectors becomes even clearer when examining the longer-term evolution of both metrics. As shown in Figure 4, the cyclical rally in 2025 has materially widened the gap between market re-rating and underlying fundamentals over the past three years. Cyclical sectors are now near peak earnings on peak valuations, while non-cyclical sectors exhibit the opposite dynamic.

Figure 4: Last three years Foward earnings and PE progression, cyclical vs non cyclicals.

Cyclical NTM Fwd EPS & PE (index to Dec 2022)



Non-Cyclical NTM Fwd EPS & PE (Index to Dec 2022)



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Non-Cyclicals – IT, Healthcare, Consumer Staples, Communication services.

Cyclical – Financials, Consumer discretionary, Industrials, Energy, Materials, Utilities, Real estate

Based on weighted average for MSCI ACWI EX US sector index TSR in USD

Source: Ninety One, Bloomberg, 31 December 2025, Earnings based on Blended 12mth forward EPS. Valuation based on Blended 12mth forward PE, index to September 2022.

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Given our preference of non-cyclical businesses over cyclical, these dynamics were a natural headwind. Furthermore, deconstructing the total shareholder return of International Franchise over the calendar year versus that of the index reveals this stark picture.

While the strategy continued to compound its earnings ahead of the market, the market-relative de-rating was the largest contributing factor to International Franchise's underperformance in 2025, explaining more than the total underperformance and thereby discounting stronger compounding of earnings.

The divergence between sentiment and fundamentals is also true at the underlying stock level, even for the portfolio's largest relative detractors over the last twelve months – Wolters Kluwer and London Stock Exchange Group.

**Wolters Kluwer's** share price weakness was similarly driven by the broader GenAI narrative, alongside heightened market attention on OpenEvidence, a GenAI-based competitor to Wolters Kluwer's UpToDate platform in healthcare. Additional weakness earlier in the year followed the announcement of a CEO transition. We believe the risk of AI disruption to UpToDate—which represents approximately 10% of group revenues—is limited. UpToDate is a highly trusted brand among physicians, with a net promoter score exceeding 70; its physician-curated content is differentiated and deeply integrated into hospital workflow systems. Furthermore, an AI-enabled, chat-based version of the platform was launched in October, with around 50 US health systems already signed up. In addition, the CEO-designate is well regarded, which meaningfully mitigates leadership transition risk. We retain conviction in the long-term investment case with fundamentals continuing to compound, offering resilient high single digit forward FCF growth at an attractive valuation (~6% FCF yield)<sup>1</sup>.

**London Stock Exchange Group** experienced shorter-term share price weakness primarily due to broader GenAI-related concerns affecting information and data services providers. We believe these concerns are not significant for LSEG and remain confident in its ability to grow in an AI-driven environment. LSEG can leverage the exceptional breadth, depth, and quality of its data within a sophisticated desktop platform, with approximately 90% of its data being proprietary, meaning the vast majority is inaccessible to public AI models. Fundamentally, the business remains robust, underpinned by its market-leading position across the global financial ecosystem and a revenue base that is more than 75% recurring and we retain conviction. LSEG remains a key holding offering high single digit FCF growth on a forward basis while trading at an attractive ~5% FCF yield<sup>1</sup>.

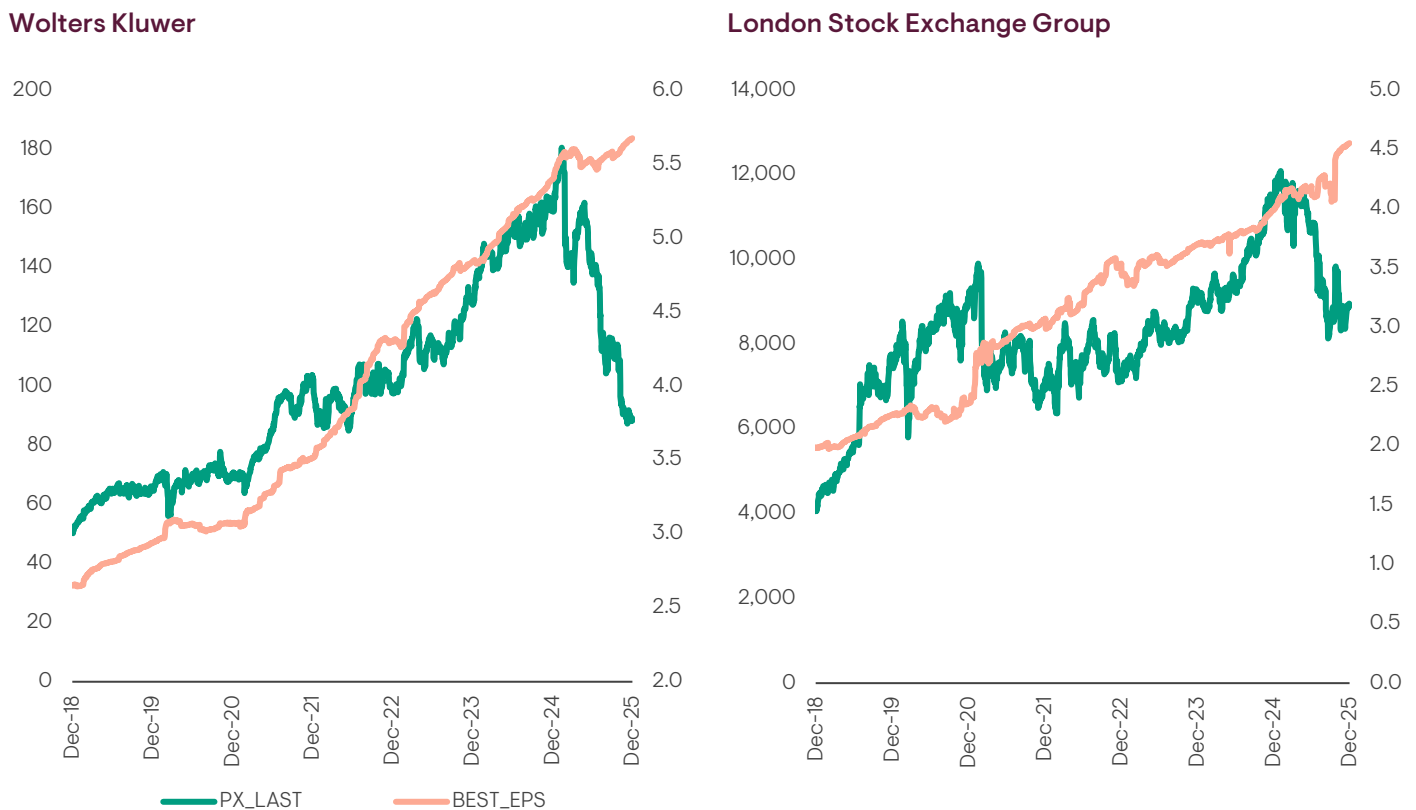
The common thread between all these companies is that share price movements have disconnected from fundamentals, creating a compelling valuation arbitrage, as shown in Figure 5 below:

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<sup>1</sup> No representation is being made that any investment will or is likely to achieve profits or losses similar to those achieved in the past, or that significant losses will be avoided. Based on Ninety One analysts' estimates

This is not a buy, sell or hold recommendation for any particular security. For further information on specific portfolio names, please see the Important information section.

Figure 5: Share price vs Forward EPS (last 7 years, rebased)



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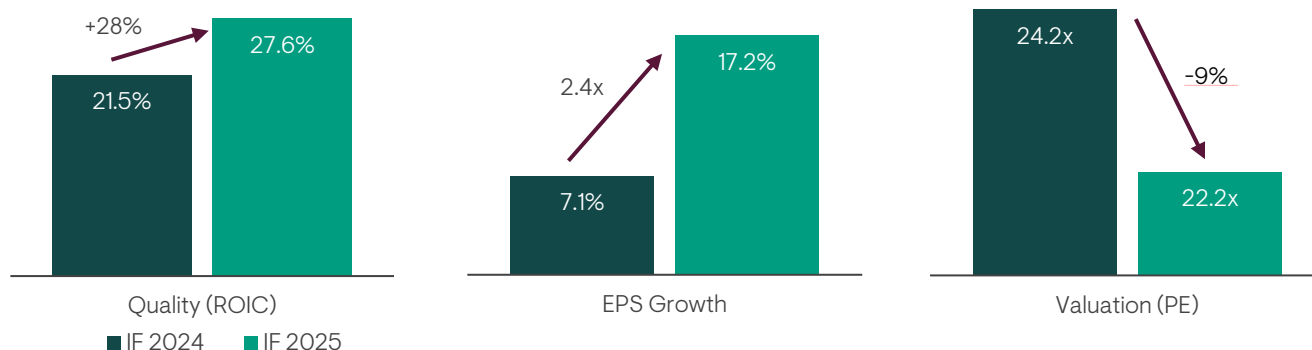
Source: Ninety One, Bloomberg, 31 December 2025. EPS based on blended 12month forward. EPS and price rebased to zero from 31 December 2018. In local currency.

## Why now for International Franchise

We view the dynamics of 2025 as cyclical rather than structural, with the balance of risks increasingly poised to shift back in favour of fundamental return drivers. Much of the positive surprise that fuelled the cyclical rally has now been priced in. After a strong run, valuations across cyclical sectors appear full relative to history - even stretched - reflecting a notably more optimistic stance on future outcomes. Multiple expansion is unlikely to be a disproportional driver of higher returns from here.

Given rating-driven markets are inherently fickle, we see this as an opportune moment to re-anchor portfolios in more durable, through-cycle drivers of return, especially cash-flow growth. Encouragingly, the quality and growth attributes of the portfolio have never been stronger and have improved across the year. As Figure 6 highlights, return on invested capital and earnings markedly improved between the end of 2024 and 2025, with earnings growth more than doubling. At the same time, the portfolio's relative valuation is at its cheapest level in over five years, creating a highly attractive forward-looking opportunity.

Figure 6: Portfolio quality, growth and valuation 2024 vs 2025



Sources: Ninety One and FactSet, 31 December 2025. Re-weighted excluding cash and equivalents showing metrics of the constituent companies. Quality based on ROIC, EPS growth based on growth in Forward Earnings per share, valuation is measured using 12 month forward PE.

Based on a related portfolio with substantially similar objectives as those of the services being offered. \* For further information on indices and investment process, please see the Important Information section.

On a forward-looking basis, estimates imply our holdings should deliver ~14% earnings growth over the next 12 months, well above the market’s ~9%. If this fundamental gap holds, the market will require a continued and unusually large contribution from cyclical multiple expansion just to match the strategy’s growth—well beyond historical norms. We view this as unlikely and believe the strategy’s superior resilient earnings profile positions it well as fundamental drivers reassert themselves.

We remain confident that the core principles underpinning our fundamental quality approach – a focus on enduring business quality, balance sheet strength, pricing power and sustainable cash generation – are as relevant today as they have ever been. While this approach may lag the market in short bursts of cyclically driven exuberance, we believe it is well positioned to deliver strong and resilient outcomes across a full market cycle, and this is what ultimately underpins long-term shareholder value.

**Historic performance (%)**

	1-year	5-years p.a.	Since inception* p.a.
Composite (gross)	10.9	6.0	10.5
Composite (net)	10.1	5.2	9.7
Benchmark**	32.4	7.9	10.1

Past performance does not predict future returns; losses may be made. Clients’ actual separate managed accounts may differ.

Source: Ninety One, December 31, 2025. Based on a representative discretionary portfolio with no client money invested that that we believe closely reflects current portfolio management style for the strategy. Clients’ actual separate managed accounts may differ. Where performance is gross of fees, returns will be reduced by management fees and other expenses. Net performance is net of 0.75% (actual fees will vary). Both gross and net returns are in USD, shown net of all trading expenses. Income is reinvested. The performance series is not GIPS compliant. Performance prior to 1 May 2020 is of the GIPS composite performance track record of the investment strategy.

\*Performance start: 01 January 2019.

Strategy: International Franchise.

\*\*Benchmark: MSCI AC World ex US NDR. Indices are shown for illustrative purposes only.

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