November 2026

Ninety One

Investing for a world of change

Quality: disruption misunderstood



Clyde Rossouw
Head of Quality



Joseph Knight
Portfolio Specialist

Key takeaways

- In a market currently dominated by momentum and cyclicality, it is easy to question whether the competitive advantages that pre-dated the current disruption narrative remain relevant. We firmly believe they do – but adaptability is key.
- A qualitative bottom-up approach to understanding competitive advantage allows us to distinguish between the sustainable and the unsustainable, and between the structural and the temporary.
- Over nearly 20 years we have faced several disruption cycles and evolved through them, moving away from legacy franchises and finding more emergent quality, while backing incumbents that can innovate and adapt to new normals.
- Capital intensity is one area in which our approach has evolved the most, and where flexibility is warranted. Where it raises barriers to entry and reinforces market position, without exposing the portfolio to uncertain returns, it can be a source of advantage.

For professional investors and financial advisors only. Not for distribution to the public or within a country where distribution would be contrary to applicable law or regulations.

Current market evolution

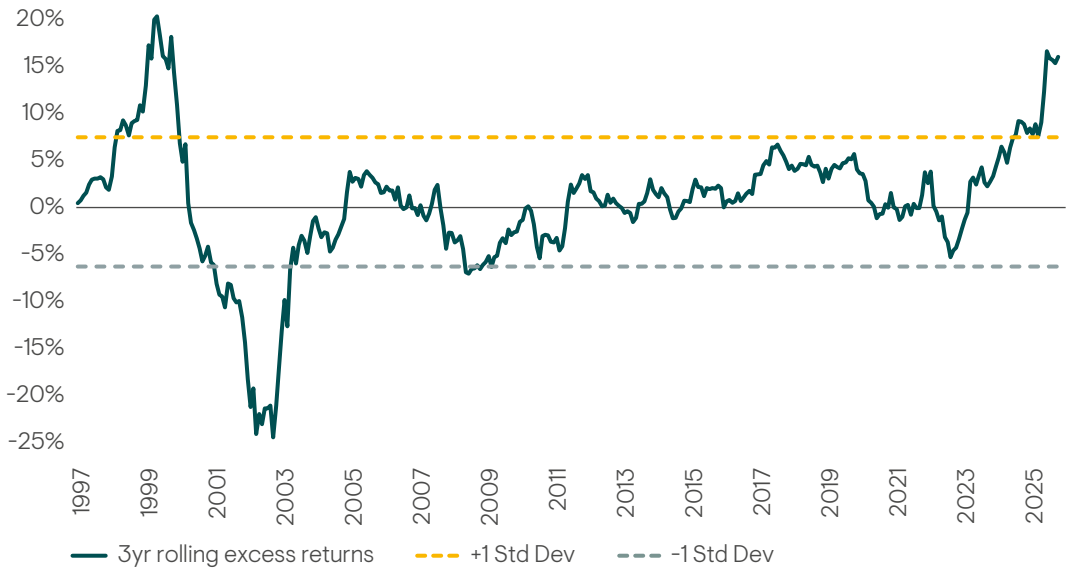
2026 has largely been characterised by two concurrent shocks, tied together by a single theme: AI.

The first has been driven by sentiment and the near-term economics of the AI infrastructure build-out. From chipmakers to the industrial companies supplying its capital needs, beneficiaries have re-rated sharply, leaving a significantly narrower market by concentration, valuation and earnings.

The second runs the other way. Taking a longer-term view of AI, the market has reassessed terminal value risk and de-rated many capital-light incumbents with perceived exposure, particularly in software and information services. The sell-off has been indiscriminate, drawing little distinction between businesses with deep moats and those with shallow ones.

For quality investors this bifurcation has been a pronounced headwind. Momentum, growth and high volatility have led while quality has lagged, and the dispersion between momentum and quality has not been this wide since the dot-com era (Figure 1). But the more pertinent challenge is one of first principles: have competitive advantages such as proprietary data, embedded workflows, network effects and switching costs been structurally altered by AI?

Figure 1: S&P 500 Momentum vs Quality, rolling 3-year return



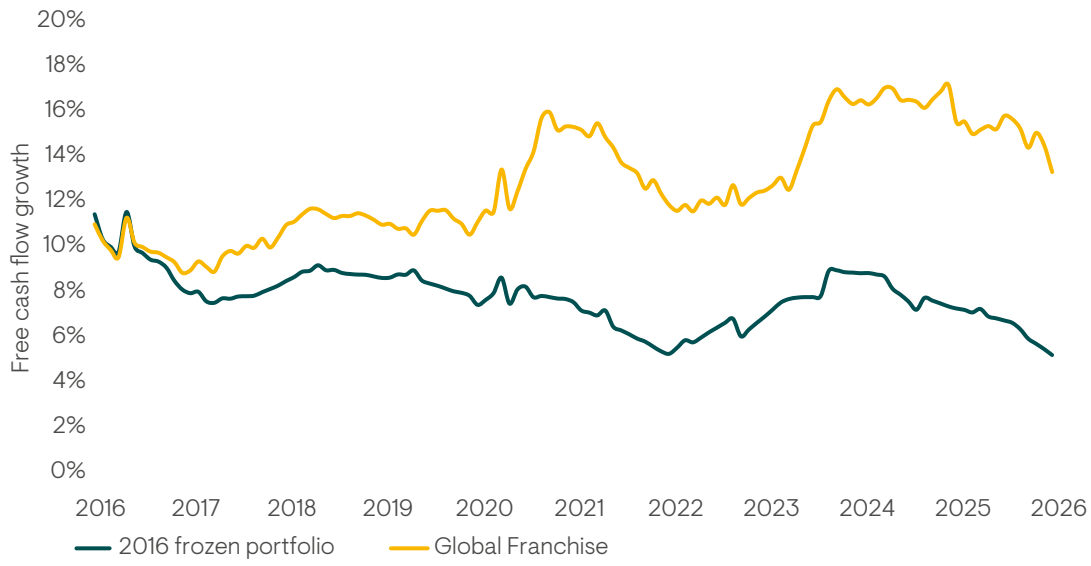
Source: Bloomberg, 30 September 2026.

Adaptability through previous disruption cycles

The 2010s brought several disruption cycles, including mobile, cloud and, in consumer, the rise of e-commerce and digital advertising. These lowered barriers to entry and impaired the fundamentals of the most exposed companies. We therefore reduced exposure to the most affected names, such as those in food and certain household products, and added select high-quality, attractively valued, cash-generative technology businesses as that opportunity set expanded.

This evolution has kept Global Franchise's quality profile resilient in absolute and relative terms. Figure 2 considers the counterfactual case of a 'frozen' portfolio, held unchanged from 2016. The divergence in quality attributes, such as free cash flow growth, is stark, and reinforces the importance of adaptability over time.

Figure 2: Global Franchise's free cash flow growth has proven resilient



Source: Ninety One, FactSet, 30 September 2026. Growth rate used is Compound Annual Growth Rate (CAGR).

The same evidence can be seen stock by stock. We have exited positions where we felt the durability of the moat had been impaired and initiated select positions where we believed quality was emergent.

WPP (exited)

As technology companies introduced algorithmically optimised advertising, the playing field for agencies shifted. WPP's legacy model, using global scale, pooled resources and information asymmetry to drive pricing power with media owners, weakened as new entrants offered analytics at a fraction of the cost, allowing Google and Meta to capture the lion's share of digital advertising. WPP relied on further acquisitions for scale rather than adapting to the digital world.

ASML (initiated 2018)

ASML now looks like an obvious quality investment given its near monopoly at the leading edge. In 2018, however, many growth drivers were still emerging: Extreme ultraviolet lithography (EUV) accounted for only c.20% of system sales (closer to 50% today) and offered optionality rather than being the main growth engine. Conviction came from structural growth in demand for computing power and a strengthening position in core Deep Ultraviolet (DUV) while peers opted out of EUV altogether. Pricing power rested on innovation and shared productivity gains with customers, while growing service revenue, a more balanced logic/memory split and a rising backlog mitigated cyclicality.

The fundamentals followed the moats. ASML's earnings have compounded 13x over the past decade while WPP's have halved, and their share prices have followed.

—

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

Can incumbents win?

Incumbents with multi-faceted advantages can win too, provided they innovate, adapt and lean into the disruption. But these cycles have also impaired some historically high-quality companies, so a bottom-up assessment of adaptability at business model level is critical to ensure near-term fundamentals are not a lagging indicator of disruption risk.

The pattern repeats. The early-2010s 'mobile-first' wave was expected to kill desktop-era companies; instead, select incumbents with the resources to buy or build their way in prevailed. Cloud produced the same result. There are four stages: euphoria around the new technology; a sell-off in 'legacy' businesses on fears of irrelevance; a reality check as enterprise integration proves difficult; and adaptive incumbents regaining the narrative by embedding and monetising the technology within their existing ecosystems.

Microsoft

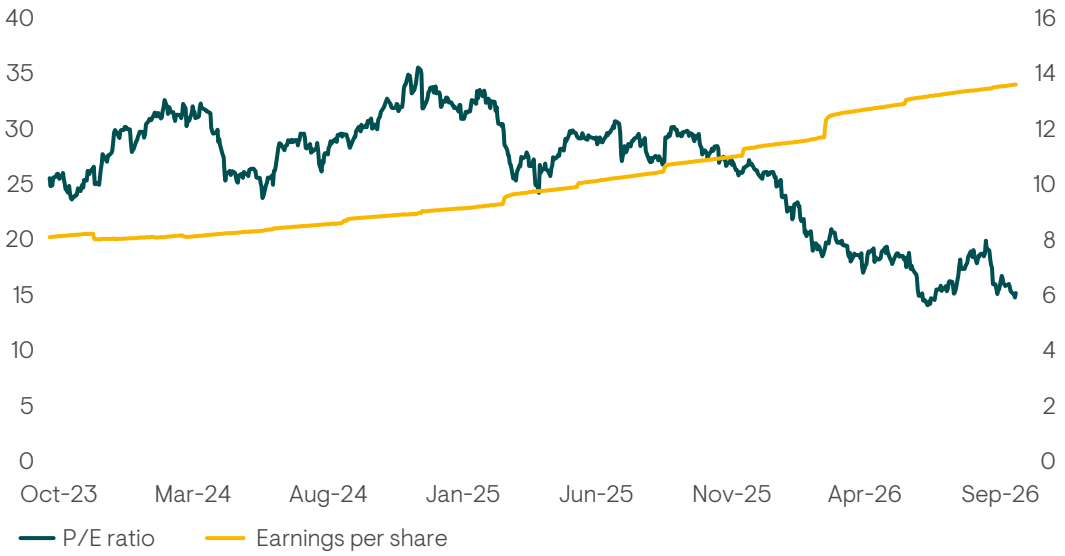
Moved from licensing to subscriptions across all business units, shifting pricing from per-PC to per-user, and adopted a differentiated hybrid model spanning cloud and on-premises. This raised customer lifetime value, shortened the innovation cycle and reduced piracy. Microsoft has continued to evolve into a fully integrated cloud and AI platform spanning infrastructure, productivity, developer tools and security. Its subscription-led model continues to deepen customer relationships and reinforce platform stickiness.

The current shift is no different. Many mission-critical software and information services businesses remain deeply embedded in customer workflows and own proprietary data an open model cannot replicate. Some will be disrupted, but the market's broad-brush approach overlooks the resilience of high switching costs, strong retention and recurring cash flows, and their ability to monetise AI.

Autodesk

A case in point. The market treats it as an AI casualty, a disconnect from fundamentals (Figure 3), yet the company is difficult to displace and can use AI to extend its growth. It is the system of record across design-to-make workflows, and its Revit and AutoCAD formats are industry standards, so substitution carries real translation risk. Its moat is also its data: 40 years of Computer-Aided Design (CAD) data captures actual geometry, not just visuals. Management's response has been encouraging, pairing probabilistic generation with deterministic engineering validation, using frontier models where a general answer will do and its own geometry-aware models (e.g. NeuralCAD) where precision matters. Task-level AI can be bundled into subscriptions, with workflow- and system-level automation following on metered pricing, so if agents consume Autodesk's geometry and lifecycle data, that can offset seat deflation from more productive designers.

Figure 3: Autodesk's shares have been punished despite robust earnings



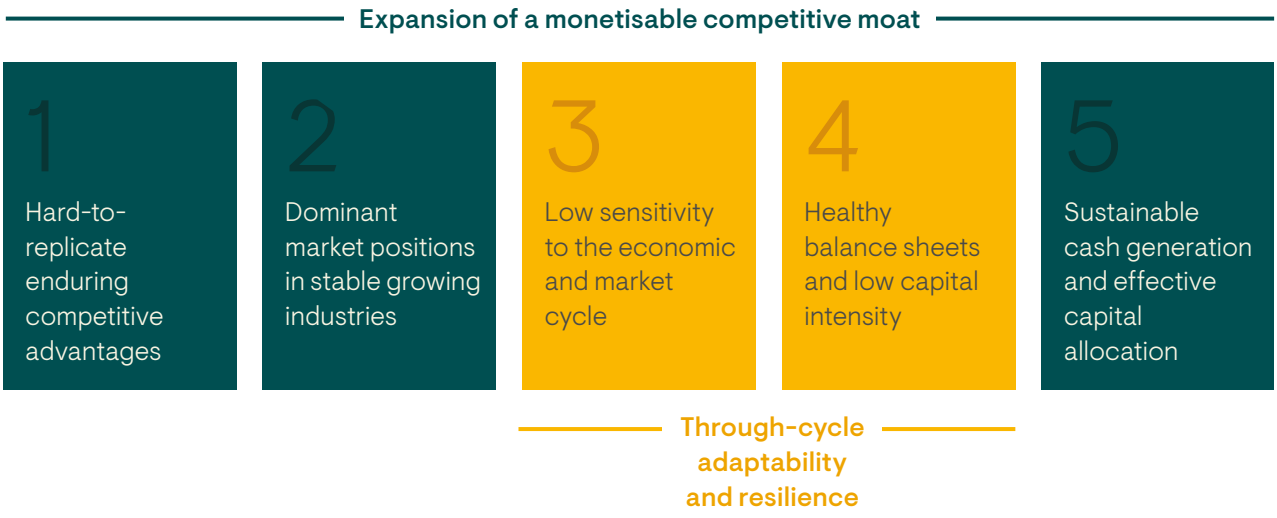
Source: Ninety One, Bloomberg, 30 September 2026. Period chosen to illustrate how the 12-month forward P/E (left axis) versus EPS (right axis) de-rating has exacerbated over the past year.

What this means for fundamental quality investors

The differentiated insight often lies not in identifying quality attributes but in appreciating their durability, so the assessment must be forward-looking: confidence in a moat's sustainability into the future, not merely its past existence. A forward view must separate structural from temporary pressures and account for cyclicality, capital intensity and the risk that peak-cycle margins compress. These are precisely the risks that a qualitative approach to quality, and our overarching philosophy, are designed to highlight.

At their core, the attributes we seek (hard-to-replicate and enduring competitive advantages; dominant positions in growing industries; sustainable free cash flow generation; and effective capital allocation) provide the foundation for a company to expand its moat and adapt. Cyclical sensitivity, capital intensity and balance sheet strength provide through-cycle resilience. Both elements are required to compound shareholder value with lower absolute volatility.

Figure 4: Our forward-looking definition of quality

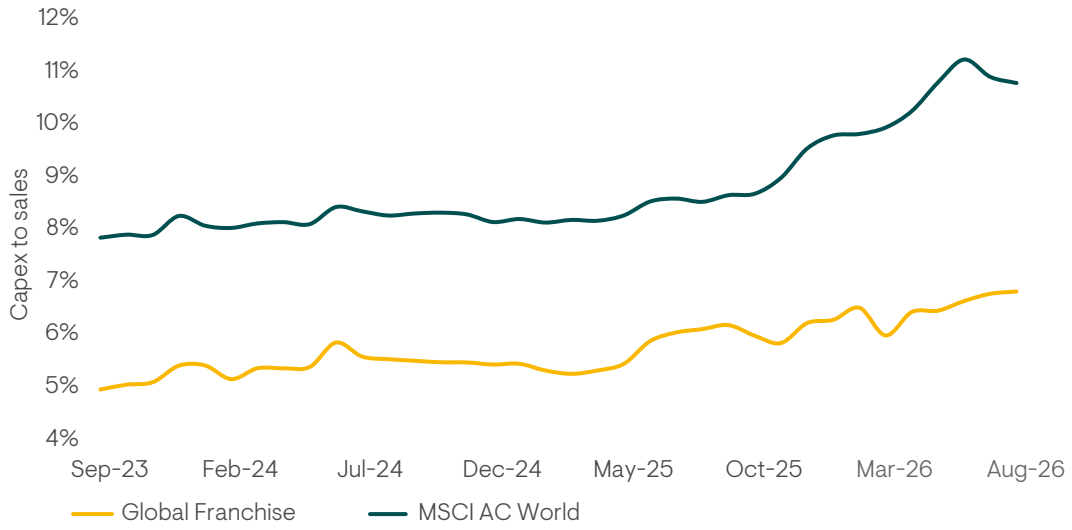


What defines quality companies: Sustain high returns and compound shareholder wealth over the long term

Capital intensity: where our thinking has evolved most

As companies adapt to new secular growth drivers, capital intensity can itself raise barriers to entry and reinforce market position, as seen in parts of industrials, financials and technology. We are therefore widening our top-of-funnel universe; recent ideas include CATL, Eaton, Siemens Energy and Schneider Electric (industrials and power), and Leonardo, Kongsberg, Safran, Sika and Linde (defence and materials). However, higher capital intensity must be weighed against how it is funded and its effect on capital allocation, growth and innovation. We therefore tend to avoid companies funding this through rising debt, where payoffs are uncertain and returns are cyclical. As Figure 5 shows, capital intensity at the portfolio level has risen marginally in recent years, but remains well below that of the market, where it has increased markedly as concentration in more capital-heavy technology companies has grown. This gap adds to the portfolio's overall resilience, particularly in periods of economic uncertainty.

Figure 5: Capital intensity in the broader market has increased recently



Source: Ninety One, FactSet, 30 September 2026. Outliers with capex: sales greater than 1,000% excluded. Period chosen to illustrate the recent increase in capex to sales as tech concentration has increased.

Contemporary Amperex Technology (CATL)

A global leader in lithium-ion battery technology for electric vehicles and energy storage meets the criteria despite being more capital-intensive than most of our universe. It sits at the centre of two long-duration trends: electrification of transport and energy storage for renewables. The battery industry has moved from a fragmented, subsidy-driven market to a consolidated, capital-intensive one with rising technological barriers, and CATL has been the main beneficiary. Its position rests on technology, manufacturing scale, supply chain control and long-standing customer relationships. The industry's recurring investment obligation helps exclude new entrants. CATL spends less per unit of capacity than peers, so it is capital intensive but efficiently so, and its negative working capital cycle and net cash position reduce reliance on external funding.

Micron and SK Hynix

By contrast, memory producers such as Micron and SK Hynix do not qualify. Their returns hinge on a single capex cycle in which shortage-driven pricing power is typically followed by overcapacity and margin compression. The range of outcomes is too wide, and their capital intensity is not moat-accretive. Capital intensity that entrenches a leading position through the cycle can be beneficial; capital intensity that merely funds participation in a boom can be the opposite.

Conclusion

Our near two-decade track record of evolving across market environments and cycles demonstrates our ability to adapt to new normals while staying true to the quality characteristics we seek. This allows us to capture the secular growth themes that will drive markets over the long term, with a narrower range of outcomes. We do not believe that recent share price action and the disconnect from fundamentals will continue in perpetuity. The portfolio is of higher quality, more attractively valued and growing earnings faster than at almost any point in its history, into an unusually concentrated and expensive market – a set-up we believe should reward patience.

General risks. The value of investments, and any income generated from them, can fall as well as rise. Where charges are taken from capital, this may constrain future growth. Past performance is not a reliable indicator of future results. If any currency differs from the investor's home currency, returns may increase or decrease as a result of currency fluctuations. Investment objectives and performance targets are subject to change and may not necessarily be achieved, losses may be made. Environmental, social or governance related risk events or factors, if they occur, could cause a negative impact on the value of investments.

Specific risks. Geographic/Sector: Investments may be primarily concentrated in specific countries, geographical regions and/or industry sectors. This may mean that the resulting value may decrease whilst portfolios more broadly invested might grow. **Equity investment:** The value of equities (e.g. shares) and equity-related investments may vary according to company profits and future prospects as well as more general market factors. In the event of a company default (e.g. insolvency), the owners of their equity rank last in terms of any financial payment from that company. **Concentrated portfolio:** The portfolio invests in a relatively small number of individual holdings. This may result in wider fluctuations in value than more broadly invested portfolios. **Style bias:** The use of a specific investment style or philosophy can result in particular portfolio characteristics that are different to more broadly-invested portfolios. These differences may mean that, in certain market conditions, the value of the portfolio may decrease while more broadly-invested portfolios might grow.

Australia
Level 28 Suite 3, Chifley Tower
2 Chifley Square
Sydney, NSW 2000
Telephone: +61 2 9160 8400
australia@ninetyone.com

Botswana
Plot 64289, First floor
Tlokweng Road, Fairgrounds
Gaborone
PO Box 49
Botswana
Telephone: +267 318 0112
botswanaclientservice@ninetyone.com

Channel Islands
PO Box 250, St Peter Port
Guernsey, GY1 3QH
Telephone: +44 (0)1481 710 404
enquiries@ninetyone.com

Germany
Bockenheimer Landstraße 23
60325 Frankfurt am Main
Telephone: +49 (0)69 7158 5900
deutschland@ninetyone.com

Hong Kong
Suites 1201-1206, 12/F
One Pacific Place
88 Queensway, Admiralty
Telephone: +852 2861 6888
hongkong@ninetyone.com

Luxembourg
2-4, Avenue Marie-Thérèse
L-2132 Luxembourg
Telephone: +352 28 12 77 20
enquiries@ninetyone.com

Namibia
Am Weinberg Estate
Winterhoek Building
1st Floor, West Office
13 Jan Jonker Avenue
Windhoek
Telephone: +264 (61) 389 500
namibia@ninetyone.com

Netherlands
Johan de Wittlaan 7
2517 JR Den Haag
Netherlands
Telephone: +31 70 701 3652
enquiries@ninetyone.com

Singapore
138 Market Street
CapitaGreen #27-02
Singapore 048946
Telephone: +65 6653 5550
singapore@ninetyone.com

South Africa
36 Hans Strijdom Avenue
Foreshore, Cape Town 8001
Telephone: +27 (0)21 901 1000
enquiries@ninetyone.com

Sweden
Västra Trädgårdsgatan 15,
111 53 Stockholm
Telephone: +46 8 502 438 20
enquiries@ninetyone.com

Switzerland
Dufourstrasse 49
8008 Zurich
Telephone: +41 44 262 00 44
enquiries@ninetyone.com

United Kingdom
55 Gresham Street
London, EC2V 7EL
Telephone: +44 (0)20 3938 1900
enquiries@ninetyone.com

United States
Park Avenue Tower, 65 East 55th Street
New York, 10022
US Toll Free: +1 800 434 5623
usa@ninetyone.com

—

www.ninetyone.com

Telephone calls may be recorded for training, monitoring and regulatory purposes and to confirm investors' instructions.
For more details please visit www.ninetyone.com/contactus

Important information

This communication is for institutional investors and financial advisors only. It is not to be distributed to the public or within a country where such distribution would be contrary to applicable law or regulations. If you are a retail investor and receive it as part of a general circulation, please contact us at www.ninetyone.com/contactus.

The information may discuss general market activity or industry trends and is not intended to be relied upon as a forecast, research or investment advice. The economic and market views presented herein reflect Ninety One's judgment as at the date shown and are subject to change without notice. There is no guarantee that views and opinions expressed will be correct and may not reflect those of Ninety One as a whole, different views may be expressed based on different investment objectives. Although we believe any information obtained from external sources to be reliable, we have not independently verified it, and we cannot guarantee its accuracy or completeness. Ninety One's internal data may not be audited. Ninety One does not provide legal or tax advice. Prospective investors should consult their tax advisors before making tax-related investment decisions.

Nothing herein should be construed as an offer to enter into any contract, investment advice, a recommendation of any kind, a solicitation of clients, or an offer to invest in any particular fund, product, investment vehicle or derivative. Investment involves risks. Past performance is not indicative of future performance. Any decision to invest in strategies described herein should be made after reviewing the offering document and conducting such investigation as an investor deems necessary and consulting its own legal, accounting and tax advisors in order to make an independent determination of suitability and consequences of such an investment. This material does not purport to be a complete summary of all the risks associated with this Strategy. A description of risks associated with this Strategy can be found in the offering or other disclosure documents. Copies of such documents are available free of charge upon request.

In the US, this communication should only be read by institutional investors, professional financial advisers and their eligible clients, but must not be distributed to US persons apart from the aforementioned recipients. In Australia, this document is provided for general information only to wholesale clients (as defined in the Corporations Act 2001). In Hong Kong, this document is intended solely for the use of the person to whom it has been delivered and is not to be reproduced or distributed to any other persons; this document shall be delivered to professional financial advisors and institutional and professional investors only. It is issued by Ninety One Hong Kong Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong (SFC). The Company's website has not been reviewed by the SFC and may contain information with respect to non-SFC authorised funds which are not available to the public of Hong Kong. In Singapore, this document is issued by Ninety One Singapore Pte Limited (company registration number: 201220398M) for professional financial advisors and institutional investors only. In Indonesia, Thailand, The Philippines, Brunei, Malaysia and Vietnam this document is provided in a private and confidential manner to institutional investors only.

In South Africa, Ninety One is an authorised financial services provider. Ninety One Botswana Proprietary Limited, Unit 5, Plot 64511, Fairgrounds, Gaborone, Botswana, is regulated by the Non-Bank Financial Institutions Regulatory Authority. In Namibia, Ninety One Namibia Asset Management (Pty) Ltd is regulated by the Namibia Financial Institutions Supervisory Authority.

Except as otherwise authorised, this information may not be shown, copied, transmitted, or otherwise given to any third party without Ninety One's prior written consent. © 2026 Ninety One. All rights reserved. Issued by Ninety One, November 2026.

Additional information on our investment strategies can be provided on request.

Indices

Indices are shown for illustrative purposes only, are unmanaged and do not take into account market conditions or the costs associated with investing. Further, the manager's strategy may deploy investment techniques and instruments not used to generate Index performance. For this reason, the performance of the manager and the Indices are not directly comparable.

If applicable MSCI data is sourced from MSCI Inc. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, endorsed, reviewed or produced by MSCI. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

If applicable FTSE data is sourced from FTSE International Limited ('FTSE') © FTSE 2026. Please note a disclaimer applies to FTSE data and can be found at www.ftse.com/products/downloads/FTSE_Wholly_Owned_Non-Partner.pdf

Specific Portfolio Names

References to particular investments or strategies are for illustrative purposes only and should not be seen as a buy, sell or hold recommendation. Such references are not a complete list and other positions, strategies, or vehicles may experience results which differ, perhaps materially, from those presented herein due to different investment objectives, guidelines, or market conditions. The securities or investment products mentioned in this document may not have been registered in any jurisdiction. More information is available upon request.



CS_1070 11/2026 - MACS21363