Ninety One

Global Franchise Fund

Market context

Global equities ended the final quarter in negative territory, driven by a sharp December sell-off following the Federal Reserve's cautious outlook on interest rate cuts for 2025. The central bank projected only two rate cuts for the year, down from the four previously anticipated. This dampened the positivity seen in the previous month, when Donald Trump's decisive victory drove global equities higher. The November rally, led by Trump's home market, reflected investors' view that some of the new administration's policies, such as corporate tax cuts and lighter regulation, could boost domestic growth.

There was significant divergence among geographies, with US equities rising to another all-time high in November before trailing off in the final month of the year, albeit still up for the quarter. Taiwanese equities were another positive, supported by its tech-heavy benchmark. However, there were pockets of weakness in other markets at risk of proposed US tariffs, including China and Mexico, which fell over the quarter, as did European car manufacturers. France was a notable laggard after the government of Michel Barnier fell following the first successful no-confidence vote since 1962 after his proposed budget failed to pass.

Geopolitics was in focus too, with tensions between Ukraine and Russia showing little sign of a resolution. In the Middle East, a ceasefire agreement was reached between Israel and Hezbollah. At the sector level, consumer discretionary, communication services and tech all performed strongly, however materials lagged, as did healthcare stocks, which were hit by the nomination of vaccine sceptic Robert Kennedy Jr to head the US health department. The interest-rate-sensitive real estate sector also struggled amid concerns about tighter monetary policy.

Performance

The Fund delivered a negative return in absolute terms but outperformed the MSCI ACWI over the quarter in US dollars. Stock selection in financials and positioning in industrials contributed at the sector level, offset in part by stock selection in IT and positioning in consumer staples.

Payments provider Visa posted robust fiscal Q4 results, led in part by an increase in cross-border volumes. More recently, the company benefitted from the positive sentiment following Trump's victory and the projected softer regulatory back drop. Booking Holdings advanced after reporting Q3 bookings that exceeded consensus, driven by a reacceleration in Europe, a sign that consumer demand didn't slow as much over the summer as some investors had feared. Booking also raised its guidance for the full year.

Verisign had a strong quarter driven by robust results, ICANN announcing the renewal of its .COM registry agreement with the company, and in December, Berkshire Hathaway disclosing an increase to its stake. Software company Autodesk contributed over the quarter, especially earlier on with some sell side upgrades. Although there was some pull back in performance following its Q3 2025 results, positively Autodesk beat on profits and raised its full year guidance.

Heart valve maker Edwards Lifesciences – a recent addition to the portfolio – outperformed, with no clear catalyst. In December the company reaffirmed its sales growth.

Turning to detractors, clinical research company ICON fell after cutting its profit guidance for the full year after Q3 results fell short of expectations. We don't believe these near-term results hinder the longer-term investment case. Equally, the stock was impacted following vaccine-sceptic Robert Kennedy's appointment as secretary of Health and Human Services. Positively, ICON continues to take share and biotech funding has improved; we retain conviction in the stock.

Lithography equipment maker ASML had a weaker quarter, primarily driven by the company reporting weaker-than-expected Q3 bookings and reduced 2025 guidance. While disappointing, this choppy quarter should not obscure ASML's leading market position and many of the near-term headwinds are now priced in. Skincare producer Beiersdorf detracted, masking robust Q3 results, which were reassuring in the face of weaker results elsewhere in the sector. Encouragingly, Beiersdorf reported double digit growth in the dermatological segment.

Consumer staples company Nestle lagged the broader portfolio, following softer Q3 results and reduction in guidance. Encouragingly, we saw a reacceleration from the Nestle Health Science division. Overall, we believe Nestle continues to have an above average category exposure versus its peers, and the company is taking decisive action to protect profits, illustrated by the 2.5 billion-euro efficiency program announced in November.

Not holding Tesla was also headwind to relative returns.

Outlook

For 2025, we anticipate a more challenging year for equity markets. Sentiment has driven global equities to elevated levels in the short term, but with commensurately higher valuation and concentration risk. The AI theme, while captivating investors, has faced challenges in end market monetization, raising questions about the sustainability of hyperscaler capex. A more uncertain growth environment, rising geopolitical tensions, and potential policy shifts from incoming President Trump likely introduce added volatility and risk. Those assuming another year of bumper returns from growth and momentum investing might be disappointed, therefore, if growth does not materialise to justify high market valuation multiples.

To navigate this landscape, we believe a focus on truly exceptional companies with durable competitive advantages and attractive valuations is best placed. We expect compounding earnings to be a more significant driver of shareholder returns in future and these high-quality businesses, resilient to economic cycles and geopolitical risks, to continue to offer long-term value for patient investors. Furthermore, if the change in presidency proves to be a headwind for falling inflation in the world's largest economy, as many fear, quality businesses are well placed given their pricing power and balance sheet strength. We believe those investors who execute correctly on buying businesses that have realisable growth – not the promise of growth – on reasonable valuations with low funnels of uncertainty, should benefit in this environment.

Specific risks.

Currency exchange: Changes in the relative values of different currencies may adversely affect the value of investments and any related income. Default: There is a risk that the issuers of fixed income investments (e.g. bonds) may not be able to meet interest payments nor repay the money they have borrowed. The worse the credit quality of the issuer, the greater the risk of default and therefore investment loss. Derivatives: The use of derivatives may increase overall risk by magnifying the effect of both gains and losses leading to large changes in value and potentially large financial loss. A counterparty to a derivative transaction may fail to meet its obligations which may also lead to a financial loss. Emerging market: These markets carry a higher risk of financial loss than more developed markets as they may have less developed legal, political, economic or other systems. 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. Interest rate: The value of fixed income investments (e.g. bonds) tends to decrease when interest rates rise.

Important information

All information is as at 31.12.2024 unless otherwise stated. Where applicable, the distribution yield reflects the amount that may be expected to be distributed over the 12 months, as a percentage of the mid-market unit price of the Fund. The yield is not guaranteed, will vary over time and take no account of any preliminary charge. This communication is not for general public distribution and is for general information only. If you are a private investor and receive it as part of a general circulation, please contact us on +44 (0)20 7597 1800. The value of this investment, and any income generated from it, can go down as well as up and will be affected by changes in interest rates, exchange rates, general market conditions and other political, social and economic developments, as well as by specific matters relating to the assets in which it invests. The Fund's investment objective will not necessarily be achieved and there is no guarantee that these investments will make profits; losses may be made. This Fund may not be appropriate for investors who plan to withdraw their money within the short to medium term. Performance shown is that of the Fund and individual investor's performance may differ as a result of initial fees, actual investment date, date of any subsequent reinvestment and any dividend withholding tax. All the information contained in this communication is believed to be reliable but may be inaccurate or incomplete. Any opinions stated are honestly held but are not guaranteed and should not be relied upon. This is not a buy, sell or hold recommendation for any particular security. It is not an invitation to make an investment nor does it constitute an offer for sale. Before making an investment, please read the Prospectus and Key Investor Information Document, which sets out the fund specific risks and is available from Ninety One SA (Pty) Ltd ("Ninety One SA"). The portfolio may change significantly over a short period of time. The Fund is traded at the ruling price and can engage in borrowing, up to 10% of the portfolio net asset value to bridge insufficient liquidity, and scrip lending and may be closed in order to be managed in accordance with the mandate. The Fund is a sub-fund of the Investec Global Strategy Fund, which is a UCITS organised as a Société d'Investissement à Capital Variable under the law of Luxembourg. For further information on the Fund including application forms and a schedule of fees and commissions, please contact Ninety One SA. Fund prices and English language copies of the Prospectus, Report & Accounts and Articles of Incorporation and local language copies of the Key Investor Information Documents may be obtained from our website and free of charge from the following country specific contacts: Luxembourg – Investec Global Strategy Fund, 49 avenue J.F. Kennedy, L-1855 Luxembourg. In South Africa, Ninety One SA is an authorised financial services provider. Those sub-funds offered for public sale in South Africa are approved under the South African Collective Investment Schemes Control Act.

Indices

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