Ninety One

Global Sustainable Equity Fund

Market context

Markets had a mixed fourth quarter of 2024, influenced by significant geopolitical and macroeconomic events. The US presidential election emerged as the major market event, resulting in a Republican 'red sweep'. Although this initially bolstered positive sentiment toward US assets, it has introduced significant policy uncertainty. US macro and inflation data, along with the potential impacts of Trump's signalled intentions to impose significant tariffs on imports, led to a growing concern over the threat posed by inflation. Central banks maintained a cautious stance, with the US Federal Reserve (Fed) delivering a final 'hawkish' 25bps cut for the year in December, which further drove market participants to recalibrate their expectations for the degree of future easing. The European Central Bank (ECB) also continued to cut rates in 25bps increments and notably adjusted its growth outlook as economic data weakened, while the Bank of Japan (BoJ) held its policy rate steady at 0.25%. After the significant policy announcements in Q3, the People's Bank of China (PBoC) moved to signal that monetary policy will shift to being 'moderately loose' in 2025 and a greater focus would be placed on domestic demand growth, however a lack of specific policy measures meant investor sentiment remained cautious. Elsewhere, in France, political turmoil led to a vote of no confidence and a ratings downgrade by Moody's, while heightened tensions in the Middle East created bouts of market volatility.

Against this backdrop, global equities delivered a positive return. Underneath the surface however, there was much divergence. Developed market equities outperformed emerging market equities. The market was narrowly led as US equities delivered the majority of returns having performed particularly strongly following the US election, with mega-cap tech stocks holding onto these gains despite sentiment weakening following the hawkish shift from the Fed. European and Asian equities faced headwinds from potential tariff risks, disappointing economic data, and political uncertainties. Additionally, the Fed's signal of a slower pace of interest rate cuts dampened global risk appetite more broadly.

Performance

The Fund delivered a flat return and underperformed the MSCI ACWI.

A key contributor to underperformance was negative sentiment towards sustainable investment areas following Trump's US election victory, particularly in the context of ongoing strength in the Magnificent 7, which are not held within the Strategy. Underperformance also came from more idiosyncratic stock specific drivers across the portfolio, including concerns over greater healthcare volatility, and some disquiet in emerging markets financials. Some pockets of positive contribution came from investments within sustainable solution areas as outlined in the stock specific comments below, including digital inclusion, decarbonisation, and medtech within healthcare impact.

At the stock level, the main detractors from relative returns included the following:

- Elevance Health: the Managed Care Operators (MCOs, Elevance and UnitedHealth Group) have been a headwind to performance in recent quarters due to accelerating medical costs, adversely impacting medical loss ratios, and uncertainty around redeterminations (the process of reviewing a person's eligibility for healthcare benefits or services). Elevance was particularly impacted due to the adverse inflationary trends in Medicaid and the difficulty adjusting pricing in a timely way. UnitedHealth Group saw volatility in the aftermath of the shooting of the CEO of its insurance division.

- AIA Group: AIA Group delivered solid operating results for the quarter, with new business growth in Hong Kong and China exceeding expectations. The company secured a third new license in 2024, expanding its presence to 13 provinces, covering 65% of China's insurance market. However, market sentiment remained cautious, driven by concerns over China's slower growth and persistently weak government bond yields. Despite these challenges, we maintain confidence in AIA's strong long-term positioning and competitive advantage in addressing financial inclusion opportunities.
- Thermo Fisher: Despite results broadly in line with expectations during the quarter, the share price declined due to broader industry challenges, including reduced spending from biotech clients. Sluggish demand from key markets like China also weighed on investor sentiment during this period. We believe the company's long-term opportunity remains intact and anticipate accelerated organic growth in the near term.
- Danaher: Despite negative share price performance in Q4, Danaher's earnings release demonstrated resilience amid challenging market conditions. Core revenue growth and solid performance in key segments came through, particularly bioprocessing and molecular diagnostics, and underscore the company's strategic positioning in high-demand healthcare niches. Danaher's ability to consistently generate robust cash flow and its focus on innovative solutions highlight its long-term growth potential.
- NextEra Energy: Clean energy companies sold off due to the US election result, impacting NextEra as a leading generator of electricity from wind and solar, and the North American leader in renewable energy. We believe the market is overestimating the risk of IRA repeal, and the actual implications of any reduction in renewables production tax credits. Reduced interest rate cut expectations have been an additional headwind.

The main contributors to relative returns include the following:

- Visa: Visa delivered strong results across its business with its digital consumer payments platform expanding use cases in the new economy and among emerging SME customers. Visa reported notable growth in its new payment flows, which include services tailored for small and medium-sized enterprises (SMEs) and operations in emerging markets. The renewal of agreements with key clients in regions such as Latin America and the Middle East underscores Visa's commitment to supporting SMEs and enhancing payment infrastructures in these areas.
- TSMC: TSMC delivered exceptional results, surpassing expectations with strong performance driven by robust demand for highly efficient AI-related products. The company continues to dominate advanced chip manufacturing, with 69% of revenues derived from 7nm and below technologies. TSMC is well-positioned to capitalise on long-term structural trends such as cloud computing, AI, and automotive electrification. Increased demand for 2nm production underscores its leadership, with efforts underway to expand capacity to meet this demand. TSMC's technological edge also plays a pivotal role in supporting the decarbonisation of rapid advancements in AI.
- Edwards Life Sciences: Edwards delivered strong results, recovering well from earlier capacity challenges with its Transcatheter Aortic Valve Replacement (TAVR) product. The market responded positively to TAVR growth aligning with guidance and robust expansion in Transcatheter Mitral and Tricuspid Therapies (TMTT). TMTT revenues are projected to grow from approximately US$340 million today to US$2 billion by 2030, driven by a substantial addressable market and the acceleration of patients into treatments that deliver better outcomes. Edwards' leadership in the TMTT space further reinforces its position in capturing this growth opportunity.
- Mastercard: Mastercard demonstrated strong results across its business lines, with revenue growth driven by both payment network and value-added services. The company's competitive advantage is supported by its network effects and scale, as well as continued innovation in technology such as Tap on Phone, combining to bring more SMEs into the digital financial infrastructure system.
- Autodesk: Autodesk reported strong, broad-based year-over-year revenue growth in Q3 results for its computer-aided design (CAD) software for the construction and manufacturing industries. Underlying margins continue to improve with management upgrading the low end of guidance.

Portfolio activity

Significant purchases

There were no significant purchases over the quarter.

Significant sales

Carlisle Co: Following strong performance throughout 2024, the share price approached our target. With industry competitive dynamics shifting and a reassessment of upside potential relative to the target price, we decided to exit the position.

Stock in focus: Intact Financial Corporation

Intact Financial Corporation, established in 1809, is Canada's largest provider of property and casualty insurance and a leading speciality insurer in North America.

The company offers a range of insurance products, including home, automobile, and business coverage, serving over five million clients across Canada and the United States.

In April 2022, Intact announced a five-part climate transition plan, committing to achieve net-zero emissions by 2050. This plan includes an interim goal to halve emissions from its operations by 2030, using 2019 data as a baseline. Initiatives to reach these targets encompass electrifying the company's vehicle fleet, increasing renewable energy use in offices, and reducing corporate travel.

Intact's climate strategy also emphasises helping communities adapt to the impacts of climate change. The company collaborates with governments and industries to accelerate effective climate solutions. For instance, Intact is involved with Canada's federal government's Disaster Resilience and Security Advisory Table, the Sustainable Finance Action Council, and the National Flood Insurance Task Force. In the UK, Intact participates in the Climate Financial Risk Forum.

In 2023, Intact published its Social Impact & ESG Report, detailing progress toward its strategic objectives: having customers as advocates, engaging employees, and being a most respected company. The report highlights Intact's commitment to building resilient communities and fostering an inclusive workplace, with specific examples of its diversity, equity, and inclusion programs and initiatives. It also outlines Intact's climate strategy and its progress toward net-zero emissions by 2050.

Intact's proactive approach to climate change and its comprehensive insurance offerings position the company to continue delivering sustainable value to stakeholders.

Outlook and strategy

As an investment team, we continue to see sustainability creating a wide and growing opportunity set for active, concentrated investors. The decade ahead will be critical for addressing a broad range of sustainability challenges, presenting investors with significant potential to both generate returns and invest in companies contributing to positive social and environmental outcomes.

Although inflation appears to have peaked, and central banks have initiated their rate-cutting cycles, the direction of macro policy is unclear and financial markets remain volatile. Uncertainty across markets encourages our sustainable strategies to continue to lean into those businesses with acyclical, structural growth opportunities, combined with competitive advantages, which support the delivery of earnings and growth despite macroeconomic uncertainty. While keeping a close eye on how macro trends may affect our portfolio companies, we remain focused on identifying companies with these core characteristics at attractive valuations. We view these characteristics as particularly advantageous in the current environment, giving companies not only a greater ability to withstand a challenging economic backdrop but also exposure to areas of structural growth as efforts to address critical environmental and social issues advance.

We continue to see opportunities in our focused investment themes of decarbonisation, financial inclusion, healthcare impact, climate adaptation & water and pollution management, digital inclusion, and access to education.

From a wider perspective, we continue to see positive longer-term prospects for the diverse group of companies in the portfolio, and we maintain our belief that companies that put sustainability at the heart of their business models and operations – and that proactively manage their relationships with all of their stakeholders, including employees, business partners, customers, local communities, the environment and society – stand the best chance of achieving success over the long term.

For active managers, volatility continues to present opportunities. Looking ahead, we will remain patient and ready to respond to compelling opportunities to enter positions in businesses we have been monitoring and to add to existing positions in which we have strong convictions.

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 is not intended to increase the overall level of risk. However, the use of derivatives may still lead to large changes in value and includes the potential for large financial loss. A counterparty to a derivative transaction may fail to meet its obligations which may also lead to a financial loss. 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. Liquidity: There may be insufficient buyers or sellers of particular investments giving rise to delays in trading and being able to make settlements, and/or large fluctuations in value. This may lead to larger financial losses than might be anticipated.

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

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.

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