



Global Franchise SMA

Market context

Global equities eked out a small gain in February, with the MSCI All Country World Index posting an approximately 1% rise (in USD). But there was wide dispersion in performance. The shares of companies seen as at risk from AI disruption sold off in the month. Software stocks bore the brunt, following the release of new coding tools by AI company Anthropic. But other perceived AI victims, including banks, were also caught up in the 'fobo' (fear of becoming obsolete) downdraft. The market was skittish, with a sharp wave of selling triggered towards month-end by a widely shared blog post that speculated AI could drive up the US jobless rate to >10% by 2028. Seeking businesses seen as less at threat, investors rotated towards the 'physical economy', with utilities, energy and materials stocks among the notable beneficiaries – a trade that quickly spawned another new acronym: 'halo' (heavy-asset, low obsolescence).

By region, Japanese equities hit record highs, buoyed partly by confidence in domestic politics, with major European and UK stock-market indices also outperforming global equities. US shares lagged, reflecting the declines in tech stocks. Overall, emerging markets equities outperformed developed market stocks, with South Korea and Thailand among the notable outperformers.

For a more detailed global market background, please read our market [review](#).

Performance

The Strategy delivered a negative return and lagged the MSCI ACWI in US dollar terms, gross and net of fees*. Positioning in industrials and stock selection in IT were the biggest detractors at the sector level.

Clinical research company ICON detracted after it announced a delay in its quarterly reporting and an investigation into accounting practices, primarily around revenue recognition in fiscal years 2023-2025. This has clouded ICON's route to becoming a dominant franchise again and we have since sold the name. Booking Holdings was also caught up in the broader software sector weakness. We believe the market is overstating the AI disintermediation risk. Booking's competitive advantage lies in its deep fragmented hotel inventory, strong two-sided network and high proportion of direct traffic, all of which make it difficult for AI or competitors to replicate. Intuit detracted amid the sharp sell-off in software and information services businesses triggered by AI disruption concerns. We believe the market is overlooking the distinction between software coding and system-of-record advantage and retain conviction in the holding. NetEase fell following disappointing Q4'25 results due to a lack of major title launches. NetEase prioritises long-term gamer engagement over quarterly results and we're confident in the long-term growth trajectory of the company. Cybersecurity company Check Point Software declined amid the broader sell-off in software. Q4'25 results announced in February were in line, but the company's prudent guidance approach for 2026 was slightly disappointing. We retain conviction as it offers strong recurring revenues, industry leading margins and a fortress balance sheet.

Mission-critical communications technology provider Motorola contributed after reporting better-than-expected results. Not owning NVIDIA and Amazon contributed. Johnson & Johnson had another positive month, following strong Q4'25 results. London Stock Exchange contributed, reporting strong results which trumped earlier AI concerns.

*Where performance is gross of fees, returns will be reduced by management fees and other expenses incurred. Net performance is net of highest institutional segregated portfolio management fee.

Not all securities held have been discussed. For further information on how the overall strategy performed during the period covered, please reference the relative performance noted in the Performance review section.

Past performance does not predict future returns; losses may be made. For Financial Advisor Use Only

Outlook

Encouragingly, 2025 not only provided a reminder of the strategy's defensive attributes but also reaffirmed its ability to participate in a strongly rising market, with a meaningful upside capture of 90% in line with its long-term track record. Franchise businesses provided protection through the DeepSeek and tariff-driven market volatility at the start of the year and outperformed again at the end of the year as some froth came out of the AI infrastructure trade, the market became more discerning over the levels of AI capex spend and fundamentals came to the fore. Global Franchise delivered very strong peer-relative performance in a year notable for the significant dispersion of returns among global quality equity managers. This wide dispersion underscored that 2025 was not simply a test of "quality" as a factor, but of how that quality was defined and implemented in portfolio construction.

We believe the investment landscape remains finely balanced. The macro picture has improved but market concentration and valuation risk remain elevated, and expectations embedded in the prices of AI infrastructure and cyclical stocks leave little margin for error. History suggests that capital expenditure cycles rarely progress in a straight line, market prices can peak well ahead of capex peaks and periods of digestion or disappointment can emerge quickly when expectations run ahead of reality.

At the same time, many high-quality businesses with durable competitive advantages, recurring revenues and strong free cash flow generation are trading at valuations that do not reflect their long-term compounding potential. The widespread de-rating of software, information services and select consumer franchises has created a growing opportunity set for disciplined, fundamental quality investors.

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 momentum-driven exuberance, we believe it is well positioned to deliver strong and resilient outcomes across a full market cycle, particularly if market leadership continues to broaden and fundamentals reassert themselves as the primary driver of returns.

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