



# International Franchise

## Market context

International 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. There was significant divergence among geographies. For instance, Taiwanese equities were a positive, supported by its tech-heavy benchmark. However, there were pockets of weakness in other markets at risk of proposed US tariffs following Trump's election win, 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 Strategy delivered a negative return in absolute terms but outperformed the MSCI ACWI ex-US over the quarter in US dollars, gross and net of fees<sup>1</sup>. Stock selection in IT and consumer discretionary were the biggest contributors at the sector level, offset in part by positioning in consumer staples and stock selection in industrials.

Software company SAP had a strong three months after reporting Q3 cloud revenue rose 27% from a year earlier, with its cloud backlog reaching 15.4 billion euros. Importantly, SAP also raised its outlook for 2024 cloud and software revenue. Payments provider Mastercard outperformed, primarily driven by the positive sentiment following Trump's victory and the projected softer regulatory back drop. The company also posted robust Q3 results at the end of October, led in part by an increase in cross-border volumes, and announced a \$12 billion buyback in December.

Exchange platform London Stock Exchange contributed on little specific news other than the positive sentiment toward financials. In October, the company reported an acceleration in organic revenue growth over Q3, with like-for-like revenues growing +8.7%, marginally ahead of consensus expectations. Capital Markets had a particularly strong quarter. InterContinental Hotels contributed, amid broadly positive sentiment towards the travel sector over the quarter. In October, the company reported robust Q3 results, with revenue per room particularly strong in Europe.

Eyewear group EssilorLuxottica contributed over the quarter. Although, its sales update may have been marginally below expectations, there is good momentum from US sunglasses and the smart glass agreement with Meta being extended.

---

<sup>1</sup> 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.

Turning to detractors, cosmetics producer L’Oreal fell on little specific news. In October, its Q3 sales growth disappointed amid weakness in China and its dermatological unit. Positively, the Luxe and Professional segments were robust. 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 Health and Human Services secretary. Positively, ICON continues to take share and biotech funding has improved; we retain conviction in the stock.

Credit report provider Experian fell back, with no clear catalyst. Its fiscal first-half results were in line, and management lifted its guidance for full year margin expansion. North America performed well, however the UK remained weak in a challenging market. Brewer Heineken detracted. In its October results, the company flagged a weak backdrop remains weak but key issues in Vietnam and Nigeria are stabilizing and we believe the valuation remains attractive.

Eye care manufacturer Alcon slipped back after Q3 earnings missed estimates and the company cut its annual sales forecast. Our investment case for Alcon remains unchanged. The company is positioned well to continue taking market share, and we expect growth and profitability to improve further into 2025.

## Outlook

International markets are inherently diverse, primarily comprising smaller economies that rely on healthy cross-border commerce to create value. Better outcomes are typically achieved in more peaceful environments, where geopolitical and economic cooperation is trending positively. Geopolitical stabilization across the US and China, Russia and Ukraine, the Middle East and elsewhere could offer upside versus current expectations.

For global investors, it’s crucial to recognize that international equities have comprised over half of all outperforming shares on a global basis. Modest international benchmark returns mask a rich landscape of diverse opportunity for active, fundamental investors. Irrespective of domicile, markets reward companies that compound their economic productivity. These companies often possess unique competitive advantages that are durable, monetizable, and supported by strong balance sheets. They also generate ample cash flow to reinvest for growth, even during periods of broader market stress. We remain optimistic about deploying capital internationally, adhering to our quality-first approach.

#### 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

This communication is provided for general information only. 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, marketing or solicitation with respect to any particular strategy, security, derivative, services or investment product. 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. Views and opinions presented herein will be affected by changes in interest rates, general market conditions and other political, social and economic developments. 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. Reliance upon information in this material is at the sole discretion of the reader. Investors should consult their own legal, tax and financial advisor prior to any investments. Past performance should not be taken as a guide to the future. Investment involves risks; losses may be made.

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.

This is not a buy, sell or hold recommendation for any particular security. Individual security performance does not represent the Strategy performance. There is no guarantee that the Strategy is currently investing and/or will invest in the securities in the future. The portfolio may change significantly over a short period of time. Forecasts are inherently limited and are not a reliable indicator of future performance.

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). For Funds within the Strategy that are registered for sale in Switzerland, copies of the Prospectus, latest annual and semi-annual Report & Accounts, Articles of Incorporation and Key Investor Information Documents may be obtained from the Swiss Representative and Paying Agent, RBC Investor Services Bank S.A., Esch-sur-Alzette, Zurich Branch, Bleicherweg 7, CH-8027 Zurich, Switzerland.

**For distribution into Asia, this material should only be sent to professional investors, institutional investors and other qualified investors as defined by relevant local laws and regulations, and not to be distributed to the public or within a country where such distribution would be contrary to applicable law or regulations. It is strictly for the recipient's use only and should not be reproduced or distributed to any other persons without prior written consent from Ninety One.** If you are not an intended recipient you must ignore this material and take no action based on the information in it. In Hong Kong, it is for professional investors only, issued by Ninety One Hong Kong Limited and has not been reviewed by the Securities and Futures Commission (SFC). In Singapore, it is for institutional investors only, issued by Ninety One Singapore Pte Limited (company registration number: 201220398M) and has not been reviewed by the Monetary Authority of Singapore. In the People's Republic of China (the "PRC"), it can be directed only at certain eligible PRC investors as prescribed by applicable PRC laws. In Taiwan, it is for professional institutional investors only. In Indonesia, Thailand, the Philippines and Brunei, it is for institutional investors and other qualified investors only. This material has been issued to you upon your request, without any marketing or solicitation activities conducted by Ninety One.

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. © 2025 Ninety One. All rights reserved. Issued by Ninety One.