

Montanaro Better World Fund
Quarterly Commentary – Q1 2021**Market review**

The impact of “Pfizer Monday” continued to be felt in the first quarter of 2021. This harks back to Monday 9 November 2020, when Pfizer and BioNTech announced the first effective Covid-19 vaccine, a “*great day for science and humanity*”. It was also a good day for investors in those businesses which had suffered most from the economic consequences of Covid-19. It unleashed the most dramatic rotation in equity markets in living memory. Value and Low Quality bounced back strongly at the expense of Quality and Growth, a dynamic that continued unabated in Q1.

As an indicator of how extreme this rotation has been, in the UK, SmallCap Growth has underperformed Value by 24% since November 2020, which compares to a c.30% underperformance experienced in both 2009 and 2013. To add weight to this view, a recent survey published by Bank of America suggests that, by mid-March, most Fund Managers were overweight Cyclical and Commodities with the largest underweight in Technology since the start of the Bull Market in 2009.

Given our “Quality Growth” style, unsurprisingly we have underperformed since last November. We avoid highly cyclical areas such as high street retail, restaurants, hotels, airlines, oil & gas, materials, metals & mining etc. which helped us going into Covid. These same lower quality “Value” companies have bounced back sharply in recent months. We never like to disappoint you and do not enjoy such periods of underperformance, even if our Funds are holding up in absolute terms. Our investment approach will continue to remain consistent.

Portfolio

During the quarter, the NAV of the sterling share class declined by 2%, an underperformance of 8.5% versus the MSCI World SMidCap Index as “Value” stocks continued to rally.

The strongest contribution during the quarter came from **Bruker**, the leading global manufacturer of cutting edge scientific instruments used in life sciences and pharmaceuticals research, which has had an excellent start to the year with consensus-beating FY20 growth and upgraded FY21 expectations. **Sartorius Stedim Biotech**, the manufacturer of equipment for growing cells for innovative therapies, was boosted by a management announcement that significantly boosted 2021 revenue growth guidance. **Pro Medicus**, the Australian software provider for radiology clinics, gained

after reporting several strong new customer wins in the US for their flagship Visage product.

The weakest contribution came from **Solaredge**, the provider of invertors and optimisers for domestic solar panels, which declined as investor worries about rising bond yields hit technology related stocks. **Azbil**, the Japanese automation company across HVAC and other applications, continued to see sluggish demand as a result of Covid-19. **NovoCure**, the developer of innovative low intensity radiation devices to treat cancer, remained volatile as investors await further clinical trial data in additional cancer types.

Outlook

In a recent *“Letter to Investors”*, we urged our clients to remain calm in the face of the market rotation that has occurred. This is a message that we reiterate here. Style rotations are typical of the recovery period that comes immediately after a Bear Market - think of March 2003, March 2009 and 2012/13. Fortunately, these rotations tend to be short-lived. We have lived through several such periods before - after all, Montanaro is celebrating its 30th anniversary this year.

As the world begins to reopen, there is a growing focus on the need to *“build back better”*. The companies in the Better World Fund are well placed to help. Each provides products or services which we have identified as being able to help solve one of the world’s major problems: the issue of climate change; the need to develop better forms of healthcare; the requirement for new forms of innovative technology; the challenges posed by poor diets and nutrition; and the inequality issues which sit at the heart of education. Today, we are more convinced than ever that investing in high quality, small growth companies with strong management teams will deliver impact alongside strong investment returns over any medium term period.

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