MONTANARO

ASSET MANAGEMENT

Montanaro Better World Fund

Quarterly Commentary – Q1 2020

Before turning to investment matters, it is important to update you on how we are faring amid the Covid-19 pandemic. The team are working remotely and are thankfully all well. To a large extent, it is business as usual: our Analysts are speaking to the companies in which we invest; liquidity has not been a problem; and our operations are running smoothly. We have also just added to the team with the hire of a specialist Healthcare Analyst. We are fortunate that during the quarter we experienced net inflows and all Montanaro Funds outperformed their respective benchmarks. Our Quality investment style has again served us well in turbulent markets.

The first quarter of 2020 will enter the history books: the Bull Market came to a shocking end close to its 11th anniversary, as the S&P 500 recorded its second fastest 10% drop from peak since the Great Depression; the FTSE-100 suffered its worst one-day crash since Black Monday in 1987; the FTSE-250 fell for ten consecutive days, its worst run since 1998; UK SmallCap posted its second largest quarterly decline (-26%) since 1955; the European STOXX 600 Index experienced its worst ever one day fall (-11%); the oil price fell to levels not seen since 2002; and weekly jobless claims in the US exceeded 6.6 million (the highest weekly figure reached during the Great Financial Crisis of 2008 was less than 700,000). As financial markets saw large movements, the rest of the world halted: planes were grounded; shops, schools and factories closed; and by the end of March some 4 billion people had been instructed to stay at home. This was a true "Black Swan" event and one without precedent.

During the quarter, the NAV of the sterling share class declined by 10.5%, an outperformance of 13% versus the MSCI World SMidCap Index.

The strongest contribution during the month came from **Sartorius Stedim Biotech**, the developer of equipment used in the manufacture of biologic drugs, which posted a remarkable return of 24%, as investors rewarded it for a good set of results and a strong business model. **Qualys**, the leader in vulnerability management cybersecurity software, benefitted from another strong year of growth and anticipated demand growth during the Covid19 outbreak. **Veeva**, the global leader clinical software for healthcare companies, was rewarded for its excellent balance sheet and the increased demand for some of its software products which allow its customers to work remotely during the Covid19 outbreak.

The weakest contribution came from **Ryman Healthcare**, the builder and operator of retirement villages and care homes in New Zealand, which experienced a fall in sales and ceased construction in New Zealand after the Government locked down parts of the country. **Rational**, the leading manufacturer of energy efficient kitchen equipment, declined due to worries that the closure of restaurants and caterers would negatively impact demand. **US Ecology**, the environmental waste services business, weakened as worries grew about the impact of the coronavirus on the US economy.

The financial conditions stemming from the coronavirus most threaten businesses with structural weaknesses. Despite our Quality approach to investing – we invest in businesses with strong balance sheets who have a greater chance of weathering economic storms – we are taking nothing for granted.

We are speaking to our companies to understand how the crisis is changing their operating conditions and how it has impacted staff. We are also asking management about balance sheet stability, dividend payments (which in many cases are being rightly cut), the availability of credit facilities and the potential for future funding requirements. Finally, we are trying to assess what opportunities may emerge from the darkness of the pandemic.

Amid glimmers that Europe is beginning to see the benefits of social distancing measures, we wish all of our investors and their loved ones well. Please remain safe and take care during this difficult time.