MONTANARO
ASSET MANAGEMENT

Montanaro MidCap 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 share class declined by 18.6% in Euro terms, 8.7% ahead of the Stoxx Europe Mid 200 index.

The strongest contribution during the quarter 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. **Recordati**, the pharmaceutical company, outperformed the market as it secured new marketing approvals and benefited from the defensive nature of its business model. **Kerry Group**, the leading Irish food ingredients company, rose after reporting strong volume growth in their Taste & Nutrition division.

The weakest contributions came from **MTU Aero Engines**, the aircraft engine manufacturer, which suffered due to the grounding of many passenger flights. **St. James's Place**, the British wealth manager, traded lower as equity markets declined.

Elekta the developer of clinical solutions for treating cancer and brain disorders, due to fears the Covid-19 crisis would materially affect short-term sales.

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.