

## Montanaro Select Fund

Quarterly Commentary – Q1 2020

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**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 11<sup>th</sup> 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 19% in Euro terms, 10% ahead of the MSCI Europe Small Cap benchmark 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. **Smart Metering Systems**, an owner-operator of utility smart meters, rallied on news of the disposal of a portfolio of meter assets for an attractive multiple. **VZ Holding**, the Swiss based wealth manager, benefited due to the resilience of its business model.

The weakest contribution came from **Amadeus FiRe**, the German specialist staffing business, which saw selling pressure in anticipation of weaker staff demand and the likelihood of a pronounced recession. **SThree**, a global STEM staffing business, also

declined due to expectations of weaker staff demand and fears of a recession. **4imprint**, the supplier of promotional merchandise, weakened because of potential supply chain disruptions and promotional merchandise budget declines from its core US customer base.

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.

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