Montanaro Better World Fund

Quarterly Commentary – Q3 2020

Market review

"It was the best of times, it was the worst of times". There was a Dickensian feel to the third quarter of 2020. The world saw its first $2 trillion company: the market capitalisation of Apple has doubled in just two years, making it more valuable than the entire FTSE100. Coincidentally, national debt in the UK also exceeded £2 trillion. These are remarkable times.

For much of the quarter, a handful of US technology stocks led global equity markets higher despite a period of considerable angst. Investors became spooked by the dreadful coronavirus death toll which surpassed one million globally; the economic cost of the pandemic; and worries that the virus was again spreading among populations after an easing of lockdown restrictions over the summer.

The last few months made it clear that countries are not all on the same trajectory as they grapple with the impact of Covid-19. By extension, neither are their investment markets. Asia had a particularly strong quarter, helped by China's apparent success in containing the virus which has allowed life to return to something approaching normality. In major Chinese cities, underground train usage was just 10% below pre-Covid levels. In contrast, London's tubes were operating at less than 60% of normal capacity. European stock markets were the poor performers on the world stage over the quarter.

Portfolio

In the third quarter, the NAV of the sterling share class increased by 8.8%, an outperformance of 6% versus the MSCI World SMidCap Index. Since the beginning of the year, the NAV has risen by 22%, while the index has delivered a return of -2%.

The strongest contribution during the quarter came from **Solaredge**, the provider of invertors and optimisers for domestic solar panels, which reported revenues ahead of guidance as strong growth in Western Europe offset a slightly weaker market in the US. **Sartorius Stedim Biotech**, the developer of equipment used in the manufacture of biologic drugs, rose as the company reported excellent Q2 results and raised the outlook for the year. **Tecan**, the manufacturer of highly specialised robotic instruments used in life sciences research and diagnostic testing, saw surging demand for its instruments, which are being used for Covid-19 testing across the globe.

The weakest contribution came from **Qualys**, the global leader in cloud-based vulnerability management enterprise cyber security, which issued a good set of results demonstrating strong growth, profitability, and upgraded guidance for the full year. Despite this, the shares were weak in August on little news flow. We took advantage of this to increase our holding. **Shionogi**, the Japanese pharmaceutical company specialising in infectious diseases, suffered a pullback after a good period of performance. The company is continuing to work on possible treatments for Covid-19. **Alarm.com**, the US market leader for home security software, underperformed after Google bought a stake in its largest customer ADT.

Outlook

Since the turn of the century there have been a number of "zoonotic" diseases – those that normally exist in animals but infect humans too – that have had a global impact: Covid-19 is the most serious in a list that includes SARS, MERS, Ebola and Zika. While there is a case for stating that we should have been better prepared for a global pandemic, we now have a clear example of how investing in preventative measures can save lives and money in the long run. Investors allocating capital to impactful companies that deliver the cures and prevention are part of the solution.

With COP 26 scheduled for November, we will again be reminded that the world is facing a series of major challenges in addition to the coronavirus pandemic. Further action is needed if we are to meet the ambitious aims of the UN Sustainable Development Goals. As we continue to engage with companies within the Better World Fund about climate change and the setting of Net Zero Carbon targets, we were struck by a report written by Oxfam and The Stockholm Environment Institute. This found that the world's richest 1% of people cause more than double the carbon emissions of the poorest 50% (some three billion people). The negative effects of the lives we lead and of the businesses that shape our world must decline – or the heavy emitters must be penalised.

As more investors consider the impact of their investment decisions, pressure is growing on companies to change their behaviour. As David Attenborough said in a recent documentary: *"It's crazy that our banks and our pensions are investing in fossil fuels when these are the very things that are jeopardising the future that we are saving for.*" Where we invest matters. We continue to identify investment opportunities that have the potential to be highly impactful, while also being supported by structural growth tailwinds. Alongside the Small & MidCap focus of the Better World Fund, this provides exposure to three attractive factors that we believe can help us to deliver competitive investment returns over the long-term.

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