

## Montanaro Select Fund

Quarterly Commentary – Q3 2020

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### 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. Co-incidentally, 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. By the same token, European stock markets were the poor performers on the world stage over the quarter.

The economic relevance of this is stark and may be one reason why SmallCap outperformed LargeCap during the quarter. The sharp decrease in economic activity has placed pressure on sectors such as Energy and Financials, both of which declined sharply over the summer months. SmallCap is underweight these areas of the economy. A further tailwind for the asset class has been its domestic focus: smaller companies have benefitted from localised upticks in business activity, even as global trade remained stagnant.

### Portfolio

During the quarter, the NAV of the share class increased by 5.2% in Euro terms, 0.7% behind the MSCI Europe Small Cap benchmark index.

The strongest contribution during the quarter came from **Reply**, the nimble Italian provider of specialised technology consulting and systems integration, which benefited from the increased demand for digital transformation products, in particular

around cloud migration and work-from-home enabling technologies. **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. **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.

The weakest contribution came from **Grenke**, the provider of lease financing for information technology equipment, which fell heavily after a short-seller accused the company of fraud (which the company denied). **4imprint**, the supplier of promotional merchandise, drifted lower due to negative sentiment regarding a second US lockdown. **SThree**, the staffing company, saw volatile trading amidst renewed concerns about Brexit and rising COVID cases across Europe

## **Outlook**

The immediate outlook for consumer businesses that rely on customer footfall – restaurants, hotels, cinemas, theatres – looks bleak if lockdown restrictions tighten during the winter months. For those working in these industries, some of the suffering may be exacerbated by the easing of government aid at the end of October unless further support is offered. Balancing support for the needy, protection for the vulnerable and opening up the economy all at the same time is a difficult balancing act.

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, we now have a clear roadmap of how investing in preventative measures can save lives and money in the long run.

Sectors such as Healthcare and Technology, where we are structurally overweight, should help to deliver both the cures and the prevention that we need to get the world back to normal. The development of a Covid vaccine would be the good news that outweighs all else. Promising trials continue. Lest we get too despondent, it is worth remembering that stock markets have recovered strongly, which is a positive sign for the future. To quote Charles Dickens once more: *“while there is infection in disease and sorrow, there is nothing in the world so irresistibly contagious as laughter and good humour”*.

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