

Montanaro Better World Fund
Quarterly Commentary – Q4 2020**Market review**

When news of a viral outbreak in China's Hubei Province began to circulate at the beginning of the 2020, few could have imagined the global consequences. In the 21st Century, a virus swept across the world, locked down populations, brought economies to a halt and resulted in over 1.8 million deaths.

As Covid-19 spread across borders and achieved pandemic status, it became clear that little could be done to contain the disease. Initially, fear gripped financial markets. Falls in equity prices were so dramatic that it even led to speculation that some indices might be closed to "calm the herd". Ultimately, investors' fears were soothed by a tidal wave of liquidity unleashed by Central Banks and governments: some \$15 trillion across the G10 countries plus China. As interest rates declined, investors moved into riskier assets and equities staged a swift and strong recovery.

There were some grounds for optimism. Certain Governments were able to relax lockdown restrictions during the Summer and unlocked economies raised hopes of a "V" shaped return to normality. At Halloween, however, Covid cases spiked again and social-distancing restrictions were re-introduced. Yet financial markets did not panic, for November heralded the arrival of three Covid-19 vaccines with high efficacy rates. The "risk-on" accelerator was pressed once again and much maligned "Value" stocks enjoyed a rare moment in the sun as they led markets higher. Even the US Presidential Election – and Donald Trump's unwillingness to admit defeat – did little to perturb the buoyant mood.

For SmallCap investors, it was another year in which the asset class outperformed its LargeCap counterpart, ever so slightly on a global basis – and significantly in Europe and the UK.

Portfolio

During the quarter, the NAV of the sterling share class increased by 11%, an underperformance of 3.6% versus the MSCI World SMidCap Index as "Value" stocks rallied following the vaccine announcements. Our "Quality Growth" style enjoyed a strong year, however, and the NAV of the share class rose by 35% in 2020, an outperformance of some 23%.

The strongest contribution during the quarter came from **Renova**, the Japanese renewable energy generator, which rose very strongly after the Japanese government committed to ambitious targets for green energy generation. **Alarm.com**, the provider of remote alarms, video monitoring, and energy management solutions for the home,

recovered after the market over-reacted to the competitive tie-up between Google and ADT. **Siemens Gamesa Renewable Energy**, the European wind turbine manufacturer, benefited as investors revalued renewable energy assets following Joe Biden's victory in the US election.

The weakest contribution came from **Veeva**, the cloud software vendor to the Life Sciences industry, which went through a short period of underperformance along with many high-growth names, following the announcement of the vaccine approvals. **Simulations Plus**, the provider of software and services to accelerate drug development, underperformed the Value rally on little company related news. **Santen**, the Japanese ophthalmological specialist, traded lower due to increased competitive pressure in the Chinese market.

Outlook

Many are glad that 2020 is over, a year in which life for billions of people was turned upside down. Yet things may not be much different in 2021, at least for a few months. Further lockdown restrictions have been announced due to a more virulent strain of the Covid-19 virus. For now, the virus is calling the shots, continuing to threaten our health, economies and freedom.

However, the rollout of vaccines should allow a return to greater normality, hopefully by the Summer. What world will we face then? There will be a monumentally large debt burden as Government support during the crisis has been unprecedented. Therefore, this era of extraordinary monetary policy is likely to continue. Sustained low interest rates would allow the economy to recover, perhaps quite strongly, once the battle against the virus is perceived to be won.

From an equity perspective, this may mean that heavily stressed companies that have suffered the most lead an initial rally in markets. This would benefit "Value" companies as we saw last November. We would, however, urge a note of caution to those who believe that 2021 will be the year that low quality companies outperform. Once Covid-19 is behind us, consumers may shift uneasily between exuberance that their freedoms have been restored and nervousness about the future, particularly for those working in industries that have been structurally changed by the last few months. It may not be time to throw caution to the wind.

In this uncertain world, there will be much to do for investors who wish their capital to help deliver on sustainability objectives. The Climate Crisis has not gone away and we believe that the focus on "Net Zero Carbon" will only grow in the months ahead. The US re-joining the Paris Climate Agreement under the Biden Administration and the UK hosting the delayed COP 26 conference should provide added impetus to our long-

term engagement project encouraging companies to set challenging environmental goals. The impact of Covid-19 also means that a greater effort will be needed to meet the other targets of the UN Sustainable Development Goals, which have crept a year closer to their 2030 deadline.

We believe that the Fund is well placed to deliver on its impact and return objectives. Many of our companies can look forward to exciting futures: healthcare businesses responding to the need for better preventative solutions and greater demand for new forms of treatment; technology companies creating a cleaner, more connected and safer world; companies with strong management teams who have looked after their employees during the crisis and have emerged stronger; and those doing their bit to tackle important global issues such as climate change.

We wish you and your families good luck and every success in the months ahead. Stay safe, happy, and hopeful for a prosperous future and a return to normal.

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