MONTANARO
ASSET MANAGEMENT

Montanaro MidCap Fund

Quarterly Commentary – Q1 2021

Market review

The impact of "Pfizer Monday" continued to be felt in the first quarter of 2021. This harks back to Monday 9 November 2020, when Pfizer and BioNTech announced the first effective Covid-19 vaccine, a *"great day for science and humanity".* It was also a good day for investors in those businesses which had suffered most from the economic consequences of Covid-19. It unleashed the most dramatic rotation in equity markets in living memory. Value and Low Quality bounced back strongly at the expense of Quality and Growth, a dynamic that continued unabated in Q1.

Given our "Quality Growth" style, unsurprisingly we have underperformed since last November. We avoid highly cyclical areas such as high street retail, restaurants, hotels, airlines, oil & gas, materials, metals & mining etc. which helped us going into Covid. These same lower quality "Value" companies have bounced back sharply in recent months. We never like to disappoint you and do not enjoy such periods of underperformance, even if our Funds are holding up in absolute terms. Our investment approach will continue to remain consistent.

Portfolio

During the quarter, the NAV of the share class increased by 3% in Euro terms, 5% behind the Stoxx Europe Mid 200 index as "Value" stocks continued to rally.

The strongest contribution during the quarter came from **Ashtead**, the equipment rental operator in the US, which re-rated in anticipation of a strong US economic recovery boosted by infrastructure stimulus. **St. James's Place**, the UK wealth manager, recovered strongly after demonstrating good AUM growth in 2020. **Sartorius Stedim Biotech**, the manufacturer of equipment for growing cells for innovative therapies, was boosted by a management announcement that significantly boosted 2021 revenue growth guidance.

The weakest contribution came from **Worldline**, Europe's leading payments processor, which experienced a derating against a strong earnings growth outlook for FY 2021 as the market grappled with its acquisition of Ingenico, the second largest payments processor in Europe. **Kerry Group**, the Irish food ingredients company, weakened after a short report suggested overpayments for some acquisitions, which the company denied. **SimCorp**, the system provider for asset managers, drifted because of a slightly soft outlook for 2021 growth and margins.

Outlook

Certain countries are taking steps along the pathway to normality, with the reopening of pubs being a particular cause for celebration in the UK (even if this has coincided with a blast of snow – the British weather never fails to disappoint). The reopening of economies has led to expectations that the recovery will be accompanied by increased levels of inflation. This has resulted in a steep rise in the risk-free rate, as seen through the US Government 10 year bond yield. Towards the end of the quarter, however, bond yields started to fall, suggesting that the sharp moves we have seen in financial markets may be slowing.

In a recent *"Letter to Investors"*, we urged our clients to remain calm in the face of the market rotation that has occurred. This is a message that we reiterate here. Style rotations are typical of the recovery period that comes immediately after a Bear Market - think of March 2003, March 2009 and 2012/13. Fortunately, these rotations tend to be short-lived. We have lived through several such periods before - after all, Montanaro is celebrating its 30th anniversary this year. Today, we are more convinced than ever that investing in high quality, growth companies with strong management teams will deliver strong returns over any medium term period.

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