LF Montanaro Global Select Fund

Quarterly Commentary – Q2 2021

Market review

The Value rally, which has been the dominant force in equity markets since the approval of Covid-19 vaccines last November, cooled during the second quarter of 2021. Equities traded higher as confidence in the economic recovery was bolstered by accelerating vaccination programmes. Europe made particularly good progress, catching up with high vaccination rates in the US and UK. As data signalled underlying economic strength and inflationary pressures became more visible, surprisingly US benchmark bond yields declined. This reflected the Federal Reserve's immediate focus on supporting employment, rather than taking the heat out of the economy by raising interest rates - a stance currently shared by other central banks. This helped to support Growth areas of equity markets. As many economies continued along the gradual path to normality, SmallCap moved ahead of LargeCap to deliver an outperformance of 2% during the first half of the year.

Portfolio

During the quarter, the NAV of the sterling share class increased by 13%, an outperformance of 7% versus the MSCI World SMidCap Index.

The strongest contribution during the quarter came from **Chemometec**, the Danish producer of quality control instruments for the cell therapy market, which continued to perform well as investors respond to recent guidance raises. **Pro Medicus**, the provider of medical imaging software, performed well on the back of a series of big customer wins. **Vitrolife**, the Swedish provider of products to assist in IVF treatments, performed well on the back of strong Q1 sales growth

The weakest contribution came from **SolarEdge**, the supplier of solar inverters, which declined despite strong projected demand as margins are likely to be impacted by rising ocean freight costs and component prices. **Simulations Plus**, the provider of drug development software, derated modestly following a strong year of growth. **Gentex**, the rear view mirror manufacturer, traded lower on persistent concerns about supply chain issues and risks in the automotive industry.

Outlook

At the beginning of April, we published a *"Letter to Investors"* in which we urged clients to remain calm in the face of a strong value-led market rotation. Guided by history, we suggested that such style rotations tended to be short-lived. This proved fortuitous timing – the Value style has since lost some of its momentum. This illustrates quite how difficult it is to time markets. Rotations, when they happen, tend to be swift.

We are moving into unchartered territory in the battle against Covid-19 with the ending of social and economic restrictions in some countries. Many people are likely to experience a mixture of emotions: relief that the pandemic may be coming to an end, contrasted by worries that cases will rise or that new variants of the disease will emerge. It would be no surprise if these anxieties manifested themselves in greater market volatility during the second half of 2021.

A catalyst for volatility could be that as economies reopen, inflation rises faster as pent-up demand is released. It is our view, however, that it will take a lot for central banks to bring to an end this long period of loose monetary policy. Whichever way the macroeconomic winds blow, we will continue to search for businesses with quality foundations that can grow over time and compound returns to their shareholders.

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