

Montanaro Better World 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 10%, an outperformance of 4% versus the MSCI World SMidCap Index.

The strongest contribution during the quarter came from **Pro Medicus**, the provider of medical imaging software, which continued to perform well on the back of a series of big customer wins. **NovoCure**, the developer of innovative treatments for solid tumour cancers, performed well as investors responded to positive results from clinical trials. **Idexx**, the leading provider of animal diagnostic testing kits, continued to benefit from the surge in pet ownership as a result of the Covid pandemic

The weakest contribution came from **Siemens Gamesa**, the manufacturer of wind turbines, which experienced profit taking after a strong run. **Ryman Healthcare**, the builder and operator of retirement villages and care homes in New Zealand, traded lower after reporting a decline in profits as a result of Covid-19. **Kahoot**, the leading developer of a quiz-based platform used by teachers for remote learning, experienced a derating following a year of hyper-growth.

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 uncharted 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 as they deliver the solutions needed to help solve some of the world's greatest problems.

The views expressed in this article are those of the author at the date of publication and not necessarily those of Montanaro Asset Management Ltd. The information contained in this document is intended for the use of professional and institutional investors only. It is for background purposes only, is not to be relied upon by any recipient, and is subject to material updating, revision and amendment and no representation or warranty, express or implied, is made, and no liability whatsoever is accepted in relation thereto. This memorandum does not constitute investment advice, offer, invitation, solicitation, or recommendation to issue, acquire, sell or arrange any transaction in any securities. References to the outlook for markets are intended simply to help investors with their thinking about markets and the multiple possible outcomes. Investors should always consult their advisers before investing. The information and opinions contained in this article are subject to change without notice.