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ASSET MANAGEMENT

Montanaro Better World Fund

Quarterly Commentary – Q3 2021

Market review

As so often seems to be the case, investors returning from summer holidays found plenty to worry about. An energy crisis, blockages in global supply chains, a slowdown in China and growing inflationary pressures were just some of the things to ponder. Rising energy and commodity prices, increased shipping costs (which have gone up tenfold in the space of a year) and labour shortages fed through to staple products, with global food prices hitting a ten-year high. Bond yields rose as some Central Bankers switched from dovish to hawkish mode. If there was good news to be found, it was that, for the first time in many months, Covid-19 was not the dominant factor influencing equity markets. While the Better World Fund enjoyed a quarter of healthy outperformance, inflationary pressures contributed to a sell-off of Growth stocks relative to Value towards the end of the period.

Portfolio

During the quarter, the NAV of the sterling share class increased by 7%, an outperformance of over 5% versus the MSCI World SMidCap Index.

The strongest contribution during the quarter came from **ICON**, Europe's largest CRO for clinical trial services, which gained following a highly synergistic acquisition of one if its largest rivals, PRA Health. **Sartorius Stedim Biotech**, the supplier of equipment used to manufacturer biologic drugs, performed strongly as countries become increasingly receptive to Covid booster vaccinations. **Dexcom**, the US provider of blood sugar sensors for diabetes sufferers, rose off the back of strong expectations for their latest product upgrade, the G7.

The weakest contribution came from **Novocure**, the US medical technology business developing a treatment for solid tumours, which was volatile as analysts await updates on the company's ongoing clinical trials. **Siemens Gamesa Renewable Energy**, the manufacturer of wind turbines, was impacted by rising raw material prices. **Simulations Plus**, the provider of computational modelling software for the drug development process, declined following a sharp slow-down in its services division, outweighing good growth in its software solutions.

Outlook

The holiday season was disturbed by a clarion call issued by the UN's Intergovernmental Panel on Climate Change (IPCC), which published its first major review of climate change science since 2013. Its findings were unequivocal and decried as a *“red code for humanity”* by the UN Secretary General. The report draws on over 14,000 scientific studies and its conclusions are clear: *"the scale of recent changes across the climate system as a whole and the present state of many aspects of the climate system are unprecedented over many centuries to many thousands of years.”* Ahead of COP26, which we will be attending, this can only increase the pressure on all stakeholders to take action to reduce the negative impacts of their environmental footprints. We are continuing to engage with companies across our Approved List to encourage them to set and meet ambitious climate related goals. Businesses taking ESG risk seriously are, in our opinion, of a higher quality than their peers. We therefore believe that such an approach is not only good for the environment, but will be good for investment returns too.

As we write these lines, the style rotation into Low Quality and Value is intensifying. The current environment reminds us of the price action seen in the weeks that followed the announcement of the Pfizer vaccine in November 2020, albeit the rotation is not as dramatic. Fortunately, these periods tend to be short-lived. We will keep our heads down and carry on investing in the same way as always – with our “Quality Growth” hat firmly on.

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