Montanaro European Smaller Companies 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. Vaccination rates continued to increase in many countries and hospitalisation cases did not overwhelm healthcare systems.

While many developed market indices were flat over the quarter – September's worries eroding the gains of the earlier Summer months – it was a good period for European SmallCap, which held its ground and continued to outperform its LargeCap counterpart. While our strategies 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

The NAV of the share class rose by 8% in Euro terms during the quarter, an outperformance of 6% versus the MSCI Europe Small Cap benchmark index.

The strongest contribution during the quarter came from **Sartorius Stedim Biotech**, the supplier of equipment used to manufacturer biologic drugs, which performed strongly as countries become increasingly receptive to Covid booster vaccinations. **Vitrolife**, the provider of tools to IVF clinics, performed well as analysts priced in expected growth from their major recent genomics acquisition. **Qt Group**, a leading provider of tools to help developers design and build software applications, rose strongly following two guidance upgrades in quick succession.

The weakest contribution came from **NCC**, the cyber security business specialising in software escrow and cyber services, which posted an underwhelming set of results which led to some doubts about the speed of its projected growth acceleration. **Moncler**, the luxury clothing brand, saw retrenchment as international travel remained subdued. **Cranswick**, the leading supplier of fresh pork meat products, declined as the UK grappled with a shortage of CO_2.

Outlook

The fizz appears to have gone out of equity markets. While September and October have historically been tricky months for investors, a period of consolidation may be no bad thing. Equity investors, who have had plenty to cheer about in recent years, are sitting on double-digit gains in most developed markets so far in 2021.

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", Buy & Hold hats firmly on.
