

Montanaro Global Innovation 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 Global Innovation 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 10%, an outperformance of 8% versus the MSCI World SMidCap Index.

The strongest contribution during the quarter came from **SiTime**, a provider of silicon-based timing solutions, which rose sharply following outstanding second quarter results in which sales more than doubled year-on-year and rose over 25% sequentially. **Qt Group**, a leading provider of tools to help developers design and build software applications mainly for embedded devices, gained following two guidance upgrades in the space of a week. **Paycom**, the US provider of payroll automation software to small and mid-sized companies, rebounded as employment rates among their customers recovered.

The weakest contribution came from **Simulations Plus**, the provider of computational modelling software for the drug development process, which declined following a sharp slow-down in its services division, outweighing good growth in its software solutions. **Novocure**, the US medical technology business developing a treatment for solid tumours, was volatile as analysts await updates on the company's ongoing clinical trials. **Kahoot**, a provider of software solutions to make education more fun and inclusive, traded lower following weaker than expected Q2 results.

Outlook

We are living through an extraordinary moment in history, where multiple enabling technologies – ranging from semiconductors to robotics, from cloud computing to

artificial intelligence, and from energy storage to genetic sequencing & engineering technologies – are all converging and acting as the building blocks to drive accelerated innovation and growth throughout society. Through ongoing investment in research and development, functional capabilities continue to improve and costs continue to reduce, thus lowering the barrier to adoption for these technologies. In this context, the IPO of Oxford Nanopore, founded in 2005 as a spin-out from Oxford University, is a noteworthy milestone. Indeed, with their nanopore-sensing-based method for real-time and highly scalable analysis of uniquely long portions of genetic code, Oxford Nanopore are pioneering the next generation of genetic sequencing technology, which will unlock significant advancements in knowledge and has the potential to enable point-of-care diagnostics in future. Their vision – to enable the analysis of anything, by anyone, anywhere – indicates the scale of the potential future opportunity. The fact that Oxford Nanopore is a genuine worldwide leader, owning the global IP of their technology with over 2,000 patents, and that it chose to list in London, is something that we should be proud of. We are very pleased to have participated in the IPO within our Global Innovation Fund. The opportunity to invest in global innovative Small and MidCap companies that are leveraging today’s enabling technologies is, we believe, compelling.

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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