

Montanaro MidCap FundQuarterly 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 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

During the quarter, the NAV of the share class increased by 3% in Euro terms, 3% ahead of the Stoxx Europe Mid 200 index.

The strongest contribution during the quarter came from **IMCD**, the global distributor of specialty chemicals and formulations, which announced very strong interim results bolstered by good volume demand as well as price increases. **Sartorius Stedim Biotech**, the supplier of equipment used to manufacture biologic drugs, performed well as countries become increasingly receptive to Covid booster vaccinations. **Rentokil**, the global leader in pest management and hygiene solutions, announced solid Q2 results and marginally raised its long term guidance.

The weakest contribution came from **Worldline**, Europe's largest payment services provider, which saw its share price derate against positive earnings growth following an increasingly competitive macro environment and continued weakness in the recovery of some regions. **Temenos**, the leading provider of banking software, suffered following general weakness in its banking end market. **Moncler**, the luxury clothing brand, saw retrenchment as international travel remained subdued.

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.

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