

LF Montanaro Global Select Fund

Quarterly Commentary – Q1 2022

Market review

After a difficult start to the year, our Funds stabilised in March, outperforming their respective benchmarks. Clearly, this was not enough to offset the underperformance experienced in January, but it was a sign that investors' enthusiasm for Low-Quality Value stocks may be waning.

It has been a painful quarter for Quality Growth managers like us. Our Funds recorded one of the worst months ever in relative terms in January. The reason for this was a dramatic style rotation from Growth to Value, one of the fastest that we have witnessed in over 30 years of managing Small & MidCap portfolios. The swift change in sentiment was due to a burst of global inflation, which stoked fears of interest rate rises and disproportionately hurt long duration assets, notably Growth Small & MidCap equities. To put things in context, the MSCI World Growth index underperformed its Value counterpart by a staggering 8.1% in January, the second largest such underperformance in almost 50 years (only topped by April 1999, when Value enjoyed a brief respite amidst the dot-com frenzy).

The outperformance of Value continued in February, albeit not with the same vigour as we had seen earlier in the year. While inflation remained a dominant theme, another far more serious moment of historical significance impacted markets on 24 February 2022. Russia launched the largest military attack in Europe since World War Two by invading Ukraine, further shaking the confidence of equity investors. None of our Funds has ever had (or will have) direct exposure to Russia or Eastern Europe.

Portfolio

During the quarter, the NAV of the sterling share class declined by 20%, an underperformance of 16% versus the MSCI World SMidCap Index. Much of this underperformance came in January and it was reassuring to see the NAV rise in absolute terms in March, marginally ahead of the benchmark.

The strongest contribution during the quarter came from **SolarEdge**, the leading photovoltaic inverter supplier, which rose after reporting strong demand as the Russian invasion of Ukraine furthered interest in renewable energies. **Rollins**, the large pest control business in the US, posted reassuring Q4 results and recovered somewhat after the recent share price decline. **Chemometec**, the market leader for quality control instruments used in cell therapies, performed well following

exceptionally strong instrument sales in the period October to December 2021 as their customers' clinical trials progressed.

The weakest contribution came from **Esker**, the French provider of cloud software solutions that help companies to manage working capital, which weakened during the quarter as it was caught up in the sell-off of high growth tech companies, while increased investments reduced margin expectations. **Trex**, the world's largest manufacturer of wood-alternative decking and railing products made from re-used plastic, came under pressure as macroeconomic worries weighed on US consumer confidence. **Masimo**, the global leader in pulse oximetry sensors, saw its earnings multiple aggressively derate following investor uncertainty over its strategic move into consumer wearable technology through a surprising acquisition.

Outlook

In times of market turbulence, it is easy to get distracted by the noise of headlines. There have been many such distractions over the quarter, from worries about inflation to sombre updates from Ukraine. Against such a backdrop, we have been focusing as always on our companies and understanding how they are impacted by the pressures impacting the global economy. On the whole, the message has been reassuring. Many companies have posted positive trading updates and some have come in ahead of consensus expectations. The environment has allowed us to invest in and add to companies whose valuations have fallen due to negative sentiment, rather than a deterioration in the underlying fundamentals.

Finally, it is worth noting that the entire Montanaro team invested additional capital in our Funds in Q1. We are aligned with our clients and share the ups and downs of markets with you.

As well as the investment implications of the Ukraine conflict, MAM is acutely aware of the human suffering that is occurring. In response to this, our team has collectively made a contribution to the 'Disaster Emergency Committee – Ukraine Humanitarian Appeal'. This contribution has been matched by MAM, providing a significant donation to help people affected by this escalating conflict. More information about this appeal can be found here: <https://www.dec.org.uk/appeal/ukraine-humanitarian-appeal>

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