

Montanaro MidCap FundQuarterly 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.

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 share class declined by 18% Euro terms, 8% behind the Stoxx Europe Mid 200 index. Much of this underperformance came in January and it was reassuring to see the NAV rise in absolute terms in March and outperform its benchmark by 2%.

The strongest contribution during the quarter came from **Edenred**, the specialist payment service business, which posted strong Q4 results and a bullish outlook. **Warehouses De Pauw**, the key European player in the development of logistics properties, rose as the company is a beneficiary of inflationary pressures and the shift to online commerce. **Thule**, the manufacturer of sports and outdoor goods, remained broadly flat despite persistent concerns about the robustness of its end markets, such as recreational vehicles plagued by the chassis shortage.

The weakest contribution came from **Tecan**, the Swiss manufacturer of specialised robotic instruments for use in medical research and diagnostics, which experienced

selling pressure after its 2022 guidance signalled headwinds from the loss of Covid-testing revenues. **Temenos**, the Swiss provider of core banking software, saw its share price sell off following earnings results below the high expectations set by management at the capital markets day. **SimCorp**, the system provider for asset managers, declined during the quarter as guidance of additional investments reduced margin expectations

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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