MONTANARO
ASSET MANAGEMENT

Montanaro Better World Fund

Quarterly Commentary – Q1 2023

An Article 9 Fund under SFDR

The Better World Fund celebrated its 5th birthday on 10 April 2023. Thank you for all of your support over the last five years. During this time, we have tried to play a part in the growth and development of sustainable investing and have learned a lot.

Increasingly investors are thinking about the impact, both positive and negative, of their investments. The Better World Fund was launched to align investments with positive outcomes alongside attractive, long-term investment returns. We are proud and humbled by the outstanding management teams of our companies who are working so hard to make a difference. We are also grateful for their patience and for listening to us as we ask a myriad of questions as we too try to do our bit.

From a market perspective, investors will look back at this period as historic, given the covid-19 pandemic and resulting economic dislocation, experienced brutally in 2022 as inflation took hold across the global economy. We are pleased to report that the Fund has had a positive start to the year, both in absolute and relative terms. We are excited by what lies in store not only for the Fund but also for the companies in which we invest. We hope that you will continue with us on our journey.

Q1 2023 Market review

We never invest in bank shares. Every few years, this becomes a topic of interest to our clients, as it was in March. Silicon Valley Bank ("SVB"), a bank catering to venture capitalist depositors, failed after a bank run, becoming the second-largest bank failure in US history. The reasons bore the hallmark of why we do not invest in banks: you rarely know the problems lurking on the balance sheet until it is too late. Liquidity concerns can become solvency concerns very quickly.

Drama in the banking sector was not contained to the US. Credit Suisse, a bank that had a certain *penchant* for being at the heart of almost every scandal to hit the banking sector, became embroiled too. As Warren Buffett once observed: *"interest rates are to asset prices what gravity is to the apple".*

We will continue to avoid banks. They are opaque; not in control of their own destiny; management are often incompetent and vastly overpaid; and growth is often limited and unpredictable.

As these chickens came home to roost, inflationary pressures continued to normalise and growth rates in the world's major economies remained positive.

Portfolio

During the quarter, the NAV of the sterling share class increased by 5%, an outperformance of over 3% versus the MSCI World SMidCap Index. Since we launched the Fund five years ago, the NAV has risen by 50%, more than 6% ahead of its benchmark.

The strongest contribution during the quarter came from **Ansys**, the engineering simulation software provider enabling new products to come to market with increased quality and energy efficiency, which delivered a strong set of results. **Yaskawa,** the manufacturer of robotic arms and motion control components for industrial robots, performed well on the back of China's reopening, announcing new profit guidance ahead of expectations**.** **Melexis,** the supplier of semiconductors for the automotive industry, posted good numbers driven by the trend towards electrification.

The weakest contribution came from **Chemometec**, the provider of instruments and consumables used in the quality control of cell therapy drugs, which underperformed this year after posting weak guidance on customer funding concerns. **Bio-Techne**, the US provider of instruments and reagents used in life science research and drug production, saw growth slow due to a deteriorating funding environment for its biotech customers. **Nihon**, which facilitates corporate transactions in Japan between aging founders who wish to sell and buyers, experienced a slowdown in profits as its newly recruited consultants take time to reach efficiency.

Outlook

The IMF is forecasting that interest rates will return to *"rock bottom"* due to chronic low growth in the developed world, linked to poor productivity and ageing populations. Such forecasts are interesting insofar as they highlight just how unusual 2022 was, as we noted in our end of year commentary. Interest rates soared as a result of the economic dislocation of covid rather than underlying structural trends. Nevertheless, the outgoing tide is showing us who has been swimming naked.

We continue to be reassured by the fundamental performance of our companies. Many (not all) have posted good numbers in the latest reporting season, giving us the confidence that in our hunt for good companies, we are finding those that are not only growing, but are doing so from a position of fundamental "Quality" strength.

Growth is absolutely fundamental to our investment strategy. Indeed, we believe that "Impact Investing" and "Growth Investing" are intrinsically linked. The six impact themes to which we align our investments (Environmental Protection; Green Economy; Healthcare; Innovative Technology; Nutrition; and Well-being) support the shift in global capital allocation that is required in order for the world to transition to a more sustainable economy. This transition is happening; it is irreversible; and it offers to investors some of the most exciting opportunities that we have ever witnessed.

Although SmallCap remains out of favour due to worries about the macroeconomic landscape, the increasing attractiveness of valuations makes this a rich hunting ground for long-term investors. We would go so far as to say that the pickings are as attractive as they have been since we launched the Fund in 2018.