

Montanaro Better World Fund**Quarterly Commentary – Q3 2023***An Article 9 Fund under SFDR*

Market review

The optimism of the summer months was dashed towards the end of the quarter. Rising bond yields were accompanied by similar style headwinds to those of 2022: Growth underperformed Value by 5%, while SmallCap underperformed LargeCap, the eighth time it has done so in the past ten quarters.

There was a marked difference to 2022, however. Then, equity markets sold-off because interest rates were moving rapidly higher. The decline in markets during the third quarter of 2023 was because investors now expect interest rates to remain *“higher for longer”*.

This was partly explained by surprising economic strength in the US, where the labour market remained extremely resilient. With Halloween fast approaching, the spectre of another interest rate rise spooked both equity and bond markets. The yield on certain benchmark bond indices hit levels last seen during the Global Financial Crisis. It was a painful time all-round for risk assets.

Portfolio

During the quarter, the NAV of the sterling share class declined by 7%, an underperformance of 7% versus the MSCI World SMidCap Index.

The strongest contribution during the quarter came from **Pro Medicus**, the global leader in cloud software for radiology, which posted market-beating growth. The share price has performed well thanks to its attractively resilient end market. **Alarm.com**, a global leader in home security software, posted very strong Q2 results, raising guidance. **MSCI**, the US financial services data provider, recovered after a weak period for the share price.

The weakest contribution came from **Masimo**, the leading global provider of pulse oximetry sensors in a hospital setting, which disappointed the market with weak growth, owing to customer destocking. **SolarEdge**, the leading solar PV inverter supplier, declined after reporting weak demand in Europe. **Terna Energy**, the Greek renewables pure-play, underperformed due to weak sector sentiment driven by rising interest rates and product defect announcements from turbine manufacturers. Terna Energy's mid-term capacity targets are unchanged and it has not experienced any

issues with its turbines. We remain confident in the outlook for the business, and our other Green Economy names, which also struggled during the quarter.

Outlook

The underperformance of the Fund in Q3 mainly came from a further valuation de-rating. We do not expect to see any further valuation headwinds from an inflation and bond yield perspective. The overall expectations for our companies remain resilient, which means this underperformance has improved the risk/reward of the Better World Fund. Where we have seen downgrades, these have primarily come from companies experiencing inventory build. In most cases the structural outlook for these businesses remains solid, especially so in the healthcare equipment sector where we are getting indications that the cycle has begun to improve.

Montanaro Impact Team - October 2023

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