MONTANARO
ASSET MANAGEMENT

Montanaro European Companies Trust

Quarterly Commentary – Q1 2024

Market review

Equity markets continued to be dominated by the Magnificent Seven in the first quarter of the year, a sobriquet that could one day be viewed in ironic terms. The 10 largest stocks in the MSCI All Country World Index accounted for 19.5% of the widely followed benchmark of 23 developed and 24 emerging countries as of April 2024. This was just 9% as recently as 2016. This poses real risks for the swathes of assets invested passively.

Nevertheless, the market dominance of these large companies meant that SmallCap continued to underperform LargeCap, while SmallCap Growth lagged Value as economic data surprised on the upside.

Portfolio

During the quarter, the NAV of the Trust increased by 4.6%, an outperformance of 2.9% relative to the MSCI Europe SmallCap (ex UK) Index.

The strongest contribution during the quarter came from **ATOSS Software**, the leading provider of workforce management solutions in the DACH region, which rose following an excellent 2023 report which beat expectations. **CTS Eventim**, the European provider of ticketing services, gained after full-year results beat expectations and the concert pipeline continued to be strong. **MTU Aero Engines**, the aircraft engine component maker, advanced on positive news that the GTF engine inspection programme remains on track, following the powder metal contamination issue.

The weakest contribution came from **Melexis**, the Belgian supplier of sensors for the automotive industry, which underperformed as the industry continued its destocking process. **Carel**, the Italian HVAC/R programmable controller manufacturer, traded lower after signalling a weak outlook, albeit with a gradual recovery anticipated throughout the year driven by heat pumps and refrigeration markets. **NCAB**, the full-service supplier of printed circuit boards, traded lower despite a lack of company news.

Outlook

Equity investors continue to be faced with something of a conundrum: how to achieve diversification in portfolios at a time when performance is dominated by such a narrow band of stocks?

We continue to believe that the SmallCap space looks more attractive than it has for some time. After a generally good earnings season, valuations are compelling, particularly when compared to LargeCap. European SmallCap is trading on an 11% discount to LargeCap, higher even than during the Global Financial Crisis of 2008.

In addition, while the market undoubtedly got ahead of itself in its anticipation of interest rate cuts, inflationary pressures continue to be ease. The supply chain issues that some of our companies have been exposed to and destocking, which was particularly troublesome for certain Healthcare stock, both continue to abate. As we look ahead towards the rest of the year, we hope that the performance of our stocks can outshine macroeconomic headlines.