

Montanaro Better World Fund**Quarterly Commentary – Q1 2024***An Article 9 Fund under SFDR***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.

Stronger than expected US economic and inflation data led investors to temper expectations for rate cuts by the Federal Reserve, placing pressure on stocks with longer duration cash flows that typify this portfolio.

Portfolio

During the quarter, the NAV of the sterling share class increased by 2.9%, an underperformance of 3.7% versus the MSCI World SMidCap Index. [For returns in other currencies please see Figure 1 at the end of the commentary].

The strongest contribution during the quarter came from **Bruker**, the global manufacturer of high-IP scientific research instruments, which posted the best Q4 results amongst a crowded peer group and was rewarded with a strong rerating throughout Q1. **Masimo**, the leading vendor of pulse oximetry and advanced monitoring solutions into the hospital setting, benefited from strong Q4 results, alongside well-received news that it would spin out its consumer health business. **Veeva**, the largest SaaS software vendor into the Life Sciences/Pharma industry, posted strong Q4 results and enjoyed positive sentiment around its new CRM architecture.

The weakest contribution came from **SolarEdge**, the manufacturer of power converters helping residential solar panels to work at maximum efficiency, which declined after announcing lower than expected revenue guidance due to high stocks in the distribution channel. We expect the overstocking situation to be a short-term phenomenon and continue to believe demand will recover and the long-term growth profile remains attractive. **Alfen**, the smart energy solutions provider, declined after

its full-year results raised questions over margin pressure in the EV Charging business. Although earnings came in slightly higher than consensus expectations, there were a couple of downward rating revisions from the sell-side. **Azbil**, the Japanese building and industrial automation company, declined after reporting depressed demand in factory automation applications, although its Q3 results evidenced improved profitability and compared favourably to other factory automation-related companies.

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, relative to recent history. After a generally good earnings season, valuations are compelling, particularly when compared to LargeCap. The MSCI World SmallCap index is trading on an 11% discount to LargeCap, higher than even 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 easing, benefitting two things: the supply chain issues that some of our companies have been exposed to and destocking, which was particularly troublesome for certain Healthcare stocks. As we look ahead towards the rest of the year, we hope that the performance of our stocks can outshine macroeconomic headlines.

Montanaro Impact Team – April 2024

Figure 1: Fund Performance

Absolute Returns (Net TR)	GBP	EUR	AUD	USD	CAD
Q1 2024	2.9%	4.3%	6.7%	1.7%	4.3%
2023	7.2%	9.8%	12.9%	13.2%	10.5%
2022	-29.5%	-33.3%	-32.8%	-37.0%	-32.7%
2021	20.0%	27.9%	25.8%	19.0%	17.9%
2020	35.0%	27.8%	26.9%	39.0%	36.7%
2019	29.8%	37.5%	35.4%	35.1%	28.7%
2018 (April launch)	-3.8%	-6.6%	-5.5%	-11.8%	-6.3%

Note: GBP and EUR returns are based on the Fund's GBP and EUR Distribution classes.

AUD, USD and CAD returns are showed for reference only. They are sourced from Bloomberg, which applies the prevailing daily FX rate to the NAV of the GBP Share Class.

Returns v. Benchmark (TR)	GBP	EUR	AUD
Q1 2024	-3.7%	-3.7%	-3.8%
2023	-1.9%	-1.9%	-2.0%
2022	-20.8%	-19.7%	-19.7%
2021	2.2%	2.3%	1.9%
2020	22.8%	21.6%	21.4%
2019	7.9%	8.3%	8.4%
2018 (April launch)	0.2%	0.2%	0.4%

Benchmark: MSCI World SMID Cap Index (Net TR)

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