

Montanaro Global Select Fund**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.

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 Accumulation Share Class increased by 4.7%, an underperformance of 1.9% versus the MSCI World SMidCap Index.

The strongest contribution came from **Adyen**, the global leader in digital payments processing, which continued to re-rate following above-consensus results for 2023. **Bruker**, the global manufacturer of high-IP scientific research instruments, posted the best Q4 results amongst a crowded peer group and was rewarded with a strong re-rating throughout Q1. **Trex**, the world's largest manufacturer of wood-alternative decking and railing, outperformed after reporting a very solid set of results with a positive outlook.

The weakest contribution came from **Bio-Techne**, the provider of reagents and instruments to the life sciences industry, which declined as the company continued to be impacted by weak customer funding, especially in China. **Ansys**, the engineering simulation software provider, drifted during the quarter after confirming it has agreed to be taken over by Synopsys. **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. 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 ease. The supply chain issues that some of our companies have been exposed to and destocking, which was particularly troublesome for certain Healthcare stocks, 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.

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