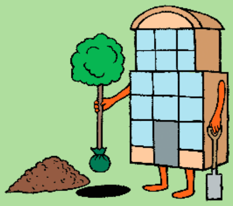
MONTANARO
ASSET MANAGEMENT

The Better World Fund



Investment Commentary
Quarterly review - Q1 2025

Q1 Returns – US underperforms World and Magnificent 7 lose their shine:

- US underperforms Rest of the World by 10.5% in Q1 – the most in 23 years *
- MSCI World SmallCap: -6.6% (1.6% behind MSCI World Large Cap)

Headwinds continued for Sustainability strategies:

- MSCI ACWI Sustainable Impact: -2.8%
- MSCI ACWI Global Environment: -22.1%

Earnings / Valuations:

- Global SmallCap on largest P/E discount v. LargeCap (19%) in 20+ years
- 2025e and 2026e Consensus EPS growth well ahead of LargeCap

** Based on the MSCI USA v. the MSCI World ex-USA (Total Returns).*

Sustainability strategies continued to face a "perfect storm" during the first quarter of the year. The market was led by value and cyclicality, with sectors such as traditional energy, defence and financials to the fore – all areas where impact focused funds such as our own are structurally underweight. The confirmation of vaccine-sceptic RF Kennedy's appointment as Health Secretary, together with announced plans to cut National Institute of Health (NIH) funding for medical research projects, weighed on the Health Care sector. In addition, anti-ESG rhetoric from President Trump's administration did little to pique interest in sustainability or impact; rather – at least at the beginning of the quarter – investors continued to chase the performance of the US tech giants. Indeed, the consensus trade at the beginning of the year was to "*overweight* *the US (again)*", but chasing last year's performance began to look misguided as the quarter progressed.

It was a highly volatile backdrop, reflected in the Bank of America *Global Fund Manager Survey*, released on 18 March, which showed the biggest reduction in US exposure ever in its 24-year history. The same survey had revealed in December 2024 the most overweight position in US equities ever. By the end of the quarter, the US had underperformed the Rest of the World by 10.5% – the most significant underperformance for 23 years.

With diversification becoming the aim of the game, European equities were a major beneficiary, seeing their best start to a year since the mid-1980s. The diversification trend did not extend to smaller companies, however, which underperformed LargeCap across all key developed markets, with UK SmallCap seeing its worst relative quarter since the end of 2008. Safe haven assets, such as gold and government bonds, benefited from a flight to safety.

Amid this difficult backdrop, our focus with the Better World Fund was to strengthen the Portfolio both in terms of its investee companies and the Fund's risk profile – as we have discussed with many of you over the last few months, this has been a major focus. With the official benchmark of the Fund not being a close reflection of the investable universe of our impact approach, this means that our stock picking capabilities – driven by our long-term impact themes – are the primary driver of the Portfolio, rather than macro factors.

Performance & Portfolio

During the quarter, the NAV of the sterling share class of the Dublin domiciled Fund declined by 9%, an underperformance of 4.3% versus the MSCI World SMidCap Index.

The **strongest contributors** during the quarter were:

- **American Water Works** – the largest publicly traded water and wastewater utility company in the US, rose as investors continued to welcome its investment plan to expand its water and wastewater infrastructure offering.

- **Stride** – the US provider of online education services for school-aged students delivered strong results showing record enrolments.

- **Technogym** – the Italian producer of fitness equipment and digital wellness solutions advanced on solid 2024 results, accompanied by a special dividend announcement.

The **weakest contributors** during the quarter were:

- **Manhattan Associates** – the US provider of supply chain and warehouse management software declined due to a sharp slowdown in customer implementations driven by budget constraints at major retailers, despite record bookings suggesting long-term strategic demand remains intact.

- **Bruker** – the supplier of scientific instruments for life sciences and materials research suffered from fears around US academic research funding under the Trump administration.

- **Bio-Techne** – the supplier of reagents and instruments for performing healthcare research also declined on concerns over reduced US academic research funding under the Trump administration.

Impact & Engagement

With the reporting season in full flow, our **Impact Team** has been busy updating company impact profiles with the latest key performance indicators that we use to track the impact of our companies. It was encouraging to see **Stride** – a US provider of online education for those unable to attend mainstream schools – report strong growth in student enrolments across both general education and career learning programmes. At over 230,000 students, this marked a year-on-year increase of almost 20%. As we have long argued, growth and impact go hand-in-hand.

Keeping with the Well-being theme, **Technogym**, the provider of exercise equipment, also released its full-year results. An incredible 70 million people use Technogym equipment each day, from elite athletes to those taking the first tentative steps towards their first 5km run. Exercise is often prescribed as the best preventative medicine – for both physical and mental ailments – and we believe the impact case is strong.

An engagement over the quarter was our contribution to the development of the **GIIN Healthcare Impact Benchmark**, a tool launched in February 2025 to standardise the measurement of positive impact in healthcare investments. As part of the GIIN's broader mission to scale effective impact investing, we worked closely with the Benchmark Design Team, submitting KPIs from our healthcare holdings – covering strategic goals, SDG alignment, operational reach and patient numbers – and engaged in collaborative discussions with other investors. The benchmark aims to address healthcare disparities by providing a transparent, data-driven framework for assessing impact. We intend to test the tool to help inform our impact strategy.

Outlook

As the "Liberation Day" tariff announcements send shockwaves through markets, the Better World Fund has shown relative resilience – a reflection of its focus on Quality companies with strong pricing power and durable competitive moats. This is particularly important in a world of rising input costs. Our Analysts have been modelling various tariff scenarios. While we are not planning wholesale changes to the Portfolio, we remain vigilant to second- and third-order effects, including the risk of a sharp macroeconomic slowdown. Most companies in the Fund with US exposure either have local manufacturing capabilities or provide intangible services like education and software, limiting direct tariff impact. As ever, our approach remains bottom-up, seeking to build a diversified Portfolio capable of delivering strong risk-adjusted returns through the cycle.

We remain anchored to impact themes that we believe will define the decades to come. These offer exposure to powerful structural trends and help the Fund deliver on its dual objective – strong financial returns and measurable positive impact. Recent data backs this up. In the UK, the Confederation of British Industry reported that the green economy is growing three times faster than the economy overall, creating high-wage jobs, cutting emissions, and strengthening energy security. China offers a useful case study. Despite its reliance on coal, the pace of renewable deployment is unmatched. Solar and battery storage are expected to become cheaper than coal by year-end, potentially tipping the country into a low-cost, solar-led energy system. China is also leading the electric vehicle transition, with long-term implications for global oil demand. Private equity is taking note: Brookfield's $1.7bn acquisition of National Grid's US onshore renewables business signals continued confidence in the sector, despite political rhetoric.

Another major theme is artificial intelligence. As LargeCap firms complete the heavy lifting on infrastructure, innovation is beginning to move into the SmallCap space. Tools like DeepSeek show that cutting-edge AI development may be less capital-intensive than once assumed – a space where smaller, high-quality companies can thrive. Just as the internet boom ultimately favoured a new wave of SmallCap disruptors, AI may follow a similar path.

In a world shaped by the convergence of politics, economics and innovation, we remain focused on staying close to our companies, grounded in fundamentals and guided by the long-term trends that matter.

Montanaro Impact Team:

Adam Montanaro

Mark Rogers

Ed Heaven

Kate Hewitt

April 2025

The views expressed in this article are those of the author at the date of publication and not necessarily those of Montanaro Asset Management Ltd. The information contained in this document is intended for the use of professional and institutional investors only. It is for background purposes only, is not to be relied upon by any recipient, and is subject to material updating, revision and amendment and no representation or warranty, express or implied, is made, and no liability whatsoever is accepted in relation thereto. This memorandum does not constitute investment advice, offer, invitation, solicitation, or recommendation to issue, acquire, sell or arrange any transaction in any securities. References to the outlook for markets are intended simply to help investors with their thinking about markets and the multiple possible outcomes. Investors should always consult their advisers before investing. The information and opinions contained in this article are subject to change without notice.

Montanaro Asset Management Ltd | 53 Threadneedle Street | London EC2R 8AR

T: +44 20 7448 8600 www.montanaro.co.uk