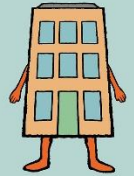


European Income Fund

Quarterly review – Q1 2026



Key points:

- Escalating geopolitical tensions in the Middle East, particularly the Iran conflict, drove sharp market volatility and a rotation away from growth assets.
- Markets reacted in a disorderly fashion, with traditional diversification breaking down as commodities surged and both gold and crypto failed to provide protection.
- Rapid advances in AI triggered a severe repricing across technology, particularly in software, as investors questioned business models, capital intensity and the risk of disruption
- This led to a broad derating of high-quality growth equities and a rotation towards more inflation- and energy-linked sectors.
- Against this backdrop, the portfolio remained focused on fundamentals and long-term opportunities, using the dislocation to selectively redeploy capital into high-quality businesses where valuations have become more attractive.

Paraphrasing Vladimir Lenin, there are decades when nothing happens; and quarters when decades happen. The first quarter of 2026 appears to be such a moment.

Geopolitics provided a volatile backdrop, but market behaviour through much of the quarter was shaped less by discrete events and more by the continuation of established themes from 2025. January and February saw a clear extension of three dominant trades: the bifurcation within AI (with hardware beneficiaries outperforming software), the debasement trade, and a

strong bid for minerals relative to oil. Against this backdrop, developments in Venezuela and Greenland had limited direct market impact.

The inflection point came in late February with the escalation of tensions between the US, Israel and Iran. Unlike earlier geopolitical developments, this proved decisive. The conflict triggered a sharp and disorderly repricing across asset classes, with energy markets at the epicentre. The effective disruption of flows through the Strait of Hormuz - a critical artery for global energy supply - drove significant volatility in oil prices and broader commodity markets. Equity markets experienced one of their most turbulent periods in recent years, as inflation expectations, bond yields and risk premia adjusted rapidly, while traditional diversification offered limited protection.

Importantly, the Iran shock also inverted several of the prevailing market dynamics. The minerals trade reversed, with oil outperforming while industrial metals weakened. Financials came under pressure as recession concerns resurfaced. Within technology, the AI trade partially flipped: hardware, with its reliance on energy and materials inputs, lagged, while more asset-light software businesses proved relatively resilient.

Alongside this, the broader reassessment of AI continued. Earlier in the quarter, rapid advances in “digital co-workers” had driven an indiscriminate sell-off in software and a wider derating of growth equities. However, the geopolitical shock exposed the physical underpinnings of AI — energy, infrastructure and materials — reinforcing the sensitivity of the theme to macro conditions. By quarter-end, valuations across growth equities had compressed meaningfully, albeit in a more nuanced and differentiated manner than the earlier broad-based sell-off.

Against this backdrop, the **European Income Fund** delivered a strong quarter on a relative basis, benefiting from its defensive profile. Performance strengthened as the quarter progressed, with an outperformance of over 2% in March alone, reflecting both resilient underlying holdings and the fact that Quality was favoured amid a volatile backdrop.

Market dislocation enabled us to selectively redeploy capital into opportunities where long-term fundamentals appear increasingly misaligned with current valuations, while exiting positions where conviction has weakened. Consistent with the Fund’s income and growth mandate, we were also able to adopt a more defensive positioning during this period of heightened equity market volatility.

Performance & Portfolio

During the quarter, the NAV of the Sterling Share class declined by 1.9%, an outperformance of 1.5% relative to the IA Europe ex UK benchmark index (in total return terms).

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

- **Kitron** – the Norwegian electronics manufacturing services provider continued to deliver strong results and upgrades, supported by a strong defence order backlog and several major new contract wins.
- **Gaztransport & Technigaz** – the French LNG containment specialist performed well as strong order intake and a robust backlog supported confidence in medium-term growth.
- **SOL** – the Italian industrial and medical gases group advanced as resilient healthcare demand and steady execution offset softer industrial trends, supported by structural growth in medical gases.

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

- **Mensch und Maschine Software** – the German provider of design and manufacturing software for construction and engineering declined as part of the “AI-will-kill-SaaS” narrative and amid weak manufacturing activity in Germany.
- **Reply** – the Italian IT consulting and digital services provider weakened amid broader softness in technology and consulting names, as clients showed increased caution on discretionary IT spending.
- **ChemoMetec** – the Danish provider of cell counting and analysis equipment for biopharma and research laboratories declined sharply after lowering guidance due to delayed customer purchasing decisions, amid continued cautious spending across the life sciences sector.

Engagement / ESG

VZ Holding (the Swiss wealth management platform)

We engaged with VZ Holding to understand the drivers behind its MSCI ESG rating upgrade and to improve alignment between external data and our internal assessment.

The company highlighted that the upgrade was largely driven by methodology changes and governance enhancements, while also noting inaccuracies in third-party data. It has since improved disclosure through its latest Sustainability Report and plans to re-engage with MSCI to ensure these updates are reflected.

The engagement was constructive, improving our understanding of both the company's ESG practices and the limitations of external data. Ongoing monitoring will continue as updated assessments become available

ChemoMetec – Danish provider of cell analysis instrumentation

We engaged with ChemoMetec to facilitate collaboration with Tecan, a complementary company within the life sciences tools ecosystem that we previously held. The objective was to explore integration between ChemoMetec's cell analysis instruments and Tecan's laboratory automation platforms to improve the efficiency and scalability of laboratory workflows. Following our introduction, the companies identified a strong strategic fit, resulting in the integration of ChemoMetec's NucleoCounter® NC-XM30 cell analyser into Tecan's Fluent® automation platform. This enables automated cell counting and viability analysis within robotic systems, enhancing precision and operational efficiency. The engagement demonstrates the role of active ownership in facilitating partnerships that strengthen portfolio company capabilities and support advances in biotechnology and pharmaceutical research. The engagement is now closed following successful delivery of the intended outcome.

Outlook

The market environment remains highly uncertain, shaped by elevated geopolitical tensions and a rapidly evolving AI narrative. While recent events have demonstrated how quickly conditions can shift — with oil prices and sentiment reversing following a temporary ceasefire — the

broader backdrop remains fragile. In this context, we believe it is important to anchor expectations in historical experience, particularly given the unprecedented scale of capital being deployed into AI infrastructure. Such investment cycles rarely unfold in a straight line, and the range of potential outcomes remains wide.

At Montanaro, this reinforces our focus on judgement, discipline and company-specific fundamentals. We are not sceptical of AI — indeed, we use it extensively — but we believe parts of the market have moved ahead of reality. The businesses we own are defined by deep domain expertise, embedded workflows and mission-critical functionality, and we expect AI to enhance rather than disrupt these advantages over time.

Against this backdrop, we see a compelling opportunity set emerging, particularly within European SmallCap equities. The asset class remains under-owned and continues to trade at a historically wide discount to LargeCap, despite delivering resilient earnings and strong operational performance. In many cases, we are seeing high-quality European businesses with global revenue exposure being priced as if they were purely domestic and cyclical, creating attractive valuation opportunities.

We do not attempt to predict geopolitical outcomes; instead, we are focused on the growing disconnect between price and value. Periods of heightened volatility are rarely comfortable, but they have often provided the most attractive entry points for patient, disciplined investors — particularly in areas of the market where fundamentals remain robust but sentiment is weak.

Alex Magni
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