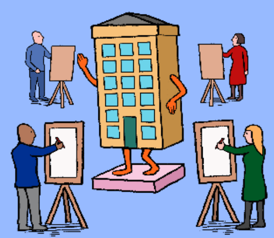
MONTANARO

ASSET MANAGEMENT

WS Europe ex-UK Small & MidCap 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 for much of the period market behaviour was driven less by individual events and more by the continuation of established trends from 2025. January and February saw a clear extension of three dominant trades: bifurcation within AI (with hardware outperforming software), the debasement trade, and strong demand for minerals over oil. Within this environment, a Quality Growth bias and limited exposure to capital-intensive and commodity-linked businesses proved a relative headwind.

The inflection point came in late February with the escalation of tensions between the US, Israel and Iran. The disruption to energy flows through the Strait of Hormuz triggered a sharp and disorderly repricing across asset classes, with oil prices, inflation expectations and bond yields all moving higher. European Small & MidCaps, already under pressure following several years of underperformance, sold off further as risk premia widened.

Importantly, the Iran shock also reversed several of the prevailing market dynamics. Energy and more cyclical areas of the market outperformed, while industrials and select growth segments lagged. Within technology, the earlier dominance of AI hardware faded, with more asset-light software businesses showing greater resilience. Despite this shift, high-quality, structurally growing companies remained out of favour in the quarter, contributing to relative underperformance versus the benchmark.

Against this backdrop, we took the opportunity to further refine the portfolio, redeploying capital into areas where long-term fundamentals appear increasingly misaligned with current valuations, while enhancing diversification and strengthening alignment to company-specific drivers of return.

More broadly, the period has been characterised by a marked increase in geopolitical uncertainty — from US tariff policies to the recent escalation in the Middle East — alongside market-specific pressures such as the indiscriminate sell-off in software. While these factors have weighed on sentiment and delayed the recovery in European SmallCaps, underlying fundamentals remain robust.

This resilience continues to be reflected across the portfolio, with many companies delivering strong operational performance, including earnings ahead of expectations and, in some cases, upgrades to guidance. Consensus expectations remain supportive, with earnings growth for the portfolio expected to exceed 15% in both 2026 and 2027.

Performance & Portfolio

During the quarter, the NAV of the sterling share class declined by 7.6%, an underperformance of 4.3% versus the IA Europe xUK index.

The **strongest contributions** during the quarter came from:

- **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.
- **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.
- **Technoprobe** – the Italian developer of semiconductor testing equipment rose as rapid developments in AI drove higher demand for its probe cards.

The **weakest contributions** came from:

- **CTS Eventim** – the German operator of ticketing platforms and live entertainment services declined despite record ticket volumes and strong operational growth, as the 2026 outlook was softer than expected due to a one-off structural income change from a long-term contract expiration.
- **ATOSS Software** – the provider of workforce management software was sold off as part of the "AI-will-kill-SaaS" narrative, despite delivering strong results.
- **Interpump Group** – the Italian manufacturer of high-pressure pumps and hydraulic components declined as cyclical exposure weighed on sentiment amid softer industrial demand and ongoing destocking across key end markets.

Engagement & ESG

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.

VZ Holding – Swiss wealth management and financial advisory group

We engaged with VZ Holding to understand the drivers behind its MSCI ESG rating change and to improve alignment between external data and our internal ESG assessment. The company was upgraded from BB to BBB, primarily reflecting methodology changes in responsible investment indicators alongside incremental governance improvements. Through discussions with Investor Relations, we also sought to address data gaps and improve disclosure, with the company noting challenges in correcting historical inaccuracies in MSCI's assessment. VZ has since enhanced its disclosure through its 2025 Sustainability Report and intends to re-engage with MSCI under the updated methodology. The engagement provided useful insight into both the company's underlying ESG practices and the limitations of third-party data, and we will continue to monitor alignment as updated data becomes available.

ALK-Abelló – Danish pharmaceutical company specialising in allergy immunotherapy

We engaged with ALK-Abelló ahead of its 2026 AGM to discuss concerns raised by proxy advisor Institutional Shareholder Services regarding remuneration governance and board composition. Key issues included the structure and transparency of the long-term incentive plan, limited disclosure on performance outcomes and the breadth of board discretion within the remuneration policy, alongside concerns over increased short-term incentive opportunity. We also discussed shortcomings in board gender diversity, including recommendations relating to the re-election of the Chair. These points were communicated to the company through Investor Relations to ensure awareness of investor scrutiny ahead of the AGM. While we supported management on the relevant resolutions this year, we highlighted that these issues may remain areas of concern if not addressed. We will continue to monitor developments in remuneration design, disclosure and board composition and may revisit these topics in future engagements.

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.

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