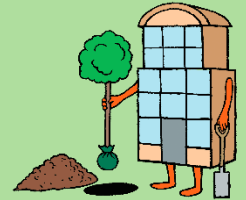


## The Better World Strategy

- Montanaro Better World Fund (Dublin)
- WS Montanaro Better World Fund (UK)

Quarterly Review – Q3 2025



### Risk-on quarter – most asset classes saw gains:

- Equities rallied (MSCI World +9.3%), Bitcoin reached new all-time highs
- Gold posted a standout quarter (+19.3%) and US Treasuries modestly positive
- MSCI World SmallCap +10.6%, slightly ahead of LargeCaps

### Quality has continued to underperform everywhere:

- Quality has lagged by 7% over 12m in the US, by 11% in the UK and by more than 12% in Europe

### US investors are hooked to Growth, European investors prefer Value:

- 10% outperformance by Growth in the US over 12 months
- 9% underperformance in Europe ex-UK

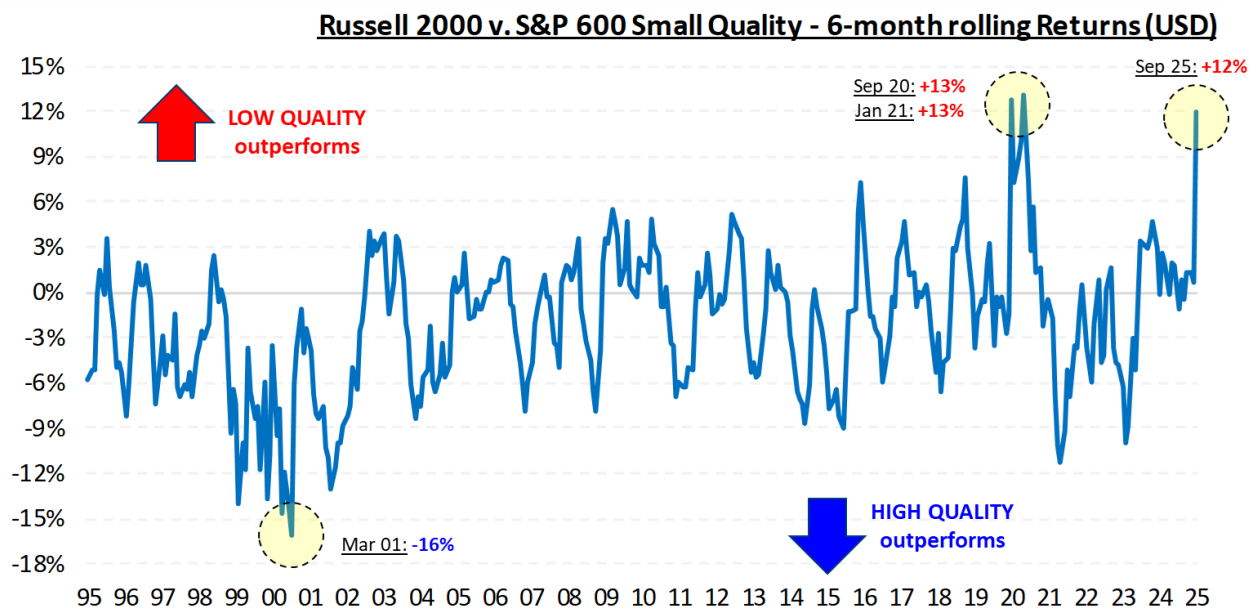
*Note: All returns are Total Returns in GBP.*

**The third quarter of 2025 remained a challenging environment for our “Quality Growth” style of investing on a relative basis.** Global equities continued to advance, led once again by speculative areas of US technology – quantum computing, bitcoin-linked equities and unprofitable growth names all delivered outsized gains – while defensive and higher-quality businesses lagged.

Gold had another stellar quarter, driven by a mix of factors: 1) hedging against a declining US dollar; 2) ongoing inflationary and macroeconomic concerns; and 3) a “fear-of-missing-out”,

perhaps best captured by a strategist at a major bank who remarked that “gold has become so big...that you cannot ignore it. There becomes a level when it becomes impossible not to own.” A rally built on fundamentals it was not.

Style factors provided little support. As we show in the chart below, US Low Quality SmallCaps outperformed High Quality by more than +12% on a six-month rolling basis to September 2025 – one of the most extreme gaps in three decades.

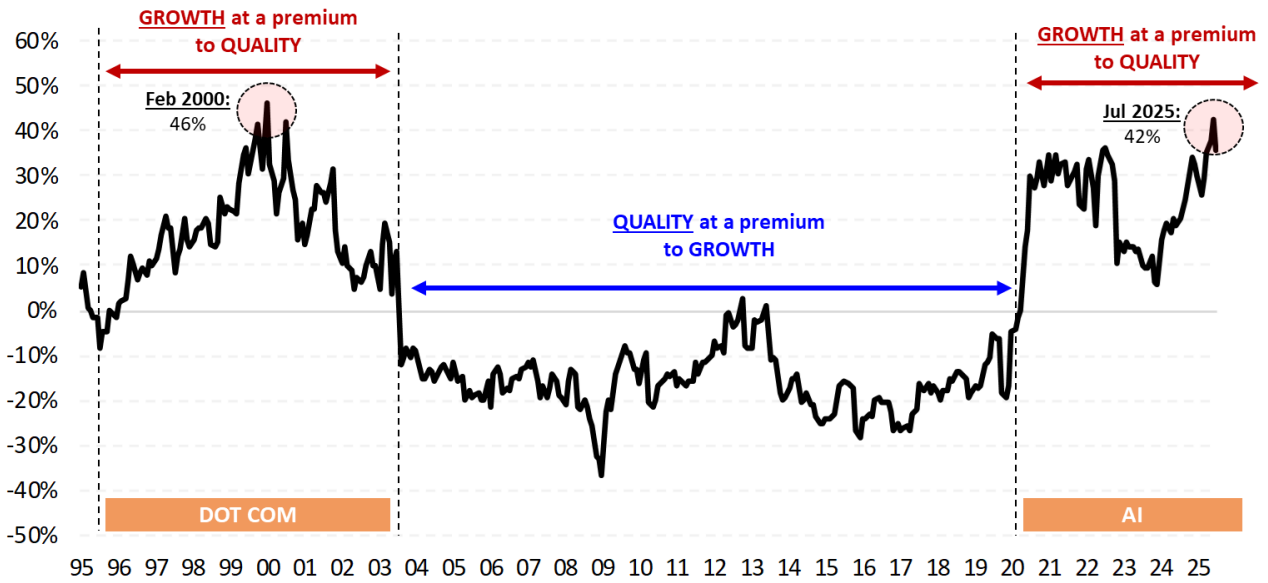


Source: Internal, Factset.  
 Note: The Russell 2000 Index is used as a proxy for Low Quality SmallCap given the high proportion of loss-makers (over 40%).

Profitability, normally a source of protection, was punished heavily during Q3: globally, Quality lagged the market by -1.8% over the quarter and by -8.8% over the year. In the US, the underperformance was -1.9% for the quarter and -7.2% over one year, while in Europe, Quality trailed by -2.2% and -12.2% respectively.

Growth on its own fared better, but the combination of growth and profitability — the hallmark of our investment approach — was firmly out of favour, creating a highly adverse style backdrop. As shown in the chart below, Growth’s premium over Quality is now close to the peak reached during the dot-com era.

### MSCI USA GROWTH v. MSCI USA QUALITY (P/Book)

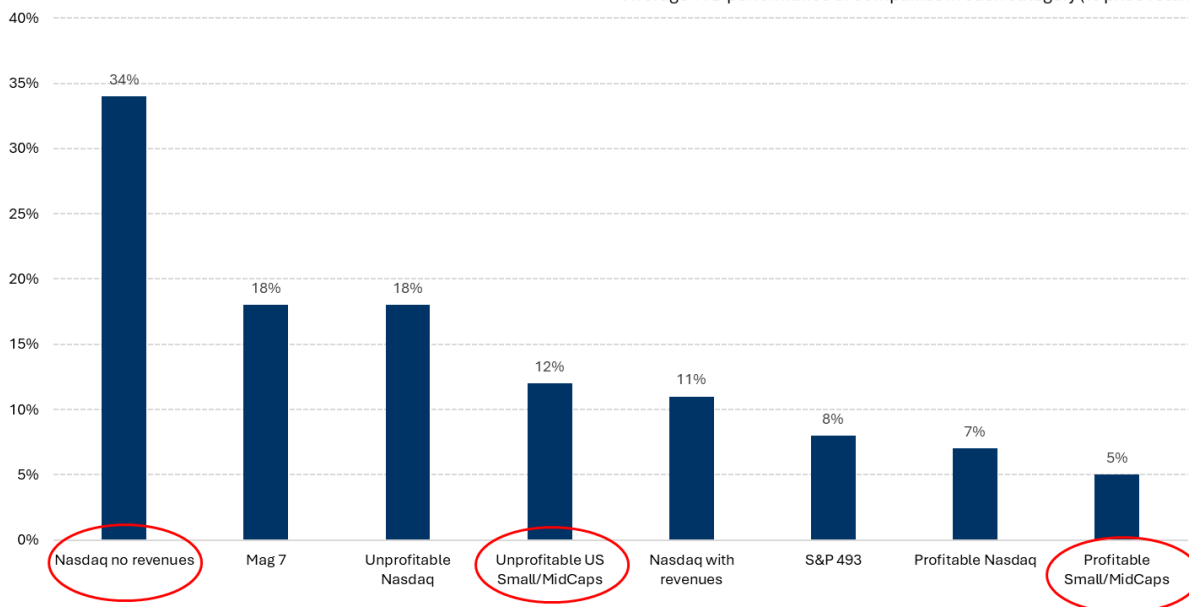


Source: Montanaro Asset Management, MSCI, Factset.

Sector rotations were equally unforgiving: within SmallCap, Healthcare lagged by its widest margin since 1999, while cyclical and lower-quality benchmarks such as the Russell 2000 outperformed more selective indices. **In short, this was a period in which speculative risk-taking was rewarded, while High Quality profitable companies such as we own struggled.**

### Divided markets of America

Average YTD performance of companies in each category (% price return)



Source: Internal, Schroders

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# Performance & Portfolio

During the quarter, the NAV of the sterling share class of the Dublin domiciled Fund **rose by 0.8%, an underperformance of 7.4%** versus the MSCI World SMidCap Index.

The NAV of the sterling accumulation share class of the UK domiciled Fund **rose by 1.0%, an underperformance of 7.2%** versus the same benchmark.

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

- **Cognex Corporation** – the US leader in machine vision and industrial barcode readers rose after reporting a positive Q2, with growth in logistics, packaging and consumer electronics.
- **Pfisterer** – the German provider of grid technology solutions advanced on strong demand for its products supporting electricity grid infrastructure upgrades.
- **Advanced Drainage Systems** – the US provider of water management solutions gained after reporting stronger-than-expected results, with margins proving highly resilient despite a weak market backdrop.

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

- **Surgical Science** – the Swedish developer of medical procedure simulation technology drifted after reporting weak results, impacted by a recent acquisition and delayed sales to a major customer.
- **Sartorius Stedim** – the provider of equipment and consumables used in drug manufacturing fell amid renewed concerns over potential changes to US drug pricing policy.
- **InPost** – the Polish operator of automated parcel locker networks declined after its largest domestic customer announced plans to diversify away from InPost.

# Impact & Engagement

## **MDA Space – Canadian leader in space technology and robotics**

During due diligence prior to investment, it emerged that student protesters at McGill University had accused MDA of complicity in human rights violations through its association with Lockheed Martin. The company clarified that Lockheed is not a material customer and that total defence-related revenues are less than 10% of turnover, focused on support and safety applications such as sensors and satellite support for the Canadian Navy to monitor illegal fishing. With no further protests reported and compliance with Canadian requirements confirmed, we closed the engagement.

## **Stride – US provider of online and blended K-12 education services**

We spoke to Stride following reports that Gallup-McKinley County Schools had terminated its contract citing academic and legal violations. Stride disputed the allegations, highlighting its compliance record, historic waivers for student-teacher ratios and the positive impact on credit-deficient students. The company also rejected reported graduation rate data and filed an ethics complaint against the superintendent. We are monitoring litigation and reputational risks while noting Stride's continued expansion into new districts.

## **Bureau Veritas – global leader in testing, inspection and certification services**

We engaged with Bureau Veritas to clarify MSCI's BISR findings, which flagged both subsidiaries in sanctioned countries and involvement in nuclear power. Management confirmed that all subsidiaries in sanctioned jurisdictions are dormant and retained only for historical reasons, with no current activity. On nuclear, which we do not exclude under our policy, our questions were fact-finding in nature. The company explained that its role is limited to service provision such as verification and conformity safety checks across feasibility, construction and operational phases of nuclear plants. According to BISR, these activities represent c.1% of revenues, with current projects including Hinkley Point via EDF and expected involvement in future developments such as Small Modular Reactors.

# Outlook

Markets today are being driven less by fundamentals and more by momentum, hype and fear of missing out. Investor psychology has tilted towards chasing what has worked, regardless of valuation.

The rally in AI-related equities is a case in point. Jeff Bezos recently remarked that we are in a cycle where *“every [AI] experiment is being funded...investors are having a hard time distinguishing between the good ideas and the bad ideas.”* He drew a parallel with the biotech bubble of the 1990s: investors poured money into a wave of companies, most of which delivered little or no returns. Many lost heavily when the bubble burst, but society benefited enormously, as the funding helped bring forward life-changing drugs. Bezos suggested something similar could play out with AI: returns may disappoint many investors, but the broader societal impact could be transformative.

Sam Altman, the chief executive of OpenAI, struck a similar balance. Reflecting on the frenzy, he said: *“Are we in a phase where investors as a whole are overexcited about AI? My opinion is yes. Is AI the most important thing to happen in a very long time? My opinion is also yes.”* His comments capture the paradox: valuations may be stretched, but the underlying technology could prove revolutionary.






This should make investors act with caution given the narrow market leadership driving global equity markets higher. The hundreds of billions of dollars companies are investing in AI now account for an astonishing 40% share of US GDP growth this year, while AI companies have accounted for 80% of the gains in US stocks so far in 2025.

As we wrote recently in our [blog on passive dominance](#), the rise of passive vehicles has only amplified these distortions. Inelastic market behaviour means flows now dictate price levels more than fundamentals. Passive indices, by definition, allocate ever more capital to what has already gone up, reinforcing the cycle. The result is that active managers, particularly those focused on fundamentals, have been pushed to the sidelines. Yet history shows such dynamics do not persist indefinitely. When momentum unwinds, fundamentals reassert themselves and stock picking returns to the fore.

After challenging quarter, it is important to emphasise that we remain focused on our areas of

expertise. We have strengthened our process in recent years, tightening risk management and refining portfolio construction, while ensuring that our team is well resourced and spending as much time as possible speaking to management teams. We remain convinced that focusing on High Quality, growing businesses is the best way to compound capital over the long term. Our Impact themes remain as relevant as ever. Markets do not stay the same forever, they change when investors least expect it. **Already we are seeing signs of a different, more favourable, market environment in October. When this happens, we believe our disciplined process will leave us well placed to benefit.**

*Montanaro Impact Team:*

|   |   |   |  |   |
|---|---|---|--|---|
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