

BETTER WORLD FUND

Investment Commentary

Q4 2024



Market review

In 2024, the Montanaro Better World Fund faced a challenging environment as SMidCap impact investing remained out of favour. Key sectors such as Healthcare and Technology were particularly impacted by prolonged post-Covid inventory destocking, while non-impact sectors like Materials, traditional Energy, and Financials outperformed. Persistent inflation, higher-for-longer interest rates, and the dominance of MegaCap technology stocks – the so-called “Magnificent Seven” – created significant headwinds for the Fund’s quality growth strategy. As a result, the Fund underperformed its benchmark, reflecting the unprecedented seventh consecutive year of SMidCap underperformance relative to LargeCap.

Despite these challenges, the Fund’s holdings demonstrated resilience in navigating structural growth trends. **Tyler Technologies**, a leading US provider of software for public sector organisations, and **Badger Meter**, which specialises in water flow measurement and control technologies, delivered strong operational results, underscoring their alignment with long-term sustainability themes. While healthcare-focused businesses such as **Sartorius Stedim** and **Bio-Techne** faced headwinds from extended destocking cycles and supply chain disruptions, signs of recovery emerged towards the end of the year. The Fund remains committed to long-term investments in high-quality companies addressing global challenges, and the growing valuation disconnect with LargeCaps positions it to benefit from a market rotation as the concentration in MegaCap stocks begins to normalise.

Portfolio

During the final quarter of the year, the NAV of the sterling share class declined by 3.3%, an underperformance of 7.6% versus the MSCI World SMidCap Index on a total return basis (returns in £)¹. The Fund suffered from a “dash-to-trash” rally in US SmallCap, which followed the election of Donald Trump as President. In particular, US financials stocks rose strongly, while Healthcare stocks were hurt by worries about the impending arrival of Robert F. Kennedy as Health Secretary. [For returns in other currencies please see Figure 1 at the end of the commentary].

The strongest contribution during the quarter came from **Masimo**, the US manufacturer of non-invasive monitoring technologies and medical devices, which recovered as investors were optimistic about a strategic turnaround following the resignation of the former Chairman/CEO. **Stride**, the online education company, gained after releasing strong results reflecting record enrolments. **Surgical Science**, the Swedish developer of virtual reality simulators for medical training, performed well as their hospital customer budgets recovered and Intuitive Surgical continued to perform strongly.

The weakest contribution came from **TransMedics**, the US provider of technology-enabled organ transplant retrieval and delivery services, which sold off sharply after a stellar run on fears of slowing growth. After ongoing due diligence we are confident the company continues to see strong market share gains and used this opportunity to add to the position. **ICON**, the US-based provider of clinical research services to pharmaceutical companies, sold off following a profit warning caused by customers rationalising clinical trial activities. The company remains a leader in a structurally growing and attractive market. **Sdiptech**, the Swedish provider of infrastructure solutions for urban environments, declined after recording slower sales growth and a decline in margins due to a loss-making business they have subsequently sold. We have subsequently exited the position to fund higher conviction ideas.

Outlook

Despite the challenges we have faced, there are compelling reasons to be optimistic about the

¹ Please note that the Montanaro Better World Fund is domiciled in Ireland. The UK domiciled WS Montanaro Better World Fund is similar but not identical to Irish Fund. Both Funds have multiple share classes and the factsheets should be consulted for specific return information: <https://montanaro.co.uk/our-funds/>

outlook for the Better World Fund. A strategy that involves taking significant off-benchmark positions is naturally prone to periods of both strong underperformance and outperformance, and we have experienced both in the almost seven years since its inception. Despite navigating an unprecedented environment – from Covid-19 to the effects of the war in Ukraine – the strategy has delivered an average annual return of over 7% in GBP (and 9% in EUR).

Our goal now is to continue delivering strong absolute returns with reduced volatility. Over the past year, we have taken significant steps to lower the Fund's risk profile, with notable reductions in total active risk, factor risk and beta. The fundamental strength of the companies in which we invest suggests that a complete reversal of recent headwinds is not required; rather, even a modest improvement in conditions would create a more favourable backdrop. From a SMidCap perspective, the ongoing concentration in LargeCap stocks presents an attractive opportunity. Historically, extreme levels of concentration have often signalled a rotation towards SmallCap and MidCap equities.

The Fund's focus on high-quality, innovative businesses positions it well to capitalise on this shift, with the portfolio's earnings projected to grow by 15% in 2025, compared to just 12% for LargeCap peers. Exclude the technology giants and LargeCap's earnings growth appears even more pedestrian.

Looking ahead, the portfolio is well-diversified and supported by a strong pipeline of investment ideas. While challenges remain to the backdrop, both economic and political, the Fund's steadfast commitment to delivering high-impact investments ensures it is well-positioned to achieve both financial and societal objectives over the medium to long-term.

Performance

Absolute Returns (Net TR)	GBP	EUR	AUD	USD	CAD
2024	-6.9%	-2.4%	1.0%	-8.6%	-0.4%
2023	7.2%	9.8%	12.9%	13.2%	10.5%
2022	-29.5%	-33.3%	-32.8%	-37.0%	-32.7%
2021	20.0%	27.9%	25.8%	19.0%	17.9%
2020	35.0%	27.8%	26.9%	39.0%	36.7%
2019	29.8%	37.5%	35.4%	35.1%	28.7%
2018 (April launch)	-3.8%	-6.6%	-5.5%	-11.8%	-6.3%
Average annual returns	7.4%	8.7%	9.1%	7.0%	7.8%

Note: GBP and EUR returns are based on the Fund's GBP and EUR Distribution classes.

AUD, USD and CAD returns are showed for reference only. They are sourced from Bloomberg, which applies the prevailing daily FX rate to the NAV of the GBP Share Class.

Returns v. Benchmark (TR)	GBP	EUR	AUD
2024	-18.4%	-19.2%	-19.8%
2023	-1.9%	-1.9%	-2.0%
2022	-20.8%	-19.7%	-19.7%
2021	2.2%	2.3%	1.9%
2020	22.8%	21.6%	21.4%
2019	7.9%	8.3%	8.4%
2018 (April launch)	0.2%	0.2%	0.4%

Benchmark: MSCI World SMID Cap Index (Net TR)

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

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