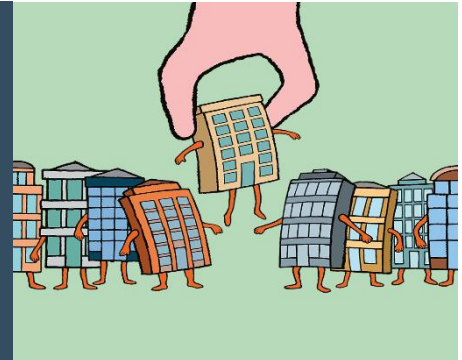


## EUROPEAN FOCUS FUND

(Formerly the MidCap Fund)

### Investment Commentary

Q4 2024



## Market review

The final quarter of 2024 presented challenges for European equities, as concerns over slowing economic growth, rising interest rates and political uncertainty weighed on investor sentiment. While fears of a potential recession lingered, the overall economic picture remained mixed. Inflationary pressures began to ease from earlier peaks but remained above target levels, keeping policymakers under pressure to strike the right balance between growth and inflation.

Political instability in Germany and France further complicated the outlook. In Germany, the collapse of the governing coalition paved the way for elections in early 2025, while in France, the Prime Minister was ousted following a no-confidence vote, leaving political leadership in flux. The economic impact of these developments, however, was muted.

MidCap stocks underperformed their LargeCap peers in the final weeks of the year, reflecting cautious sentiment among investors. However, the Fund's emphasis on high-quality, innovative companies in structurally growing sectors helped it deliver robust relative returns. The operational resilience of companies within the Portfolio, underpinned by strong fundamentals and long-term growth drivers, allowed the Fund to navigate the challenging environment effectively.

## Portfolio

During the quarter, the NAV of the Euro share class declined by 1.5% on a total return basis, an

outperformance of 1.1% versus the Stoxx Europe Mid 200 index (returns in €)<sup>1</sup>.

The strongest contribution during the quarter came from **Games Workshop**, the UK creator of the Warhammer fantasy miniatures and tabletop games, which advanced on the finalisation of the Amazon deal and entry into the FTSE 100. **Sage**, the UK provider of accounting and business management software, rose as it posted excellent full year results ahead of expectations, as well as a strong outlook. **MTU Aero Engines**, the German aircraft engine component supplier to RTX and one of the largest global maintenance, repair and overhaul (MRO) providers, advanced on continuing strong demand in its MRO business and the appointment of a new CEO, the former head of Lufthansa Technik, a key MRO partner.

The weakest contribution came from **Moncler**, the Italian luxury outerwear brand, which pulled back on continuing concerns about weakness in the luxury goods sector. **Dottikon**, a leading pharmaceutical CDMO, announced slightly disappointing interim profits as the company incurred costs ahead of a new plant opening. **Biotage**, the Swedish provider of instruments and consumables used in drug research and production, gave up some recent gains as investors feared growth might be slowing.

## Outlook

There are signs that the smaller company thaw may finally be underway. Over the last six months, European MidCap has outperformed LargeCap by over 6%, suggesting that investors are beginning to look beyond the tech giants to other areas of the market that could benefit from any wobble in their stellar performance.

The signs are positive. The Q4 earnings season has already started strongly, setting a solid foundation for the year. Valuations remain at extreme discounts compared to LargeCap, more extreme even than the gap reached during the Global Financial Crisis of 2008.

The Fund's active, bottom-up investment approach will remain essential in identifying under-researched and undervalued opportunities. The combination of a supportive valuation environment, ongoing M&A activity and the relative resilience of our Portfolio should enable the Fund to generate attractive returns over the coming years, even in the face of uncertain macroeconomic conditions. With improving earnings growth and compelling valuations, 2025

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<sup>1</sup> Please note that the Fund has multiple share classes and the factsheet should be consulted for specific return information: <https://montanaro.co.uk/our-funds/>

could be the year Europe's smaller companies shine once again.

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