

GLOBAL INNOVATION FUND

Investment Commentary

Q4 2024



Market review

The fourth quarter of 2024 was marked by a man who could have an outsized influence on the next four years: Donald Trump. His victory in the presidential election led to a dash-for-trash rally in equity markets in which smaller companies initially led the way. Investors were buoyed by the prospects of Trump's growth agenda and promises of economic efficiency (with Elon Musk leading the way at "DOGE" – the Department of Government Efficiency). Yet this rally soon fizzled out.

As is so often the case, the catalyst was the Federal Reserve, which signalled a slower pace of interest-rate cuts in 2025 after data continued to point towards a resilient economy and persistent inflation. This led to a jump in Treasury yields and a fall in stock prices. Such was the strength of the reversal that the Russell 2000 experienced its worst relative month versus LargeCap since 1998. This contributed to an unprecedented seventh consecutive year of SMidCap underperformance relative to LargeCap.

Portfolio

During the quarter, the NAV of the Sterling Accumulation B Share Class rose by 3.4%, an underperformance of 0.9% versus the MSCI World SMidCap Index on a total return basis (returns in £)¹. The key driver was the Fund's lack of exposure to US Financials which rallied on higher rate expectations, whilst the longer duration growth stocks, which comprise the entirety of the Fund, lagged for similar reasons.

The strongest contribution during the quarter came from **Axon**, the developer of public safety technologies best known for tasers and bodycams, which advanced on little news, though there has been speculation about Walmart adopting bodycams to protect their workers. **TechnologyOne**, the Australian provider of enterprise software for the government and higher education sectors, rose

¹ 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/>

with the broader Australian stock market as investors continued to digest its strong full-year results. **Pro Medicus**, the Australian provider of imaging IT solutions for healthcare, continued to be a top performer, reporting record new customer wins.

The weakest contribution came from **TransMedics**, the provider of technology-enabled organ transplant retrieval and delivery services, which had a quarter of lower than expected revenue growth. **Universal Display**, the developer of OLED technology and materials, drifted as they announced a change in leadership and headquarters for their OVJP division, raising investor concerns about that division's prospects. **ATOSS Software**, the provider of workforce management software, drifted on no company-specific news, albeit in the context of a weakening economic outlook for Germany.

Outlook

It is no secret that smaller companies have been out of favour, stuck in the shadow of the Magnificent Seven. A result is that Global SMidCap now trades at the largest P/E and P/B valuation discounts in over two decades. Perhaps more than at any time in the last few years, investors are beginning to look beyond the tech giants to areas of the market that could benefit from any wobble in their stellar performance.

The Fund's focus on quality companies with strong fundamentals positions it well to benefit from a return of the "Smaller Company Effect" in 2025. Last year, several of our Portfolio companies were acquired, underscoring the strategic value of our holdings. We anticipate double-digit EPS growth in 2024 and 2025, supported by solid balance sheets and prudent management. By investing in businesses that are leaders in their niches, we aim to deliver sustainable growth while benefitting from the potential re-rating of the SMidCap asset class.

The Fund's active, bottom-up investment approach remains crucial to uncovering under-researched and undervalued opportunities. We believe that the combination of a supportive valuation environment, ongoing M&A activity and the relative resilience of our Portfolio will enable the Fund to deliver attractive returns over the coming years, even amid uncertain macroeconomic conditions. Moreover, the Fund's concentrated exposure to some of the most innovative technology companies in the market positions it to enjoy multi-year growth tailwinds as the benefits of the heavy infrastructure investments into artificial intelligence from the 'Magnificent Seven' begin to proliferate more widely.

The views expressed in this article are those of the author at the date of publication and not necessarily those of Montanaro Asset Management Ltd. The information contained in this document is intended for the use of professional and institutional investors only. It is for background purposes only, is not to be relied upon by any recipient, and is subject to material updating, revision and amendment and no representation or warranty, express or implied, is made, and no liability whatsoever is accepted in relation thereto. This memorandum does not constitute investment advice, offer, invitation, solicitation, or recommendation to issue, acquire, sell or arrange any transaction in any securities. References to the outlook for markets are intended simply to help investors with their thinking about markets and the multiple possible outcomes. Investors should always consult their advisers before investing. The information and opinions contained in this article are subject to change without notice.

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

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