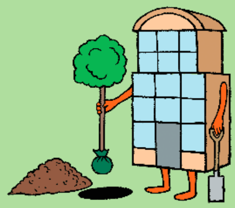
MONTANARO

ASSET MANAGEMENT

# The Better World Strategy

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

## Quarterly Review - Q2 2025



**Q2 Returns – "Liberation Day" effect:**

- Global equities plunged following the tariff announcements in April
- But: equities rebounded once tariffs were paused just days later

**Impact flat over the quarter, while the SmallCap Effect returns to Europe:**

- MSCI ACWI Sustainable Impact: -0.2% over the quarter (in GBP)
- SmallCap is finally on the map in Europe: +17.9% YTD for the MSCI Europe xUK SmallCap Index (GBP)

**Style:**

- Growth still not a tailwind for SmallCap in Europe & the UK
- Growth more supportive globally thanks to the US

**There are three things that we wish to highlight in this quarterly report:**

1) **Montanaro's investment in the Better World Fund (BWF):** we have significantly increased our own investment in BWF. At a time when there has been upheaval across the impact sector, this reflects a firm commitment to our impact strategy and further strengthens alignment with clients.

2) **Sustainability Impact Label:** it has been a marathon, but the UK domiciled WS Better World Fund has achieved the Sustainability Impact label under SDR. This complements the Dublin domiciled Fund which remains Article 9 under SFDR.

3) **Portfolio risk profile:** improving the balance of the Portfolio's risk profile remains a key priority for Adam and the team, as many will have heard in recent client meetings. This is especially important for an impact fund, where Portfolio construction differs materially from the benchmark due to exclusions based on our impact criteria. As a result, the Portfolio's factor risk has continued to decline as a proportion of total active risk, with idiosyncratic (stock-specific) risk now the dominant driver — exactly as we want as bottom-up stock pickers. At the same time, the Portfolio's beta has fallen significantly, from 1.2 in June 2022 to 0.95 at the end of June 2025. Stock correlation remains a key focus for the Investment Team when considering new ideas, with the aim of adding companies that enhance the Portfolio's growth and impact potential while further improving its risk profile.

# Performance & Portfolio

During the quarter, the NAV of the sterling share class of the Dublin domiciled Fund **rose by 9.0%, an outperformance of 4.5%** versus the MSCI World SMidCap Index.

The NAV of the sterling accumulation share class of the UK domiciled Fund **rose by 8.3%, an outperformance of 3.7%** versus the same benchmark.

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

- **TransMedics** – the US provider of organ transplant technology and services continued to report rapid growth and increasing profitability.

- **Belimo** – the Swiss manufacturer of HVAC control systems and actuators upgraded its 2025 guidance for revenue growth and EBIT margin due to strong momentum in its data centre customers.

- **Visional** – the Japanese operator of HR technology platforms released strong results and raised guidance as it continued to take strong market share.

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

- **American Water Works** – the largest publicly listed US water and wastewater utility declined due to sector-wide utility weakness.

- **Bio-Techne** – the US life sciences supplier underperformed on concerns over US academic budget cuts and potential pharma pricing pressure.

- **IDP Education** – the Australian education services firm weakened sharply due to tightening visa policies and geopolitical headwinds, affecting student placements.

# Impact & Engagement

Our Impact Team continues to track key indicators across our holdings in the Portfolio to assess the positive outcomes delivered by their products and services, and how these contribute to our six impact themes.

In our **Green Economy theme**, it was impressive to see **Terna Rete** – Italy's national electricity grid operator – support the addition of 7.5 GW in new renewable capacity, a 29% increase on the previous year. This brought Italy's total installed renewable capacity to 77 GW by the end of 2024, driven by solar, hydro, wind and biomass. Momentum shows no sign of slowing, with over 348 GW of connection requests pending, predominantly for wind (onshore and offshore) and closely followed by solar. As the backbone of Italy's decarbonisation effort, Terna is playing a pivotal role in accelerating the shift to cleaner energy at scale.

In our **Healthcare theme**, we were pleased to see **Tristel** report that, over the course of 2024, its TRIO and DUO products were used in 23 million decontamination procedures. These products are used to disinfect medical instruments such as ultrasound probes and endoscopes at the point of care, providing high-level disinfection in a fast, portable and easy-to-use format. By enabling effective infection prevention outside of central sterilisation units, these products help reduce the risk of healthcare-associated infections, support faster patient treatment and contribute to safer clinical environments — particularly in resource-constrained or high-demand settings.

We engaged with **Riken Keiki**, a Japanese gas detection equipment manufacturer, to discuss governance concerns relating to the re-election of an Audit Committee member. ISS had recommended voting against this appointment due to questions around the director's independence. We sought clarity on how the company assesses director independence and whether it acknowledges concerns raised by external research providers. The company explained that the director's past connection to a financial institution was minor and not considered to compromise independence. They emphasised the individual's strong financial expertise as the basis for the Audit Committee role. While we will continue to monitor the company's approach to board composition and independence, we chose to support the re-election, as we view the director as independent. We remain committed to engaging with our portfolio companies on material ESG and impact-related risks and opportunities.

# Outlook

The Better World Fund remains anchored in Quality companies aligned to structurally growing impact themes. During the quarter, we introduced three new names to the Portfolio, targeting critical areas of air quality, water management and grid infrastructure — all seeing mounting regulatory and consumer demand. Air pollution continues to pose a severe global health challenge, with the World Health Organization estimating that almost the entire global population (99%) breathes air exceeding safe limits. Meanwhile, drought conditions are worsening across the northern hemisphere: Europe's drought monitor highlights severe drought across the south, while the US drought monitor shows over 20% of the contiguous US experiencing moderate to exceptional drought as summer heatwaves intensify. At the same time, Europe's push to decarbonise its energy system is driving record investment in electricity grids to support renewables growth.

These dynamics reinforce the investment case for companies such as **Volution**, a leader in energy-efficient ventilation solutions with strong margins and supportive regulatory drivers; **Hawkins**, a specialist in water treatment chemicals benefiting from resilient demand, economies of scale and accelerating M&A activity in the US; and **Pfisterer**, a European leader in high-voltage components essential for connecting new wind and solar capacity to the grid, directly enabling the energy transition and backed by structural demand for grid upgrades. All three offer exposure to markets critical for climate adaptation and decarbonisation, supported by strong financial performance.

More broadly, we see reasons for optimism in the SmallCap space. Our Quality Growth approach is well-positioned to benefit from several key dynamics:

- **Valuation opportunity**: SmallCap continues to trade at historically large discounts relative to LargeCap, despite offering clean balance sheets, strong cash flows and recurring revenues.

- **Shifting dynamics**: market breadth is improving, macro conditions are turning more supportive and increased private equity activity could rejuvenate the SmallCap IPO market.

- **Active management advantage**: the SmallCap universe remains highly inefficient and under-researched, creating fertile ground for active managers to uncover high-quality opportunities and deliver alpha.

- **Intentional allocation matters**: "AllCap" strategies often fail to provide meaningful exposure to SmallCaps. A dedicated allocation is essential to capture the unique return potential and diversification benefits they offer. It is noteworthy that some of the largest investment consultants are paying more attention to SmallCap than they have in quite some time.

We remain committed to building a diversified Portfolio of high-quality companies that can deliver strong risk-adjusted returns while contributing to a more sustainable world. By staying close to our holdings and focused on long-term trends like climate adaptation, cleaner air and water security, we believe the Fund is well-positioned to capture the powerful structural growth opportunities ahead.

### *Montanaro Impact Team:*

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

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