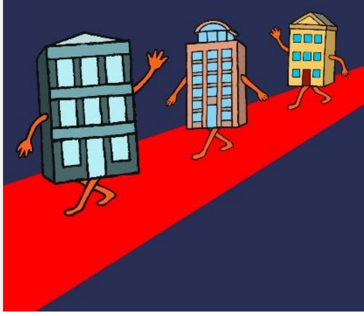
MONTANARO
ASSET MANAGEMENT

# The Global Select Strategy

- Montanaro Global Select Fund (Dublin)
- WS Montanaro Global Select 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

**US dollar suffers worst start since 1973:**

- The dollar posted its weakest first-half performance in over 50 years, amplifying returns on international assets for GBP investors

**The "SmallCap Effect" returns to Europe:**

- 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

The second quarter of 2025 saw a volatile but ultimately supportive backdrop for global SMidCap. Markets initially plunged in early April following tariff announcements, posting the sharpest two-day declines since 2020, before rebounding as tensions eased. AI and semiconductor sectors drove global equities higher, with LargeCap technology stocks recovering after a weak first quarter. Meanwhile, European and UK rate cuts and shifts in investor sentiment saw market leadership shift away from the US.

Against this backdrop, the strategy delivered strong absolute and relative returns, supported by effective sector and country positioning. Notably, our underweight to the US and the US dollar provided a meaningful tailwind — the dollar suffered its worst start to a year since 1973, amplifying gains from our diversified international exposure. Encouragingly, Quality and Growth factors, which had been headwinds earlier in the year, stabilised and no longer detracted from performance.

# Performance & Portfolio

During the quarter, the NAV of the sterling accumulation share class of the **UK domiciled Fund** increased by 7.8%, an outperformance of 3.1% versus the MSCI World SMidCap Index.

The NAV of the sterling accumulation share class of the **Dublin domiciled Fund** gained by 7.7% versus the same benchmark.

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

- **Japan Elevator Service** – the Japanese maintenance and modernisation specialist continued to show strong execution and margin expansion, supporting confidence in its mid-term targets.
- **TransMedics** – the US provider of technology and services to the organ transplant industry continued to report rapid growth and increasing profitability.
- **MTU Aero Engines** – the aircraft engine component supplier to Pratt & Whitney and one of the largest Maintenance, Repair and Overhaul (MRO) providers, outperformed on the back of better-than-expected guidance given at the Paris Air Show, supported by continued demand for narrowbody aircraft engines.

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

- **Trex** – the US producer of composite decking and outdoor living products faced headwinds from broader macroeconomic uncertainty in the US economy.
- **Bio-Techne** – the US supplier of life science reagents and instrumentation weakened due

to fears of US academic budget cuts and potential pricing controls in its pharmaceutical customer base.

- **American Water Works** – the largest publicly traded water and wastewater utility in the US lagged as investors rotated into higher beta names as the market rallied.

# Engagement & ESG

We engaged with **NCAB** to evaluate the strength of their audit process as a potential differentiator. The company described its dual-track approach, conducting both quality and sustainability audits. Sustainability audits are carried out biennially for around 20 high-risk factories, covering approximately 75% of production. We also discussed the recent downgrade of their EcoVadis rating from Gold to Silver and noted initiatives to increase awareness of whistleblower mechanisms. We are awaiting follow-up from NCAB with sample audit reports and will continue to monitor developments in audit coverage and customer feedback systems.

# Outlook

As we look ahead, we continue to see an opportunity-rich environment for the Fund. Recent additions like **Nova** — a high intellectual property company specialising in monitoring and measurement systems for semiconductor manufacturing — exemplify our strategy of opportunistically adding idiosyncratic, high-growth names when valuations pull back.

Conversely, the exit from **Fortnox**, following its takeover at a 38% premium, provided flexibility to reallocate capital into other compelling opportunities. It is bittersweet to see Fortnox leave the Portfolio; it was a true hidden gem we held across our Funds for many years. Its exceptional growth consistently delivered on expectations, justifying its optically high P/E.

The Portfolio remains overweight high-quality software companies. While our underweight to US equities has supported performance this year, this positioning is a result of our bottom-up stockpicking approach, rather than a macro view or dogma. If the right opportunities emerge from the weakness in the US we will be open to taking advantage of them.

Our overall style positioning is more refined than in the past. We have spent a great amount of time and resources over the last few years building up a granular, quantitative factor risk management framework. As a result we are able to be more focused on taking risks that we want to take while neutralizing exposure to areas where we do not have an edge. As ever, we see room to add select, high-conviction growth names. Maintaining our hallmark commitment to Quality and Growth, we believe the Portfolio is well-placed to navigate the evolving market landscape and deliver strong, risk-adjusted returns for our investors.

***George Cooke***
*July 2025*

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

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