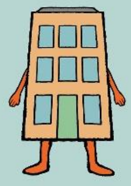
MONTANARO

ASSET MANAGEMENT

European Income Fund



Quarterly review – Q3 2025

Risk-on quarter – almost everything went up:

- Equities rallied (MSCI World +9.3%), Bitcoin reached new all-time highs
- Gold posted a standout quarter (+19.3%) and US Treasuries modestly positive
- SmallCaps underperformed LargeCaps by 2% in Europe ex-UK and by 5% in the UK *

Quality has continued to underperform everywhere:

- Quality has lagged by 7% over 12m in the US, by 11% in the UK and by more than 12% in Europe

US investors are hooked to Growth, European investors prefer Value:

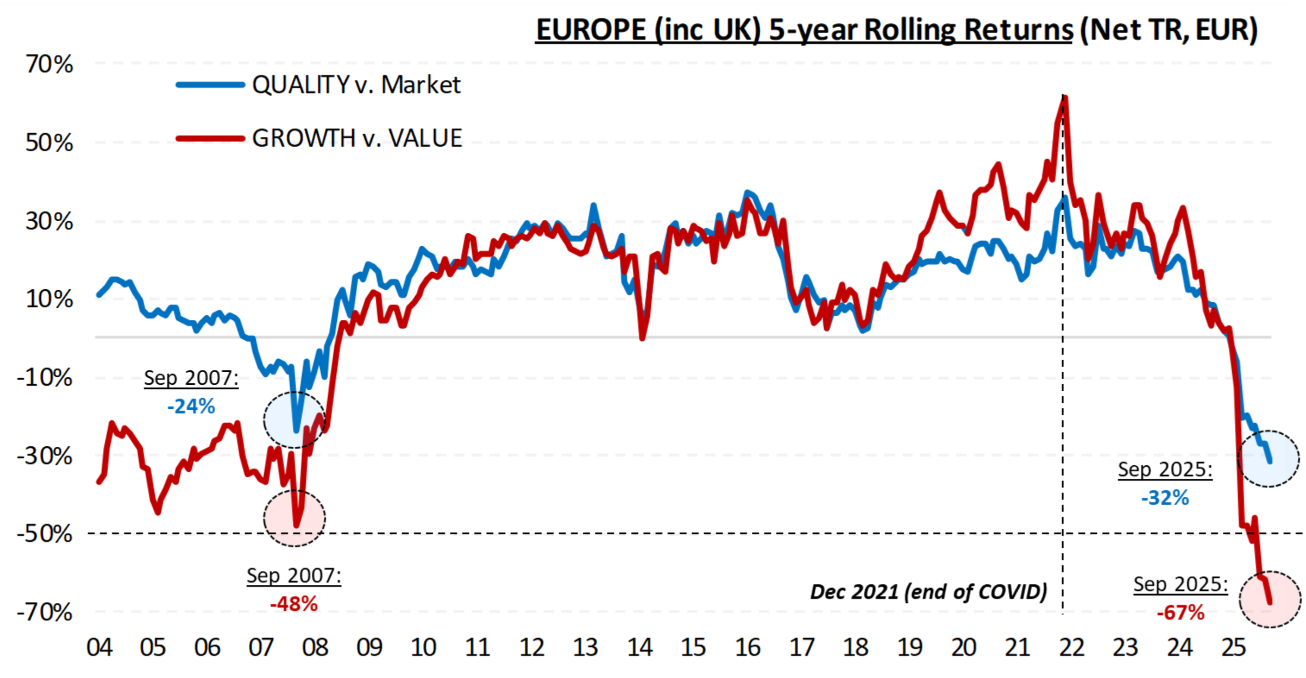
- 10% outperformance by Growth in the US over 12 months
- 9% underperformance in Europe ex-UK

Note: All returns are Total Returns in GBP.
**Based on the MSCI Europe ex-UK SmallCap v. LargeCap indices, and the Numis Smaller Companies (ex-IC) vs LargeCap Indices.*

The third quarter of 2025 remained a challenging environment for our "Quality Growth" style of investing. Global equities continued to advance, led once again by speculative areas of US technology – quantum computing, bitcoin-linked equities and unprofitable growth names all delivered outsized gains.

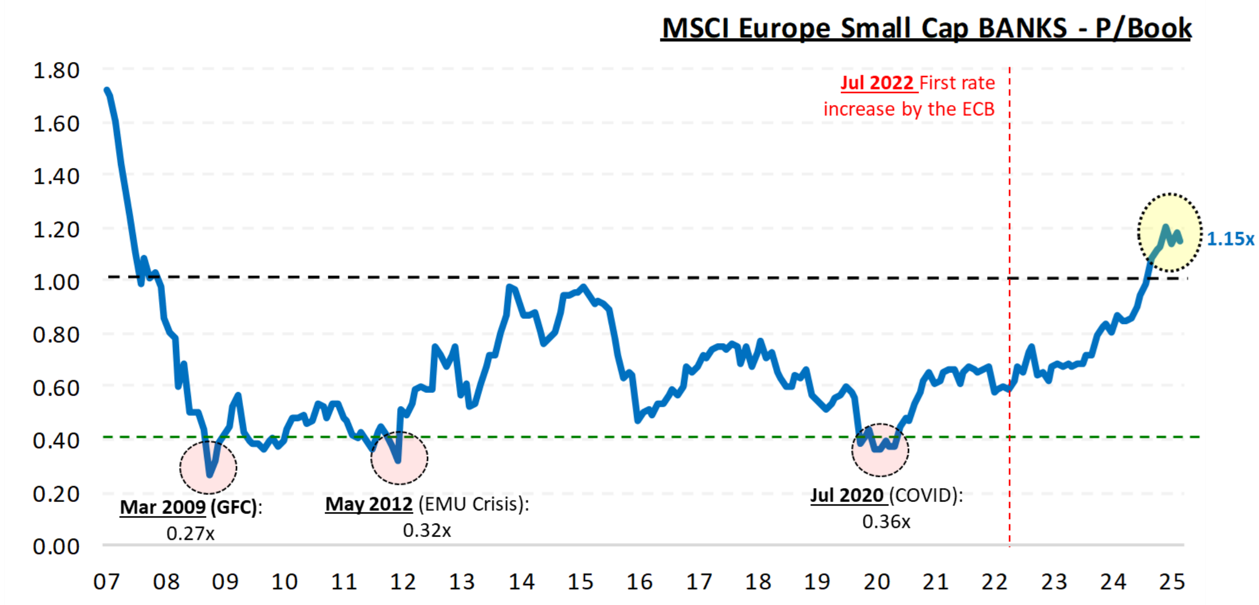
Gold had another stellar quarter, the reasons explained by several factors: 1) hedging versus a declining US dollar; 2) ongoing inflationary and macroeconomic concerns; 3) a "fear-of-missing-out", perhaps best expressed by a statement from the Chief Strategist of a major bank: *"gold has become so big…that you cannot ignore it. There becomes a level when it becomes impossible not to own."* A rally built on fundamentals it was not.

Across Europe, defensive and higher-quality businesses lagged as Value areas of the market rallied. As shown below, Europe's Quality style has endured an unprecedented period of underperformance. On a five-year rolling basis, Quality has now lagged the market by over 30% — the weakest relative performance in more than two decades. Growth, meanwhile, has fared little better, underperforming Value by almost 70% over the same horizon. This divergence reflects the deep market preference for cyclicality and short-term earnings leverage rather than for companies with resilient profitability and balance sheets.



Source: Montanaro Asset Management, MSCI, Factset.
Indices used are: MSCI Europe Quality Index, MSCI Europe Index, MSCI Growth Index, MSCI Value Index (all in EUR).

Banks, in particular, continued to benefit from higher-for-longer interest rates, with European SmallCap banks now trading at over 1.1x book value — their highest level since before the Global Financial Crisis. The Fund's structural underweight to this area proved a headwind.



Source: Montanaro Asset Management, MSCI, Factset.

In short, this was a quarter that rewarded cyclical risk-taking over steady profitability. However, periods of extreme dispersion such as this have historically preceded strong recoveries in Quality investing. Already we are seeing signs of a different, more favourable, market environment in October. We remain confident that the fundamentals of our holdings — high returns on capital, robust balance sheets and strong structural growth potential — will ultimately be rewarded as market leadership normalises.

Portfolio

During the quarter, the NAV of the Sterling Share class declined by 2.5%, an underperformance of 5.5% relative to the IA Europe ex UK benchmark index (in total return terms).

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

- **Technogym** – the Italian producer of fitness equipment and digital wellness solutions rose after reporting solid first-half results supported by new product launches across existing lines and the Reformer pilates machine.

- **Merlin Properties** – the Spanish real estate company advanced after reporting stronger operating metrics, including record office occupancy, like-for-like rent growth and progress in its data centre and logistics projects, alongside an upgraded outlook.

- **Sol Group** – the Italian manufacturer of industrial gases and provider of homecare nursing services gained after reporting robust interim results with impressive growth across both divisions.

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

- **CTS Eventim** – the leading ticketing provider in Europe drifted after Q2 results were impacted by M&A integration costs, with management reiterating guidance at the lower end of the full-year range.

- **Bouvet ASA** – the Norwegian IT consultancy and software development firm weakened as the broader technology sector sold off amid fears of an AI bubble and a slowdown in IT services demand.

- **Amadeus FiRe** – the German recruitment and skills training company declined after issuing a significant profit warning amid very weak labour demand and disruption to government-sponsored training programmes.

Outlook

Markets today are being driven less by fundamentals and more by momentum, hype and fear of missing out. Investor psychology has tilted towards chasing what has worked, regardless of valuation. The rally in AI-related equities is a case in point: capital continues to flow into a narrow group of MegaCap names, while the broader market has struggled.

We have seen this before. Periods when a handful of themes or sectors dominate market performance tend to coincide with the later stages of a cycle. Value shares – typically more economically sensitive – often outperform when economic data strengthens or when inflation expectations rise, while Quality businesses can lag temporarily. This is a normal part of the investment cycle.

History suggests that such phases do not last indefinitely. When enthusiasm fades and markets begin to refocus on earnings, cash generation and balance sheet strength, companies with durable business models and pricing power tend to reassert their leadership.

As we wrote recently in our blog on passive dominance, the rise of passive vehicles has only amplified these cyclical extremes. Inelastic market behaviour means flows now dictate price levels more than fundamentals. Yet when momentum unwinds, fundamentals reassert themselves – and active, bottom-up stock picking returns to the fore.

Against this backdrop, we remain focused on our areas of expertise. We have strengthened our process in recent years, tightening risk management and refining portfolio construction, while ensuring that our team is well resourced and spending as much time as possible speaking to management teams.

We continue to believe that investing in Quality, growing businesses with strong balance sheets and sustainable competitive advantages is the best way to compound capital over time. Markets do not stay the same forever; they change when investors least expect it. When this happens, our disciplined and patient approach should be well placed to benefit.

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October 2025

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