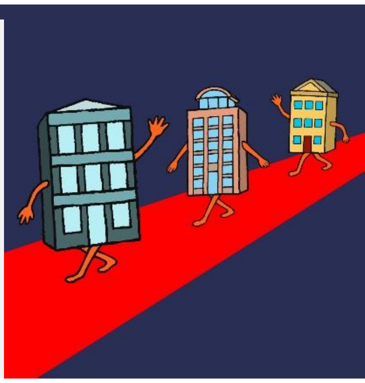
MONTANARO
ASSET MANAGEMENT

The Global Select Strategy

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

Quarterly review – Q3 2025



Risk-on quarter – almost everything went up:
- Equities rallied (MSCI World +9.3%), Bitcoin reached new all-time highs (+8.3%)
- Gold posted a standout quarter (+19.3%) and US Treasuries modestly positive

A mixed quarter for SmallCaps:
- MSCI World SmallCap +10.6%, slightly ahead of LargeCaps
- 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

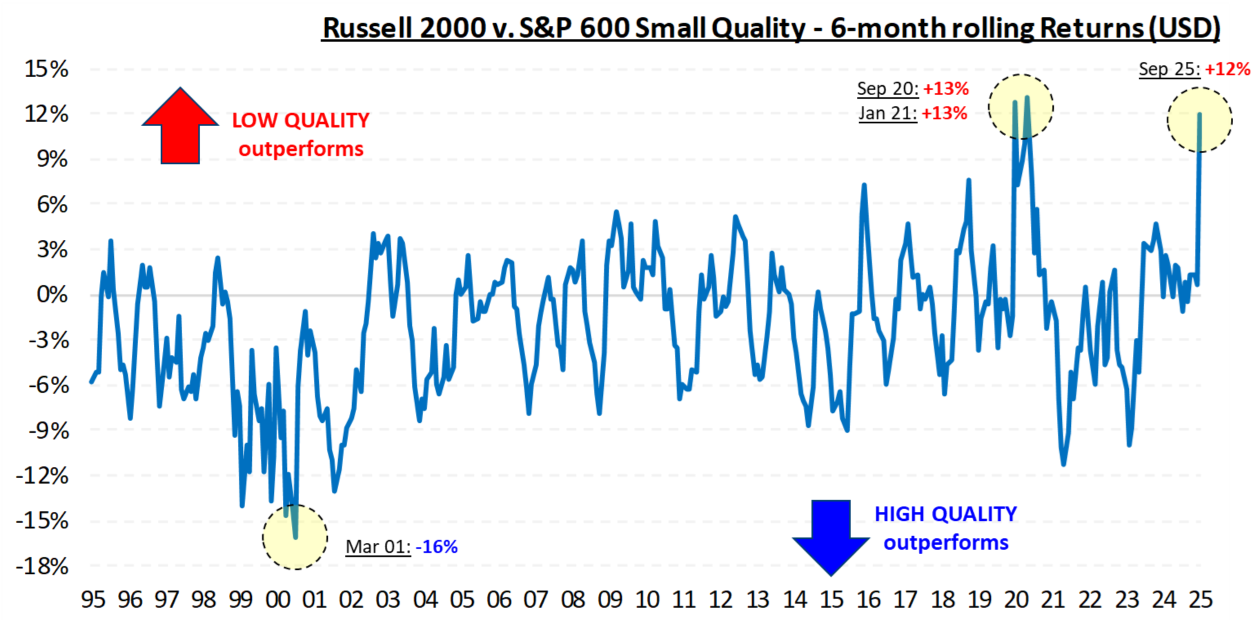
US investors are hooked to Growth, European investors prefer Value:
- 10% outperformance by Growth in the US over 12 months
- 9% underperformance in Europe ex-UK

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 proved to be an exceptionally difficult environment for our "Quality Growth" style. Global equity markets pushed higher, led once again by perceived AI beneficiaries and speculative segments of US technology – quantum computing, bitcoin-linked equities and non-profitable tech all delivered outsized gains – while defensive sectors, profitable companies and Quality Growth underperformed sharply.

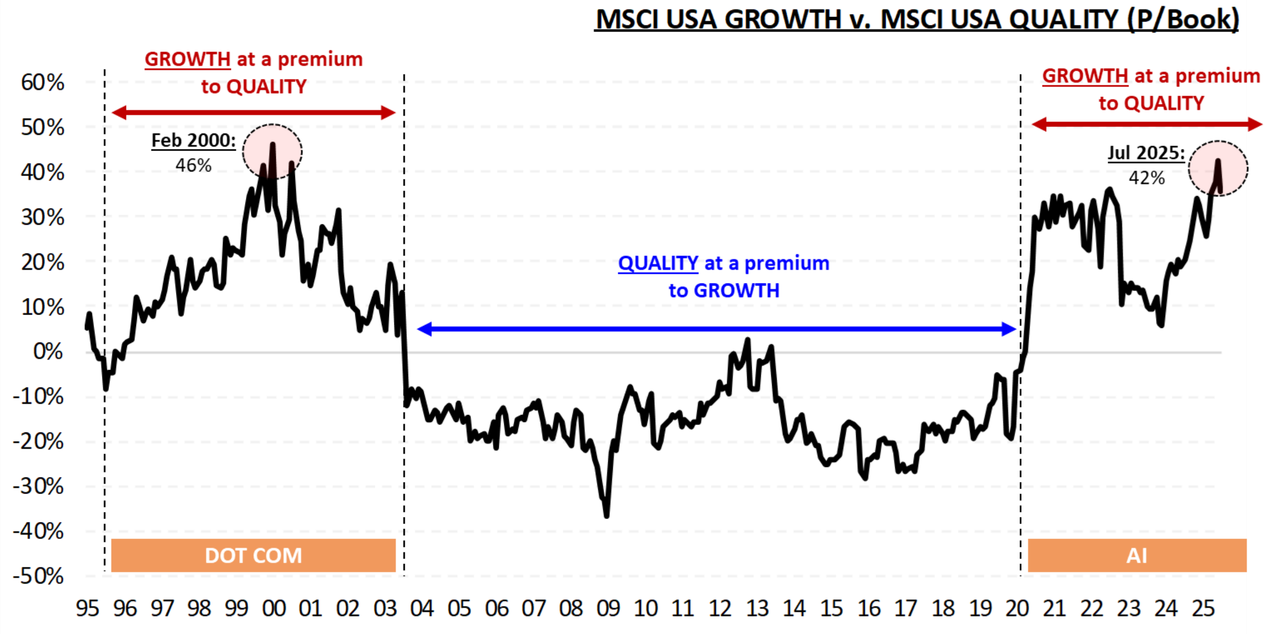
Gold had another stellar quarter, the reasons explained by several factors: 1) hedging versus a declining US dollar; 2) ongoing inflationary and macroeconomic concerns; 3) a "fear-of-missing-out", perhaps best expressed by a statement from the Chief Strategist of a major bank: *"gold has become so big…that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

Against this backdrop, the Portfolio endured a *quarter horribilis*, with certain quality factor headwinds – such as profitability – even greater than those experienced during the sell-off of early 2022. As we show in the chart below, US Low Quality SmallCaps outperformed High Quality by more than +12% on a six-month rolling basis to September 2025. This is one of the most extreme gaps in three decades.



Source: Internal, Factset.
Note: The Russell 2000 Index is used as a proxy for Low Quality SmallCap given the high proportion of loss-makers (over 40%).

Profitability, normally a source of protection, was punished heavily during Q3: globally, Quality lagged the market by -1.8% over the quarter and by -8.8% over the year. In the US, the underperformance was -1.9% for the quarter and -7.2% over one year, while in Europe, Quality trailed by -2.2% and -12.2% respectively. Growth on its own fared better, but <u>the combination of growth and profitability</u> — the hallmark of our investment approach — was firmly out of favour, creating a highly adverse style backdrop. A result is that Growth's premium over Quality is close to the peak reached during the dot-com era, as shown in the chart below.



Source: Montanaro Asset Management, MSCI, Factset.

Sector rotations were equally unforgiving: within SmallCap, Healthcare lagged by its widest margin since 1999, while cyclical and lower-quality benchmarks such as the Russell 2000 outperformed more selective indices. Our Quality Growth SmallCap peers unsurprisingly endured a similarly tough quarter. **In short, this was a quarter in which speculative risk-taking was rewarded, while High Quality companies such as those we own struggled.**

Performance & Portfolio

During the quarter, the NAV of the sterling accumulation share class of the **UK domiciled Fund** declined by 3.2%, an underperformance of 11.4% versus the MSCI World SMidCap Index.

The NAV of the sterling accumulation share class of the **Dublin domiciled Fund** declined by 3.6%, an underperformance of 11.8% versus the same benchmark.

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

- **Ansys** – the global leader in engineering simulation software rose as its takeover by Synopsys was finalised.
- **Nova** – the US provider of metrology and inspection systems for the semiconductor industry advanced on expectations of higher investment in semiconductor

manufacturing facilities.

- **Spirax-Sarco Engineering** – the UK provider of steam management and thermal energy solutions gained after reporting a strong Q2, supported by strong semiconductor and biopharma orders, alongside improved margins following its restructuring programme.

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

- **Tradeweb Markets –** the US operator of electronic trading platforms for financial assets drifted despite solid Q2 results, weighed by a softer market share data in August and the broader sell-off in high-quality software names during the quarter.

- **Baltic Classifieds** – the operator of leading online classified portals in the Baltic region lowered guidance after Estonian auto sales fell sharply following the introduction of a new vehicle tax. We view this as a short-term disruption and retain high confidence in the company's long-term growth outlook.

- **Sartorius Stedim** – the provider of equipment and consumables used in drug manufacturing declined amid renewed concerns over potential changes to US drug pricing policy.

Engagement & ESG

MTU Aero Engines: following a Wall Street Journal article on toxic "fume events" in Airbus A320 cabins, we engaged MTU to determine whether its engine components were implicated. The company clarified that the issue is structural to Airbus aircraft and relates to the bleed air system, not to MTU's supplied parts. Airbus has already introduced technical fixes in newer models. With this assurance, we closed the engagement but will continue to monitor industry developments on cabin air quality.

Games Workshop: ahead of the AGM, we engaged with the company on board composition and diversity. Games Workshop explained that recent board expansion had temporarily diluted female representation, though ethnic diversity had improved. Following constructive discussions with Chairman Mark Lam, we supported his re-election.

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. Jeff Bezos recently remarked that we are in a cycle where *"every [AI] experiment is being funded…investors are having a hard time distinguishing between the good ideas and the bad ideas."* He drew a parallel with the biotech bubble of the 1990s: investors poured money into a wave of companies, most of which delivered little or no returns. Many lost heavily when the bubble burst, but society benefited enormously, as the funding helped bring forward life-changing drugs. Bezos suggested something similar could play out with AI: returns may disappoint many investors, but the broader societal impact could be transformative.

Sam Altman, the chief executive of OpenAI, struck a similar balance. Reflecting on the frenzy, he said: *"Are we in a phase where investors as a whole are overexcited about AI? My opinion is yes. Is AI the most important thing to happen in a very long time? My opinion is also yes."* His comments capture the paradox: valuations may be stretched, but the underlying technology could prove revolutionary.

This should make investors act with caution given the narrow market leadership driving global equity markets higher. The hundreds of billions of dollars companies are investing in AI now account for an astonishing 40% share of US GDP growth this year, while AI companies have accounted for 80% of the gains in US stocks so far in 2025.

As we wrote recently in our blog on passive dominance, the rise of passive vehicles has only amplified these distortions. Inelastic market behaviour means flows now dictate price levels more than fundamentals. Passive indices, by definition, allocate ever more capital to what has already gone up, reinforcing the cycle. The result is that active managers, particularly those focused on fundamentals, have been pushed to the sidelines. Yet history shows such dynamics do not persist indefinitely. When momentum unwinds, fundamentals reassert themselves and stock picking returns to the fore.

After a bruising quarter, it is important to emphasise that 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 remain convinced that focusing on High Quality, growing businesses is the best way to compound capital over the long term. Markets do not stay the same forever, they change when investors least expect it. And with valuations in the portfolio around the lowest levels they have been since inception we are confident in the opportunity that lies ahead for shareholders in these excellent businesses. **Already we are seeing signs of a different, more favourable, market environment in October. When this happens, we believe our disciplined process will leave us well placed to benefit.**

George Cooke
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