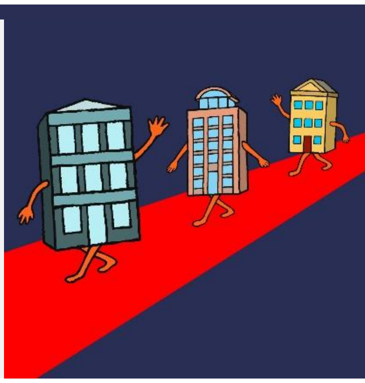
MONTANARO
ASSET MANAGEMENT

The Global Select Strategy

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

Quarterly review – Q2 2026



Key points:

- The Middle East de-escalation and a US–Iran ceasefire unwound the war premium that had gripped markets since February.
- Semiconductors and AI-adjacent themes delivered one of their strongest quarters on record, before leadership rotated in June towards Quality, Value, healthcare and domestic cyclicals as stretched AI valuations were questioned.
- The Fund's grid-infrastructure and data-centre-linked holdings led returns, while software names and a US water utility were the main detractors.
- Portfolio activity added new positions across water, natural-ingredient, safety-technology and lighting-and-controls names, funded by exits from lower-conviction industrial, payments and software holdings.

The second quarter of 2026 was defined by the unwinding of a war premium that had gripped markets since February. A ceasefire between the United States and Iran, formalised in a memorandum of understanding signed on 17 June, eased the Middle East conflict that had partially closed the Strait of Hormuz, and risk assets rallied as oil, gold and other safe-haven trades gave back much of their earlier gains.

Within equities, the standout story was the scale of the AI and semiconductor rally: the Philadelphia Semiconductor theme rose more than 87% over the quarter, its largest quarterly gain since 1994, and Global AI, Quantum Computing and Cybersecurity all more than doubled their already substantial year-to-date gains. June itself told a different story, as stretched AI valuations were questioned and leadership rotated towards Quality, Value, Healthcare and domestic cyclicals, and software share prices came under renewed pressure from fears that AI agents could erode per-seat licensing economics. Global SmallCap participated fully in the broader rally, outpacing LargeCap over the quarter, though performance diverged sharply by region as the quarter progressed.

Against this backdrop, **Carel Industries, Asta Energy Solutions and NCAB Group**, all exposed to data-centre and grid-related capital spending, were the leading contributors, while **Tradeweb Markets** and **Bentley Systems** were caught up in the broader software de-rating.

This quarter, the principal headwinds for the Fund included underweights to the USand to momentum, as a narrow, US-led rally rewarded precisely the areas the Fund does not chase.

Activity during the quarter was focused on ensuring the Portfolio remains structured towards our highest-conviction ideas. We initiated positions in **Watts Water Technologies**, the US manufacturer of water flow, quality and safety products, taken in place of **Graco** on a better organic growth outlook, a slightly lower multiple and more helpful factor characteristics; **Halma**, the UK safety, health and environmental technology group, which combines a defensive core with an idiosyncratic growth driver via its photonics unit and improves the Portfolio's diversification and factor balance; **Acuity Brands**, which pairs a core, compounding lighting business with a high-growth, high-margin data and controls segment, initiated after a series of encouraging expert calls and a de-rating in the shares; and **Sensient Technologies**, a beneficiary of the ongoing shift from synthetic to natural ingredients in the US.

We exited **Graco** and **Spirax** to fund these purchases; **TransMedics**, on reduced confidence in its growth and margin outlook; **Adyen**, following the departure of its chief financial officer alongside two sizeable acquisitions that raised execution risk at a business built on organic growth; and **Keeper**, the Japanese automotive retailer, where like-for-like sales failed to recover even as an industry-wide distortion reversed and the new-dealership growth engine matured.

Performance & Portfolio

During the quarter, the NAV of the sterling accumulation share class of the **UK domiciled Fund** rose by 10.2%, an underperformance of 1.8% versus the MSCI World SMidCap Index.

The NAV of the sterling accumulation share class of the **Dublin domiciled Fund** rose by 10.0%, an underperformance of 2.0% versus the same benchmark.

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

- **Carel Industries** – the Italian manufacturer of control and monitoring systems for HVAC and refrigeration, rose sharply as accelerating data-centre cooling demand, including liquid-cooling controls for AI infrastructure, drove first-quarter revenue growth ahead of expectations.

- **Asta Energy Solutions** – the Austrian manufacturer of continuously transposed conductor products for power transformers, surged over the quarter as record results showed net income more than five-fold higher and margins ahead of guidance, driven by robust grid-equipment demand.

- **NCAB Group** – the Swedish sourcing and supply-chain manager for printed circuit boards, rose sharply over the quarter after reporting a first-quarter order-intake beat that sustained a re-rating through the period.

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

- **Tradeweb Markets** – the American operator of electronic trading platforms for fixed income, rates and derivatives, weakened over the quarter as trading volumes saw decelerating growth and as the broader exchange sector declined.

- **Bentley Systems** – the American provider of infrastructure engineering software, declined over the quarter as a broader software-sector sell-off on fears that AI-driven "seat compression" could erode per-user licensing models weighed on the shares. Nevertheless, Bentley's Q1 came in ahead of expectations.

- **American Water Works** – the largest US investor-owned water and wastewater utility, traded lower over the quarter after Virginia and California regulators settled its rate cases below the increases originally requested, while water utilities broadly underperformed electric and gas peers amid rising bond yields and excitement for anything linked to datacentre expansion.

Geography & sector

At the country level, Sweden was the leading contributor to relative return, reflecting the strength of our Nordic industrial holdings, while the United States was the largest detractor as a broad, AI-disruption-driven de-rating of software and select regulatory setbacks outweighed the gains from our data-centre-linked industrial holdings. At the sector level, Industrials led relative return on sustained grid and data-centre-related capital spending, while Information Technology was the weakest, as the software de-rating more than offset the strength of our semiconductor-linked exposure.

Engagement & ESG

American Water Works – the largest US investor-owned water and wastewater utility

During the quarter, we engaged with American Water Works to assess progress against its long-term infrastructure investment programme. The company set out an approximately USD 42-43 billion ten-year regulated capital plan and reported a 6.7% reduction in water delivered per customer against a 2015 baseline, working towards a 15% reduction by 2035. We will continue to monitor disclosure on the underlying efficiency data behind this figure.

Bio-Techne – the US life-sciences tools maker

We held a call with Bio-Techne to test whether the company can evidence a credible contribution to reducing animal testing through its organoid and 3D cell-model franchise, an area it estimated at around USD 60 million and growing in the mid-teens. The company confirmed it does not conduct animal testing internally. Following Merck KGaA's agreed acquisition of the company during the quarter, the engagement is now closed.

Outlook

We do not attempt to forecast the path of policy or geopolitics: the speed with which the Middle East war premium built and then unwound this quarter is itself evidence of how quickly narratives can reverse.

The scale of this quarter's semiconductor and AI-infrastructure rally, followed by a June wobble as valuations were questioned, reinforces our preference for holdings with genuine structural demand and diversified end markets over pure momentum exposure. A concentrated, low-turnover Portfolio of around 30 to 40 names is built for periods such as this: it allows us to hold through short-term dispersion where the underlying fundamentals remain intact, as we believe they do across our grid-infrastructure and data-centre-linked industrial holdings, while giving us the discipline to revisit positions where a business's growth or margin trajectory has genuinely changed.

There are early signs that this is beginning to pay off. For the first time in some while, the Fund's bias towards profitable, quality businesses was rewarded rather than penalised, and against its closest peers the Fund has held up well, remaining ahead year to date and well ahead over the longer term.

While we would always prefer to compound through patient ownership, our trading has added meaningful value of late, contributing over three percentage points after costs over the past twelve months. Since the quarter end, as the narrow AI, semiconductor and momentum leadership has begun to unwind, the Fund's relative performance has improved, the same underweights that had held it back during the rally now working in its favour.

More broadly, we continue to look for bottom-up opportunities among global Small & MidCap companies, without being led by the prevailing market narrative. Valuation dispersion of the kind seen this quarter, between AI-infrastructure beneficiaries and software businesses caught up in a broader de-rating, is exactly the environment in which a research-led approach should prove its worth over time. We believe the Portfolio's quality and growth characteristics, combined with the willingness to act only where conviction is high, remain well suited to the period ahead.

George Cooke
July 2026

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