Ennismore European Smaller Companies Fund

Investor Newsletter for the month of June 2020

Issued on 3 July 2020

Fund Details

Daily dealing UCITS and Irish Central Bank regulated open-ended investment company with Financial Conduct Authority recognition and registered in Ireland. The Fund size was GBP 354m as at 30th June. Total assets under management by Ennismore Fund Management were GBP 782m. Our funds are hard closed to new investment with the number of shares in issue capped and we have a waiting list of clients that want to invest as and when capacity becomes available through redemptions. If you would like to be included on this please call Jo-Anne Bailey on +44 (0) 20 7368 4231 or email subs@ennismorefunds.com. Redemptions can be made through the Administrator in the usual way. The Fund is managed as an absolute return fund with the objective of generating positive returns irrespective of market conditions rather than performing relative to any benchmark index.

Performance as at 30 June 2020

	Share Class[2]				
	GBP A £	GBP A €	GBP B	EUR A	EUR B
NAV per Share[1]	**128.96**	**141.87**	**21.79**	**20.24**	**20.33**
Period	% Change				
June 20	**4.0**	**2.9**	**4.0**	**2.9**	**2.9**
May 20	-1.6	-5.0	-1.6	-5.0	-5.0
April 20	-0.8	1.1	-0.8	1.1	1.1
March 20	-5.7	-8.3	-5.7	-8.3	-8.3
February 20	-2.8	-5.0	-2.8	-5.0	-5.0
January 20	-2.4	-1.6	-2.4	-1.6	-1.6
2020 to date	**-9.2**	**-15.4**	**-9.2**	**-15.3**	**-15.4**
Annualised return[3]	**12.8**	**11.4**	**8.6**	**7.8**	**7.8**
Since launch[3]	**1214.0**	**907.4**	**117.9**	**102.4**	**103.3**
	Discrete 12 Month Rolling Performance - % Change				
To 30 June 20	-7.5	-9.0	-7.5	-9.8	-9.8
To 30 June 19	8.3	7.0	8.3	7.1	7.2
To 30 June 18	5.7	4.9	5.6	5.0	5.0
To 30 June 17	11.3	5.4	11.4	7.2	7.1
To 30 June 16	16.5	-0.7	16.5	1.7	1.7

[1]Source: Administrator, Net Asset Value. [2]Source: Administrator, Net Asset Value, net income reinvested. [3]Since inception of GBP A share class on 27/01/99 to date, GBP B share class on 19/01/11 to date, EUR A and EUR B share classes on 31/01/11 to date. Note: All performance figures net of fees. **Past performance is not a guide to future returns.**

Comments below on performance refer to GBP NAV per share unless otherwise stated, exclude cash returns and are prior to expenses.

The Fund's NAV increased by 4.0% in June. Our long and short books contributed 2.1% and 2.0% respectively. Our short position in Wirecard Ag contributed 4.2% to NAV as it fell by 94% in the month after EUR 1.9 billion of cash in their accounts were shown to be missing and it filed for insolvency a few days later. This is a very satisfactory ending for us in a stock we have been short of since 2014.

Top 5 Contributors and Detractors for June 2020

Contributors	MTD (bp)
Wirecard Ag	424
UK online retailer	33
Studio Retail Group Plc	28
Evs Broadcast Equipment SA	26
Cegedim SA	26

Detractors	MTD (bp)
Swiss electronics manufacturer	-55
US energy company	-50
IQE Plc	-45
Costain Group Plc	-35
Dutch online retailer	-34

Individual stock attributions relate to GBP A shares and are gross of fees and expenses (including financing/stock borrowing costs).

Mayr-Melnhof – Austrian packaging manufacturer (1.0% NAV)

Mayr-Melnhof is the leading recycled cartonboard and folding carton packaging producer in Europe. Since we last wrote, almost a decade ago, the business developed as we expected and continued to grow nicely. We took profits and sold our investment in 2015 as we thought it was fairly valued back then and we did not identify triggers that would help the shares to re-rate much further. We think this has now changed and see a good opportunity to get exposure to this quality name again. Firstly, we are convinced the underlying growth of paper-based packaging will benefit from the trend towards more sustainable packaging solutions for many years to come. Secondly, we expect a better utilisation of the balance sheet which will further support growth as we have seen with the latest acquisition of Tann Group in 2019. Lastly, Mayr-Melnhof has found in Peter Oswald an ideal successor for longtime CEO Wilhelm Hörmanseder and we expect him to further improve an already excellent business. Therefore we expect the shares to re-rate and revenue growth rates and profits to increase above their historical averages and see a total return for shareholders of circa 30% over the next 18 months. We also expect Peter Oswald's appointment to bring a step change towards more active investor communication which we believe the company has been lacking.

When we wrote in 2011 Mayr-Melnhof was generating EUR 1,960m in revenues and EUR 171m in operating profits. Since then revenues increased to EUR 2,544m and operating profits to EUR 255m based on last reported annual results, with 83% of the sales generated in Europe. While it has grown, the business itself has not changed and has remained the high quality business we liked a decade ago. In particular, Mayr-Melnhof is the world's largest producer of coated recycled fibre-based cartonboard (38% of revenues and 43% of operating profit in 2019) and Europe's largest folding carton packaging producer (62% of revenues and 57% of operating profit in 2019). The divisions are vertically integrated, with circa one quarter of cartonboard provided internally for packaging, and both divisions generate very strong returns with a pre-tax return on capital employed (ROCE) averaging in the mid-teens. These returns reflect Mayr-Melnhof's market and cost leadership, built over many years, in both segments. Even though its closest peer in recycled cartonboard Reno de Medici grew in size, Mayr-Melnhof is still larger and profiting from a much more efficient production. In its packaging division it is still by far the largest player in a fragmented European market, almost three times bigger than the second largest.

What we do think will change is the underlying growth of the market Mayr-Melnhof operates in. While difficult to estimate, we are confident that growth will structurally benefit from plastic substitution. The arguments for recycled fibre-based cartonboard are strong as it is a very environmentally friendly packaging material which can be recycled over 25 times and degrades in two months. With this tailwind it seems a very interesting time for the new CEO to join. Judging from his long-time role at Mondi plc, we think Mr. Oswald will focus on further cost optimisation, disciplined capital allocation that will support the already strong ROCE, and value accretive growth. Also, in a sense of "do good and talk about it" we expect a more active investor communication. We recognize there is always some risk involved with a change of CEO, and especially in cases like this where the CEO leaves after a tenure of 18 years. But, besides our trust in the quality of the business, we very much like the fact that the former CFO of Mondi, Franz Hiesinger, has been the CFO at Mayr-Melnhof for three years now. As both worked together for 25 years at their previous employer this bodes well for a good start we think.

The resilience of the business model is put under a stress test given the arrival of the coronavirus in Europe and, even though the first quarter was already impacted with some temporary plant shutdowns, the company could benefit from stable pricing and lower input costs. Reported revenues were up 0.6% at EUR 647m but operating profit improved by 12.9% to EUR 65m. Given the uncertainties, the company refrained from publishing a full year forecast but this must also be seen in light of the new CEO just joining in April. We expect financial guidance for the current year with the announcement of half year results. Judging from previous volatile economic environments Mayr-Melnhof's fairly resilient business should perform relatively well. Encouragingly, a dividend of EUR 3.2 per share was paid in the second quarter giving a yield of over 2% and we expect the pay-out to increase in the future given three times earnings coverage. Another encouraging sign is seen in the strong purchases from the long-term core shareholder families which still own 57% of the outstanding shares. With a current market capitalisation of around EUR 2,700m and little net debt, EUR 126m excluding EUR 52m IFRS 16 adjustments from leases, Mayr-Melnhof is currently valued at just above ten times enterprise value to its expected 2021 operating profit. As we expect stronger growth rates both organically from higher structural growth and through value accretive acquisitions, we think a higher multiple is justified. Based on our forecast for operating profit of around EUR 275m for 2021 and estimating a net cash position without factoring in any acquisitions, we believe a valuation of 12.5 times its operating profit to be fair. Including a dividend which we expect to increase, we see a total return of circa 30% over the next 18 months.

Top Five Long Holdings as at 30 June 2020

	Company	Country	Sector	% of NAV
1	Sto	Germany	Materials	4.2
2	Costain	United Kingdom	Industrials	4.0
3	Vossloh	Germany	Industrials	3.9
4	Cegedim	France	Health Care	3.2
5	Renk	Germany	Consumer Discretionary	3.1
				18.4

Exposures as at 30 June 2020

Longs %	Shorts %	Gross Exposure %	Net Exposure %
73.6 (78.8)	42.2 (48.3)	115.8 (127.1)	31.4 (30.5)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 30 June 2020

Country	Gross%	Net%
Australia	1.1	-1.1
Austria	5.4	-0.1
Belgium	1.8	1.8
France	9.5	6.4
Germany	27.5	12.9
Ireland	4.5	4.7
Italy	5.5	4.2
Japan	0.9	0.0
Netherlands	1.5	1.5
Norway	1.6	0.6
Sweden	2.0	0.9
Switzerland	7.9	-7.9
UK	36.5	12.1
US	7.5	-4.1
Other	2.6	-0.5

Market Cap	Gross%	Net%
>£2bn	23.0	-2.2
£700m - £2bn	24.7	-13.1
£200m - £700m	38.8	20.8
<£200m	29.3	25.9

Positions	Jun	May
Long	80	85
Short	74	79
Longs Opened	4	5
Longs Closed	9	7
Shorts Opened	1	2
Shorts Closed	6	6

Sector	Gross%	Net%
Communication Services	7.8	5.1
Consumer Discretionary	23.7	0.9
Consumer Staples	3.0	3.0
Energy	0.0	0.0
Financials	4.0	2.3
Health Care	6.6	3.4
Industrials	29.5	12.8
Information Technology	28.7	-6.5
Materials	7.7	5.6
Real Estate	4.8	4.8
Utilities	0.0	0.0
Other	0.0	0.0

Geographic analysis relates to country of incorporation or listing. This may not represent the underlying economic exposure of the operating business.

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