Ennismore European Smaller Companies Fund

Investor Newsletter for the month of December 2020

Issued on 7 January 2021

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 330m as at 31st December. Total assets under management by Ennismore Fund Management were GBP 581m. Our funds are hard closed with the number of shares in issue capped. If you would like to invest when capacity is available through redemptions please contact Jo-Anne Bailey on +44 (0) 20 7368 4231 or email subs@ennismorefunds.com.

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 31 December 2020

	Share Class[2]				
	GBP A £	GBP A €	GBP B	EUR A	EUR B
NAV per Share[1]	**135.25**	**151.11**	**22.85**	**21.55**	**21.65**
Period	% Change				
December 20	**4.5**	**4.6**	**4.5**	**4.6**	**4.6**
November 20	9.6	10.2	9.6	10.2	10.2
October 20	-3.1	-2.5	-3.1	-2.5	-2.5
September 20	0.8	-0.8	0.8	-0.8	-0.8
August 20	-2.5	-1.5	-2.5	-1.6	-1.5
July 20	-3.8	-3.0	-3.8	-3.0	-3.0
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	**-4.8**	**-9.9**	**-4.8**	**-9.9**	**-9.9**
Annualised return[3]	**12.7**	**11.4**	**8.7**	**8.1**	**8.1**
Since launch[3]	**1278.0**	**973.0**	**128.5**	**115.5**	**116.5**
	Discrete 12 Month Rolling Performance - % Change				
To 31 December 20	-4.8	-9.9	-4.8	-9.9	-9.9
To 31 December 19	6.9	13.3	7.0	11.9	12.0
To 31 December 18	4.0	2.9	4.0	3.0	3.1
To 31 December 17	9.6	5.4	9.5	6.1	6.1
To 31 December 16	14.5	-1.2	14.5	1.8	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 4.5% in December. Our long book contributed 7.2% while the Fund's short exposure cost 2.3%. Our long in D4T4 added 0.7% as the company announced new contract wins in the month. Disappointingly our short position in an air transport service company cost 1.2% as the company announced they were in talks to be acquired at a significant premium to the prevailing share price.

Top 5 Contributors and Detractors for December 2020

Contributors	MTD (bp)
D4T4 Solutions plc	72
HeiQ PLC	67
US education company	46
Exasol AG	41
dMY Technology Group, Inc.	38

Detractors	MTD (bp)
UK air transport service company	-120
UK gaming services company	-52
UK payment processing company	-29
IQE Plc	-18
Dutch online retailer	-18

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

House Of Control Group AS – Norwegian software-as-a-service company (0.6% NAV)

House of Control (HOC) is a NOK 1.2bn market capitalised software-as-a-service company listed in Norway that went public in October 2020. After speaking with management during the listing process, we were impressed by the growth track record that the company has achieved and at the same time convinced that its circa 30% organic growth rates can be maintained in the near future thanks to multiple levers, including upselling to existing customers and increasing penetration in a sizeable addressable market characterised by limited direct competition. Given the scalability of the business model and its healthy economics, we expect a significant improvement in profitability and cash generation to follow. Being listed on the Norwegian Merkur Market and only covered by the two local brokers who took it public, we believe the stock is overlooked by investors.

HOC provides the finance departments of business and public sector customers with software products that help them identify cost reduction and revenue enhancing opportunities and reduce the risk of business. Around 92% of the company's proforma revenues are recurring, with annual recurring revenues (ARR) standing at NOK 138m at the end of October. Their key product accounts for circa 63% of ARR and is a contract management software solution called Complete Control. Customers often deal with a vast range of contracts covering equipment, liabilities, rental and leasing. Complete Control enables customers' finance departments to have a consolidated overview of these contracts, allowing them to keep full control of obligations, for example liabilities, expirations and renewals. Additional functionalities can be added to the Complete Control platform through more than 20 add-on modules (17% of ARR), with the remaining 20% of ARR coming from solutions that integrate, optimize and expand the enterprise resource planning system. An example of this is the accounting module, which provides clients with quick and accurate values for accounting and reporting, while keeping up to date with new accounting standards.

We like HOC's market positioning, as it faces limited direct competitors in its day-to-day operations, often competing against low tech substitutes such as paper files and spreadsheets. While there are some players active in the contract management software space in the Nordics, they tend to provide basic contract management products or very activity and/or sector specific solutions, rather than a modular and comprehensive product like HOC's. We believe the market opportunity is very sizeable, with the Nordic market alone being around 60 times larger than the company's revenues at circa NOK 9bn. Norway represents around 77% of HOC's ARR, and we are excited about the growth potential coming from Sweden and Denmark, which account for 66% of the total Nordic market but only for around 20% of the current ARR.

When it comes to growth, HOC has an impressive track record, with an average organic ARR growth per year of 33% in the 2016-2019 period and with Sweden and Denmark growing ARR at an average of more than 50% per year in the same period. We are confident that growth, combined with a gross margin of close to 100%, a scalable business model and a customer lifetime value to acquisition cost ratio of around five times, will translate into healthy operating margins and cash generation. HOC has reported a pro-forma EBITDA margin of 16% in the first nine months of 2020, and we believe the company's targets of 30% annual organic growth to 2025 and long-term EBITDA margins of 40% are ambitious but achievable, given the significant investments already made and the multiple growth drivers ahead. In particular, we see plenty of opportunities coming from upselling new functionalities to existing customers, from increasing penetration in the Nordic markets and, in the longer term, from geographic expansion into new European countries.

Thanks to the quality of the product and to the highly incentivised salesforce, HOC has managed to onboard some leading Nordic customers such as ABB, Caverion, Orkla and Marine Harvest. The client base is well diversified, with around 1,200 customers and the five biggest accounting for around 10% of revenues. While the company has seen a slight increase in churn to around 10% in 2019-2020 due to some legacy contracts expiring, the value of the revenue from existing customers (including upsales, price increases, contraction and churn) has been around 100% of the previous year's level. Management targets a long-term rate of around 110%, a touch higher than the 108% and 106% achieved in 2017 and 2018.

After a net money raise of approximately NOK 320m at the IPO, HOC now has a net cash position of around NOK 260m which will be used for acquisitions. The company intends to accelerate their market access and expand their product portfolio, as they did in July 2020 with the acquisition of DinERP, which broadened the portfolio of business process solutions significantly, and with the more recent acquisition of Effectplan which added stronger forecasting and budgeting software to the company's toolkit. HOC has already identified circa 40 potential acquisition targets, so we expect the company to announce more deals in the future which could, as with DinERP and Effectplan, open the door to significant cross-selling opportunities.

HOC's CEO and CFO own around 7% of the company and the majority of employees own shares too, which gives good shareholder alignment. The shares trade on around 5 times enterprise value to ARR 2021, which we think is too low for a recurring, fast growing, scalable business like HOC. We are convinced a more adequate multiple would be in the 7-8 times range, equivalent to an enterprise value to 2024 operating profits of circa 14 times, which points to an upside of around 35% vs current share price over the next 12 months.

Top Five Long Holdings as at 31 December 2020

Company	Country	Sector	% of NAV
STO SE & Co KGaA	Germany	Materials	6.0
Vossloh AG	Germany	Industrials	4.4
Costain Group PLC	United Kingdom	Industrials	3.0
Cegedim SA	France	Health Care	3.0
D4t4 Solutions PLC	United Kingdom	Information Technology	2.7
			19.0

Exposures as at 31 December 2020

Longs%	Shorts%	Gross Exposure%	Net Exposure%
81.1(87.4)	36.5(37.7)	117.7(125.1)	44.6(49.7)

Figures in brackets refer to previous month end. All calculations are subject to the impact of rounding

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 31 December 2020

Country	Gross%	Net%
Austria	4.2	2.5
Belgium	1.9	1.9
Finland	0.5	-0.5
France	9.2	7.8
Germany	26.9	14.9
Hong Kong	0.9	-0.9
Italy	6.0	5.7
Netherlands	1.5	1.5
Norway	3.6	-0.3
Other	1.4	-0.5
Spain	0.6	0.6
Sweden	2.5	1.7
Switzerland	5.8	-5.8
United Kingdom	46.5	18.2
United States	6.1	-2.2

Market Cap	Gross%	Net%
>£2bn	26.3	-9.3
£700m - £2bn	28.4	6.1
£200m - £700m	38.1	25.6
<£200m	24.8	22.2

Positions	Dec	Nov
Long	78	84
Short	57	63
Longs Opened	5	5
Longs Closed	11	4
Shorts Opened	1	3
Shorts Closed	7	10

Sector	Gross%	Net%
Communication Services	4.0	1.5
Consumer Discretionary	21.9	0.4
Consumer Staples	3.1	2.7
Energy	0.0	0.0
Financials	11.3	10.5
Health Care	4.9	2.1
Industrials	28.2	15.3
Information Technology	28.2	-1.7
Materials	8.7	8.0
Real Estate	5.8	4.0
Utilities	0.0	0.0
Other	1.7	1.7

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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The examples of specific investments included herein are not representative of all of the companies purchased, sold or recommended for the Fund. The Fund's portfolio contains a much larger number of positions than the examples set forth herein and, accordingly, the examples are not intended to indicate the overall composition of the Fund's portfolio. It should not be assumed that investments in the companies identified will be profitable, that recommendations made in the future will be profitable or will equal the investment performance of those discussed herein, or are representative of investments that will be made in the future. There is also no guarantee that any of the positions are currently or will remain in the Fund. The information included in this document should not be considered a recommendation to purchase or sell any particular security or other financial instrument. All statements and expressions are the sole opinion of Ennismore and are subject to change without notice.

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