Ennismore European Smaller Companies Fund

Investor Newsletter for the month of January 2021

Issued on 4 February 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 307m as at 29th January. Total assets under management by Ennismore Fund Management were GBP 548m. 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 29 January 2021

	Share Class[2]				
	GBP A £	GBP A €	GBP B	EUR A	EUR B
NAV per Share[1]	**128.27**	**144.99**	**21.67**	**20.68**	**20.77**
Period	% Change				
January 21	**-5.2**	**-4.1**	**-5.2**	**-4.0**	**-4.1**
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
2021 to date	**-5.2**	**-4.1**	**-5.2**	**-4.0**	**-4.1**
Annualised return[3]	**12.4**	**11.2**	**8.0**	**7.5**	**7.6**
Since launch[3]	**1206.9**	**929.6**	**116.7**	**106.8**	**107.7**
	Discrete 12 Month Rolling Performance - % Change				
To 31 January 21	-7.5	-12.1	-7.5	-12.1	-12.1
To 31 January 20	2.9	6.8	2.9	6.1	6.3
To 31 January 19	7.6	8.1	7.7	7.7	7.7
To 31 January 18	6.1	4.1	6.1	4.7	4.7
To 31 January 17	13.4	0.7	13.4	3.2	3.1

[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 decreased by 5.2% in January. Our long book cost 0.4% while the Fund's short exposure cost 4.3%. Our short in a US education company cost the fund 2.4% on no news. Due to the current heightened volatility in certain equities we have substantially reduced this position.

Top 5 Contributors and Detractors for January 2021

Contributors	MTD (bp)
U and I Group Plc	50
UK online retailer	36
Piteco SpA	36
Sanderson Design Group Plc	31
Thermador Groupe	17

Detractors	MTD (bp)
US education company	-238
Dutch online retailer	-55
Exasol AG	-32
UK air transport service company	-29
LSL Property Services Plc	-27

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

Studio Retail Group Plc - UK online retailer (2.1% NAV)

Studio Retail Group is a GBP 250m capitalised business consisting mainly of a UK, online focussed, value retailing division that sells a range of products from electricals to homeware to clothes, mainly sourced from Asia. The business is benefitting from structural changes which have been accelerated by the impact of the Covd-19 pandemic, helping it gain market share from offline competition. This strengthening tailwind has helped Studio Retail continue to invest into the business, especially in the technology required to strengthen their digital capabilities. Overall, we expect this will to lead to strong underlying profit before tax growth in this segment of over 50% in this financial year to March 2021 of GBP 54m versus total revenue of around GBP 560m and puts the stock on a lowly seven times earnings multiple.

The retail division has over 2.3 million customers of which 65% have active credit accounts, showing growth of 25% and 50% respectively since March 2020. For the year to March 2021 we expect product revenue growth of over 30%, in line with the trend shown to the end of December. However, some of this momentum may reverse next year as the high street re-opens and some of the new non-credit customers may not be as sticky. Product wise, growth so far has been particularly strong in electrical and homeware products while clothes have grown much slower and we believe further work needs to be done to improve the offering there. Studio Retail has done a great job in digitalising the business with over 90% of orders coming online currently versus 55% five years ago. The online focus has also helped to increase the efficiency of its approximately GBP 30m marketing spend, enabling both real-time performance analysis and more nimble, dynamic product pricing versus catalogues. The addition of a mobile app has also helped with ongoing communication having over 1 million downloads and accounting for over 20% of sales. Overall, this led to product revenue growth of 38% in the six months to September 2020 while marketing spend actually fell by 19%.

The credit aspect of the business model is crucial, accounting for almost 30% of its GBP 435m revenue last financial year, and as of the end of December sat at over GBP 350m of receivables, mainly funded by a debt facility. Offering finance to customers, as well as clearly helping profitability, increases customer retention. Typically, their credit customers are in the sub-prime credit segment, charged an average monthly interest rate of 3.5%, with each transaction on average paid back over seven months. Studio Retail has been lending since 1996 and this experience as a regulated lender with data built up over time is key, and a barrier to entry we believe, given the higher risk nature of this type of lending. Regulations mean that affordability is core to whether someone will be lent to and there is a focus on ensuring customers do not get laden with persistent debt. Clearly there is some uncertainty on future credit losses given the pandemic, however the low average balance at circa GBP 300 and the provision levels of over 30% of gross receivables gives some confidence going forward. Accounting standards mean there can be volatility in reported earnings, as changes in economic circumstances are reflected in expected credit losses upfront as opposed to when the losses arise. This negatively impacted reported profits last year by GBP 20m due to uncertainty from Covid-19, although we think some of this could reverse in this financial year.

The company also has a much smaller division, Findel Education, which sells a large range of products, mainly online, to schools in the UK. In a normal year we expect this to generate operating profit of circa GBP 3 - 4m, which is similar to the central costs of the group, so we net these off for the purpose of valuing the stock. In 2020 they did have an agreement to sell this division for GBP 50m, but this was disappointingly blocked by the competition authorities.

The Managing Director of the retail segment is stepping up to be group CEO at the end of March and as he has been in the company for over three years, we expect this to be a seamless transition. He, along with the CFO, has an incentive plan which gives some alignment to shareholders.

Due to its receivables book the business's balance sheet cannot be viewed like a normal retailer. Excluding this, as of the end of December core net debt was GBP 37m and we would expect this to turn to net cash over the next couple of years. In terms of tangible book, the GBP 55m looks low but must be compared to the over 70% return on equity it generates and highlights the hybrid nature of its business as both online retailer and regulated lender. Due to its high growth and the uncertain economic environment, we don't expect a dividend to be paid in the short term.

The group is currently undertaking a strategic review with the objective of maximising value for shareholders. We have no visibility on the outcome of this although we can only see it as positive.

In our view this stock is mispriced by the market perhaps as it is a crossover business as highlighted earlier as well as, we believe unfounded, worries linked to the longer-term economic situation due to Covid-19. We value this business by using a conservative multiple of nine times the taxed profits of the retail division including a charge for interest linked to the receivables book funding. Adjusting for the net debt and the fair value of future pension cash payments this leads to upside of around 50% to March 2022.

Top Five Long Holdings as at 29 January 2021

Company	Country	Sector	% of NAV
STO SE & Co KGaA	Germany	Materials	6.4
Vossloh AG	Germany	Industrials	4.8
Costain Group Plc	United Kingdom	Industrials	3.2
Cegedim SA	France	Health Care	2.9
Piteco SpA	Italy	Information Technology	2.8
			20.1

Exposures as at 29 January 2021

Longs%	Shorts%	Gross Exposure%	Net Exposure%
81.6(81.1)	27.0(36.5)	108.6(117.7)	54.6(44.6)

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 29 January 2021

Country	Gross%	Net%
Austria	4.4	2.7
Belgium	1.8	1.8
Finland	0.5	-0.5
France	7.8	6.1
Germany	25.5	18.9
Israel	0.6	-0.6
Italy	6.0	5.9
Netherlands	2.2	2.2
Norway	2.1	-1.0
Other	0.7	-0.2
Spain	0.6	0.6
Sweden	2.9	2.0
Switzerland	5.3	-5.3
United Kingdom	45.2	20.8
United States	3.0	1.2

Market Cap	Gross%	Net%
>£2bn	14.6	1.5
£700m - £2bn	27.1	3.7
£200m - £700m	39.5	24.7
<£200m	27.4	24.7

Positions	Jan	Dec
Long	76	78
Short	44	57
Longs Opened	4	5
Longs Closed	6	11
Shorts Opened	2	1
Shorts Closed	15	7

Sector	Gross%	Net%
Communication Services	0.5	0.5
Consumer Discretionary	19.9	6.7
Consumer Staples	3.1	1.7
Energy	0.0	0.0
Financials	10.6	9.8
Health Care	4.2	2.8
Industrials	25.8	18.7
Information Technology	28.4	-1.0
Materials	9.3	8.6
Real Estate	5.2	5.2
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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