Ennismore European Smaller Companies Fund

Investor Newsletter for the month of February 2021

Issued on 4 March 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 305m as at 26th February. Total assets under management by Ennismore Fund Management were GBP 541m. 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 26 February 2021

	Share Class[2]				
	GBP A £	GBP A €	GBP B	EUR A	EUR B
NAV per Share[1]	**130.49**	**150.30**	**22.05**	**21.44**	**21.53**
Period	% Change				
February 21	**1.7**	**3.7**	**1.8**	**3.7**	**3.7**
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
2021 to date	**-3.5**	**-0.5**	**-3.5**	**-0.5**	**-0.6**
Annualised return[3]	**12.4**	**11.3**	**8.1**	**7.9**	**7.9**
Since launch[3]	**1229.5**	**967.3**	**120.5**	**114.4**	**115.3**
	Discrete 12 Month Rolling Performance - % Change				
To 28 February 21	-3.1	-4.0	-3.1	-4.0	-4.1
To 29 February 20	0.2	-0.2	0.2	-0.5	-0.4
To 28 February 19	8.3	11.9	8.2	11.1	11.1
To 28 February 18	5.5	1.8	5.5	2.5	2.5
To 28 February 17	10.1	0.5	10.1	2.3	2.3

[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 1.7% in February. Our long book contributed 3.0% while the Fund's short exposure cost 0.7%.

Top 5 Contributors and Detractors for February 2021

Contributors	MTD (bp)
STO SE & Co KGaA	45
Uzin Utz AG	32
UP Global Sourcing Holdings Plc	29
HeiQ Plc	28
Costain Group Plc	22

Detractors	MTD (bp)
UK online retailer	-76
Rush Street Interactive Inc	-22
Sanderson Design Group Plc	-20
UK food manufacturer	-16
Cegedim SA	-16

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

CEWE Stiftung & Co. KGaA - German photo finishing and online printing service provider (0.9% NAV)

Founded in 1961, CEWE today is the largest photo finishing company in Europe. It successfully mastered the transformation from analogue photo developing to digital printing and, from being a pure white-label business, has established itself as a household brand name for photobooks in Germany. Last year it developed 2.3 billion photos and 6.5 million photobooks. Its business model presents many characteristics that we like: its scale, its strong brand, premium pricing, and a sticky customer base. The quality of the business is also reflected in good pre-tax returns on its capital employed, averaging high teens, and improving. Since its transformation towards digital, CEWE has increased its dividend every year since 2008 and we expect this track record to continue for many years to come. This year the dividend increased by 15% with a yield of 2.1%. With a market cap of circa EUR 780m, and an increasing net cash position, the shares are valued too cheaply for this high-quality business, trading on just around 8.5 times last year's underlying operating profit to its enterprise value.

More than 80% of last year's revenue of EUR 727m was generated in its photo finishing division which caters to the consumer selling photobooks, single photos, and other customized products such as calendars, wall decoration, mugs, and mobile phone casings. To diversify the business, the company entered commercial online printing ten years ago but, given very fierce competition, this has been a burden to both profits and return on capital. However, it seems that this has come to an end and that cost reductions, as well concentrating all production at one site, should bear fruit when this business recovers after being strongly impacted by the coronavirus. Even though there is also intense competition in the consumer business, CEWE profits from its strong brand – having an unaided awareness of around 70% in its core market Germany – enabling them to avoid competing on price. Furthermore, it is profiting from a loyal customer base given the stickiness of the photobook software, and its scale, being the largest player in Europe with around 40% market share in photofinishing and around 20% market share in photobooks. Due to its high-quality products and premium pricing CEWE's market share by value is even higher. Therefore, CEWE is generating a good return on its operating asset base and healthy cash flows which enables the company to invest into its products, in particular in artificial intelligence (AI) to improve the customer journey. The more convenient and faster it is to generate a photobook, the more consumers will order. Hence, CEWE is strongly focussing on the intelligence of its software and apps to generate photobooks more easily and launched its first AI-enabled version of its app in Q4 of last year. Another strong pillar of its business model is its distribution and logistics. CEWE is an omni-channel business by design. Customers can develop their photos offline through more than 20,000 retail partners and 18,000 photo stations across Europe or online through the CEWE software platform, apps and white label platforms of its retail partners – a big success in that respect was winning Boots in the UK last year and rolling out CEWE branded terminals across 1,000 outlets together with its software platform and apps.

The commercial online printing and small retail division was negatively impacted in 2020 by COVID-19. However, photo finishing benefitted from stay-at-home effects and an increasing share of direct-to-consumer business but, with travel restrictions, there was also a negative impact with less holiday experiences to print. Seasonality is very strong going into the final quarter as photobooks together with calendars and printed coffee mugs make popular Christmas presents, especially when social distancing restrictions are in place. Overall, CEWE was able to post record results with total revenues just slightly up but operating profit increasing strongly by 40%. For 2021 we still see some tailwinds in photo finishing, but it will be crucial for consumers to travel again. Commercial online printing should improve strongly when restrictions are finally lifted. With this in mind, we would not be concerned to see operating profits slightly lower vs. the reported EUR 79.7m achieved last year as we see the company on a solid growth path for the years to come, reinforcing its competitive strengths. Additionally, given the strong cash generation and solid balance sheet – we expect a December 2021 net cash position excluding leasing liabilities of around EUR 110m – CEWE will further support its organic growth with bolt on acquisitions. Trading at around 8.5 times last year's underlying operating profit – adjusted for EUR 3.6m purchase price allocation - the stock is too cheap for its quality and growth outlook. Our projection of it on a more appropriate 12 times our estimate of EUR 76m operating profit for 2021 yields around 30% upside in 12 months.

Top Five Long Holdings as at 26 February 2021

Company	Country	Sector	% of NAV
STO SE & Co KGaA	Germany	Materials	6.9
Vossloh AG	Germany	Industrials	4.4
Costain Group Plc	United Kingdom	Industrials	3.4
Cegedim SA	France	Health Care	2.8
D4t4 Solutions Plc	United Kingdom	Information Technology	2.8
			20.2

Exposures as at 26 February 2021

Longs%	Shorts%	Gross Exposure%	Net Exposure%
82.3(81.6)	26.6(27.0)	108.9(108.6)	55.7(54.5)

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 26 February 2021

Country	Gross%	Net%
Austria	4.3	2.6
Belgium	1.8	1.8
Finland	0.5	-0.5
France	7.1	5.5
Germany	25.4	19.0
Israel	0.4	-0.4
Italy	5.5	5.4
Netherlands	2.4	2.4
Norway	3.6	0.3
Other	0.4	-0.4
Spain	0.7	0.7
Sweden	4.0	3.0
Switzerland	4.9	-4.9
United Kingdom	45.5	20.4
United States	2.5	0.7

Market Cap	Gross%	Net%
>£2bn	19.2	-1.4
£700m - £2bn	24.0	7.4
£200m - £700m	38.4	24.9
<£200m	27.4	24.8

Positions	Feb	Jan
Long	74	76
Short	45	44
Longs Opened	4	4
Longs Closed	6	6
Shorts Opened	4	2
Shorts Closed	3	15

Sector	Gross%	Net%
Communication Services	1.4	0.1
Consumer Discretionary	20.4	7.2
Consumer Staples	3.3	1.6
Energy	0.0	0.0
Financials	8.7	8.3
Health Care	3.8	3.1
Industrials	26.6	18.9
Information Technology	27.1	-0.5
Materials	9.9	9.2
Real Estate	6.0	6.0
Utilities	0.0	0.0
Other	1.9	1.9

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 list of winners and losers presented herein has been calculated by including those positions that contributed most significantly, either positively or negatively, to the performance of the Fund's portfolio during the period. This is not meant to be indicative of the performance of all positions contained in the portfolio. Past performance is not indicative of future results.

Additional Information for Recipients in Switzerland

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