Ennismore European Smaller Companies Fund

Investor Newsletter for the month of March 2021

Issued on 12 April 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 317m as at 31st March. 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 31 March 2021

	Share Class[2]				
	GBP A £	GBP A €	GBP B	EUR A	EUR B
NAV per Share[1]	**136.35**	**160.07**	**23.04**	**22.83**	**22.93**
Period	% Change				
March 21	**4.5**	**6.5**	**4.5**	**6.5**	**6.5**
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
2021 to date	**0.8**	**5.9**	**0.8**	**5.9**	**5.9**
Annualised return[3]	**12.6**	**11.6**	**8.5**	**8.5**	**8.5**
Since launch[3]	**1289.2**	**1036.6**	**130.4**	**128.3**	**129.3**
	Discrete 12 Month Rolling Performance - % Change				
To 31 March 21	7.3	11.5	7.3	11.5	11.5
To 31 March 20	-6.9	-9.3	-6.9	-9.7	-9.6
To 31 March 19	9.8	11.8	9.9	11.1	11.1
To 31 March 18	4.6	2.1	4.6	2.8	2.8
To 31 March 17	10.0	2.0	10.0	3.5	3.5

[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 March. Our long book contributed 4.3% while the Fund's short exposure added 1%. Our short in a US education company contributed 0.9% as the share price declined significantly following an activist short seller's comments, while our long position in STO contributed 0.6% as the company issued another positive trading update.

Top 5 Contributors and Detractors for March 2021

Contributors	MTD (bp)
US education company	95
STO SE & Co KGaA	61
Secure Trust Bank Plc	48
UK online retailer	40
Sanderson Design Group Plc	38

Detractors	MTD (bp)
UK payment processing company	-22
Costain Group Plc	-21
Swiss electronics manufacturer	-20
Uzin Utz AG	-15
UK building products distributor	-15

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

Sonans Holding AS – Norwegian Education Provider (1.5% NAV)

Sonans Holding is a NOK 2.0bn capitalized Norwegian education provider that was recently listed on Euronext Growth. The Group consists of two higher education brands: Sonans Utdanning, which has successfully established itself as the dominant exam preparation course provider in Norway, and Bjørknes Høyskole, a high-growth private college with a focus on online teaching. We consider Sonans a rare combination of defensiveness and scalability with its high quality being reflected in its revenue visibility, consistent double-digit revenue growth, high profit margin and cash conversion. We have been invested in Nordic education providers before and, in Sonans case, we particularly value that the business is not dependent on public funding and benefits from the structural shortage of admission places. Additionally, the company is led by an experienced CEO with a long track record in the Norwegian education sector and the interests of management with their circa 5% shareholding are clearly aligned with those of the shareholders. In our view the shares are valued too cheaply for the quality of the business and its stable growth outlook.

Sonans Utdanning, which generates NOK 376m or 73% of total revenue, prepares students for their high school exam across 14 campuses and online. Candidates tend to be 19+ years old and either lack a high school degree, certain subjects or want to improve their grades. Sonans Utdanning has managed to establish a strong brand recognition which has been crucial for its success. In the exam preparation market candidates tend to pick the provider, where in the past the teaching has led to a high probability of passing the exam successfully or improving the grades. Both the branding and the addition of campuses over time have created a scale effect that has enabled the business to command a premium pricing in the market. We are particularly impressed by the scale advantage and the 61% market share within the paying segment that has resulted in an operating profit margin of 29%, significantly ahead of the average profitability of competitors. Sonans Utdanning has consistently taken share as fewer candidates self-study and, while the market is mature, the penetration of paid providers is only at 43%, leaving room to take further share from the self-study segment.

Bjørknes Høyskole, which generates 27% of total revenue and was acquired in 2019, offers college degrees in psychology, social science and health. The college continually adds subjects to its offering, the latest being digital marketing and leadership. The addition of a subject provides for a recurring revenue stream because student cohorts enrol each school year. One of Bjørknes Høyskole's key business strengths has been its large online student enrolment, 62% of its total students, which has been a growth and margin driver: revenue has grown at an average 21% per year and the operating profit margin is a remarkable 34%. While Bjørknes Høyskole is still a smaller challenger within the industry, with 2,500 students and only one campus, the company has a long runway for growth and is taking advantage of the gap in admission places as public colleges cannot fulfil the demand in Norway.

Overall, Sonans' strong market position and significant online exposure are reflected in the financial track record. The total average revenue growth has been 12% per year for the past decade, the operating profit margin has reached 30% and the cash conversion is above 90% due to a favourable working capital dynamic and low capital expenditure requirements. We expect the revenue to compound at an average 11% per year until 2023, with Bjørknes Høyskole continuing to be the high-growth brand. The combination of consistent organic revenue growth and the increasing share in online tuition have the potential to lift the operating margin to an estimated 31% by 2023 in our view. We expect the lease-adjusted net debt to earnings before interest, taxes, depreciation and amortisation ratio to be around 2x by December 2021 before any dividend payments to shareholders. We are comfortable with the leverage given the stable and strong free cash flow generation, which should allow the company to reduce the ratio to circa 1x by the end of 2022. Expansion plans, that we have not accounted for in our estimates, include the foundation of a vocational school for IT named Norwegian School of Technology this year and potential M&A. There is no direct listed peer for Sonans and none of the broader peers are able to match its strong financial metrics. We think that the qualities of the business justify a valuation multiple of 17x enterprise value to next twelve months' operating profit, which indicates a fair value of circa NOK 72 per share, an upside of 30% in 12 months versus the current share price.

Top Five Long Holdings as at 31 March 2021

Company	Country	Sector	% of NAV
STO SE & Co KGaA	Germany	Materials	7.2
Vossloh AG	Germany	Industrials	4.2
Costain Group Plc	United Kingdom	Industrials	3.0
Cegedim SA	France	Health Care	2.8
D4t4 Solutions Plc	United Kingdom	Information Technology	2.6
			19.9

Exposures as at 31 March 2021

Longs%	Shorts%	Gross Exposure%	Net Exposure%
78.5(82.3)	25.5(26.6)	103.9(109.0)	53.0(55.7)

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 March 2021

Country	Gross%	Net%
Austria	3.7	1.8
Belgium	1.9	1.9
Finland	0.5	-0.5
France	4.8	3.2
Germany	24.6	18.9
Israel	0.4	-0.4
Italy	5.6	5.4
Netherlands	2.4	2.4
Norway	4.3	-0.2
Spain	0.6	0.6
Sweden	3.9	2.9
Switzerland	4.2	-4.2
United Kingdom	43.6	20.3
United States	3.0	1.2
Other	0.4	-0.4

Market Cap	Gross%	Net%
>£2bn	22.1	-0.1
£700m - £2bn	22.0	7.1
£200m - £700m	37.5	24.3
<£200m	22.4	21.6

Positions	Mar	Feb
Long	70	74
Short	48	45
Longs Opened	3	4
Longs Closed	7	6
Shorts Opened	3	4
Shorts Closed	0	3

Sector	Gross%	Net%
Communication Services	2.0	0.1
Consumer Discretionary	19.4	6.0
Consumer Staples	3.0	1.2
Energy	0.0	0.0
Financials	10.7	10.5
Health Care	3.7	3.1
Industrials	24.3	15.3
Information Technology	23.9	0.5
Materials	9.5	8.7
Real Estate	5.7	5.7
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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