Ennismore European Smaller Companies Fund

Investor Newsletter for the month of April 2021

Issued on 7 May 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 30th April. Total assets under management by Ennismore Fund Management were GBP 570m. 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 30 April 2021

	Share Class[2]				
	GBP A £	GBP A €	GBP B	EUR A	EUR B
NAV per Share[1]	**142.81**	**164.26**	**24.13**	**23.46**	**23.56**
Period	**% Change**				
April 21	**4.7**	**2.6**	**4.7**	**2.8**	**2.7**
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
2021 to date	**5.6**	**8.7**	**5.6**	**8.9**	**8.8**
Annualised return[3]	**12.8**	**11.7**	**8.9**	**8.7**	**8.7**
Since launch[3]	**1355.1**	**1066.4**	**141.3**	**134.6**	**135.6**
	Discrete 12 Month Rolling Performance - % Change				
To 30 April 21	13.3	13.1	13.3	13.3	13.3
To 30 April 20	-8.2	-9.2	-8.3	-9.5	-9.4
To 30 April 19	9.9	12.1	9.9	11.4	11.4
To 30 April 18	4.3	0.1	4.3	1.0	1.1
To 30 April 17	10.7	2.8	10.7	4.4	4.4

[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 4.7% in April. Our long book contributed 5.7% while the Fund's short exposure cost 1.0%.

Top 5 Contributors and Detractors for April 2021

Contributors	MTD (bp)
LSL Property Services Plc	53
Cegedim SA	42
D4T4 Solutions Plc	41
Hugo Boss AG	41
Semcon AB	41

Detractors	MTD (bp)
UK building products distributor	-33
Rush Street Interactive Inc	-21
UK gaming services company	-15
Synairgen Plc	-14
US education company	-10

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

METRO AG – German food wholesale supplier (1.1% NAV)

METRO is today a focussed food wholesale supplier with leading positions in Western and Eastern Europe. When we last wrote on METRO, two and a half years ago, the company was still transitioning towards a pure play food wholesale business. Since then a lot of things have happened, including the long-awaited sale of the struggling German retail grocery asset, Real, in 2020 and the sale of the Chinese wholesale business, both of which helped the company reduce its debt significantly. What is left today is a better quality business – 100% wholesale revenues of which 90% is food, close to 50% is with the attractive and growing catering trade customer demanding higher service levels with food delivery sales nearing 20%. Evidence of a good quality business can be found by looking at France, its largest market, where METRO is consistently achieving around 15% post-tax return on invested capital. There have also been two take-over approaches from the Czech Investor Daniel Křetínský and his partner Patrik Tkáč - one in 2019 at EUR 16 that lapsed due to low acceptance and a second last year with a low ball voluntary public offer at EUR 8.48 increasing their holding to 40.6%. Meanwhile, the long-standing CEO Olaf Koch left the company at the end of 2020 after successfully selling off all non-core activities over the last decade. We are therefore excited that a new CEO starts in May coming from the very successful, family run, wholesaler Wuerth. With a deep knowledge of the wholesale sector as well as a dedicated focus on digitalisation and operational excellence, we are confident that Steffen Greubel will strengthen the business and change the way it is perceived by the market.

As yet, our investment in METRO has not played out as we had hoped for although we were right to be optimistic about a successful transformation and the takeover appeal. We took substantial profits when the takeover was announced at EUR 16 and have earned dividends of EUR 2.8 per share since we initially invested. Nevertheless, the share price today is still depressed at around EUR 9 valuing the company at a market capitalisation of circa EUR 3.5bn, including its preference shares. This is in stark contrast to other "re-opening" stocks that are already trading on pre-crisis levels, even though in some cases their recoveries may be less smooth given structural changes. For METRO, we expect a full recovery after the impact from COVID-19 subsides given its revenues with strongly hit hotel and restaurant customers. Even though METRO recently had to back pedal its guidance for the current year as lockdowns in Continental Europe were prolonged, we believe it is only a matter of time until restrictions start to ease. In the year ended September 2019, before the crisis, METRO generated revenues of EUR 27bn and operating profits of around EUR 550m. France and Germany, both about the same size, represent more than one third of total revenues with the remaining business spread across many markets within Western (57%) and Eastern Europe (36%) and Asia accounting for less than 10% now. We are pleased that the problems in METRO's third largest market Russia (10%), which was impacted by fierce price competition between grocery retail chains, seem now under control. Its focus on pricing and wholesale and the successful rollout of its franchise concept enabled a return to positive like for like sales growth of 3.8% as of last year and continues to be positive in the first half of this year. We strongly believe METRO's business model is not broken, indeed in its wholesale business METRO had positive like for like growth for more than five years preceding the crisis and the business is in better shape now given its dedicated focus, customer orientation, leaner operations and improved digital capabilities. From now on we believe METRO will concentrate on strengthening its competitive positioning, improving customer loyalty, increasing market shares organically and through bolt on acquisitions and taking advantage of better scale through higher customer density for the growing share of food service distribution. With its pure play focus we are confident that METRO will improve its return profile towards its French benchmark for the whole group in the long run resulting in additional upside. When we initially invested in 2017, METRO's valuable underlying asset base provided a big margin of safety. This underlying backing has somewhat diminished over the past years given the asset sales, but we are now left with lower net debt and still substantial asset backing, as 353 stores out of 678 are still owned. Debt has come down by around EUR 1.7bn to a net debt position of circa EUR 1bn, excluding lease liabilities, and the group also has more than EUR 3bn in tax losses carried forward, which come into play as profitability improves especially in their home turf Germany and could result in tax savings of circa EUR 1bn over the long run. METRO's valuation discount becomes very evident if we compare it with wholesale peers like Marr or Sligro, which trade on twice METRO's multiples although their businesses are now much more similar. Given the low valuation, growth does not need to accelerate after a strong pick up from pent up demand; all we ask for is continued like for like growth which we would expect to improve. If we assume that METRO will recover strongly from the crisis and build on its strength it should not take too long until it will regain the operating profit level it had achieved previously. Based on our estimate of enterprise value excluding lease liabilities, the shares currently trade on just eight times normalized operating profits. We believe this is too cheap for the quality of the business which we expect to recover strongly once COVID-19 related restrictions get lifted. Moreover, after the two recently attempted take-overs, we think at current valuation METRO retains a strong speculative appeal. Putting the shares on twelve times our estimate of operating profit of around EUR 520m for fiscal year 2021/22 we see more than 50% upside to September 2022.

Top Five Long Holdings as at 30 April 2021

Company	Country	Sector	% of NAV
STO SE & Co KGaA	Germany	Materials	7.1
Vossloh AG	Germany	Industrials	4.2
Costain Group Plc	United Kingdom	Industrials	3.0
Cegedim SA	France	Health Care	2.9
D4t4 Solutions Plc	United Kingdom	Information Technology	2.9
			20.1

Exposures as at 30 April 2021

Longs%	Shorts%	Gross Exposure%	Net Exposure%
77.2(78.5)	27.9(25.5)	105.1(103.9)	49.3(53.0)

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 30 April 2021

Country	Gross%	Net%
Austria	3.9	1.9
Belgium	1.8	1.8
Finland	0.4	-0.4
France	5.3	2.9
Germany	24.9	19.8
Italy	4.5	4.3
Luxembourg	1.3	1.3
Netherlands	2.4	2.4
Norway	4.5	-0.3
Other	0.8	-0.8
Spain	0.6	0.6
Sweden	5.6	1.9
Switzerland	3.5	-2.6
United Kingdom	41.6	16.6
United States	4.0	-0.0

Market Cap	Gross%	Net %
>£2bn	24.2	-1.8
£700m - £2bn	20.1	7.2
£200m - £700m	38.9	22.8
<£200m	21.9	21.2

Positions	Apr	Mar
Long	67	70
Short	50	48
Longs Opened	3	3
Longs Closed	6	7
Shorts Opened	4	3
Shorts Closed	2	0

Sector	Gross%	Net%
Communication Services	2.0	0.3
Consumer Discretionary	20.9	2.1
Consumer Staples	3.6	1.9
Energy	0.0	0.0
Financials	11.0	10.1
Health Care	3.7	3.1
Industrials	23.8	14.4
Information Technology	22.9	1.1
Materials	9.3	8.6
Real Estate	6.1	6.1
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.

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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