Ennismore European Smaller Companies Fund

Investor Newsletter for the month of May 2021

Issued on 4 June 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 342m as at 28th May. Total assets under management by Ennismore Fund Management were GBP 584m. 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 28 May 2021

	Share Class[2]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share[1]	**147.65**	**171.85**	**24.95**	**24.58**	**24.69**
Period	% Change				
May 21	**3.4**	**4.6**	**3.4**	**4.8**	**4.8**
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
2021 to date	**9.2**	**13.7**	**9.2**	**14.1**	**14.0**
Annualised return[3]	**12.9**	**11.8**	**9.2**	**9.1**	**9.1**
Since launch[3]	**1404.4**	**1120.3**	**149.5**	**145.8**	**146.9**
	Discrete 12 Month Rolling Performance - % Change				
To 31 May 21	19.0	24.6	19.0	25.0	25.0
To 31 May 20	-11.7	-13.2	-11.7	-13.9	-13.9
To 31 May 19	11.3	10.4	11.3	10.2	10.3
To 31 May 18	3.0	2.2	3.0	2.6	2.6
To 31 May 17	14.6	0.6	14.6	3.2	3.2

[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 3.4% in May. Our long book contributed 1.8% while the Fund's short exposure contributed 2.8%. Our short positions in a UK online retailer contributed 1.1% as the share price fell as a train industry review was released which seemed to increase the chance of a state owned competing website to be launched in the future. The short in a US education company added 0.7% after the report of weak first quarter earnings and guidance. Our long position in STO contributed 0.7% as the company reported very good growth for the first quarter in view of adverse weather conditions.

Top 5 Contributors and Detractors for May 2021

Contributors	MTD (bp)
UK online retailer	110
US education company	73
UP Global Sourcing Holdings Plc	73
STO SE & Co KGaA	68
Sanderson Design Group Plc	61

Detractors	MTD (bp)
Exasol AG	-44
UK building products distributor	-36
Cegedim SA	-33
Studio Retail Group Plc	-21
Vossloh AG	-20

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

Royal BAM Groep NV – Dutch construction company (0.9% NAV)

BAM Groep is a EUR 672m market capitalised Dutch construction company which generated revenue of EUR 6.8bn last year. Although the company has historically struggled with consistent performance, often due to one-off provisions, and there is always likely to be some level of volatility in a contracting business like this, we believe BAM is on the path of being turned into a structurally higher margin business. The catalyst for this has been the appointment as Chief Executive Officer of Ruud Joosten, a 24 year veteran and previous Chief Operating Officer of Akzo Nobel in September last year, BAM's first external hire to this position. We believe that the market is not fully recognising the changes being made to create a long-term performance culture in the business.

BAM consists of two business segments, Construction & Property (55% of revenue) and Civil Engineering (45%). Within this there are geographical exposures to Netherlands (43%), United Kingdom (28%), Germany (12%), Belgium (8%), Ireland (7%) and International (2%). As part of its change in strategy the company is looking to dispose of or trade out of areas they see as non-core, typically due to low historic profitability and/or unacceptable risk profile. These are Germany, Belgium and International, so overall the business is looking to shrink the top line by roughly 20%. Additionally, they are going to reduce, and we believe may even consider disposing of, their Dutch Civil Engineering business which has revenues of EUR 1.3bn but struggles to achieve good profitability with the government often putting too much risk on to contractors at slim margins. In aggregate, we expect these disposals to be done at a profit to book value as some parts of the businesses have attractive, niche positions e.g. tunnelling in

Germany. This will leave a business which has had a much better track record and a higher exposure to Dutch house building and framework contracts within the civil engineering area and a significantly improved risk and reward trade off. Operational improvements include the company no longer tendering for single stage contracts of over EUR 150m where the full details are not confirmed at time of tender, as well as avoiding complex, fixed price contracts where too much risk lies on the contractor side. These decisions should help the company reach their target margin of 5% earnings before interest, tax, depreciation and amortisation (EBITDA) in 2023, equating to an operating margin of 2.5–3%. This target will be heavily assisted by EUR 100m of cost savings from reducing layers of management and central costs. The company was expecting revenue to fall when suggesting this net saving target so the outcome could be better if the EUR 14bn order book holds up more than hoped. The savings being made and the historic performance of the core divisions give us comfort in succeeding in this target.

We see the cultural evolution as key to the ability to achieve these goals in the medium term and unlike previous attempts, which have turned out to be half-hearted, we believe this is going to be a holistic cultural change, with more rigour and stronger focus, for example, on profitability ahead of the prestige of technical innovative achievement with high risk often attached. To help make all this happen there have been other hires including a new Chief Operating Officer of Civil Engineering and new head of BAM Netherlands. They have also changed 30% of the top 50 individuals in the firm, as well as placing incentivisation focus on EBITDA margin to help bring about the right culture.

BAM includes an inflation clause for raw material changes in their contracts, so we believe the inflation risk should be low. Clearly there is always risk on individual contracts, however management are comfortable with provisioning levels having provided significant sums in 2020, especially in the International business leading to a EUR 110m loss in that geography. However, whilst being hindered by covid restrictions, we estimate that the core businesses generated around EUR 70m of operating profit.

The balance sheet on the face of it looks very strong with over EUR 1.1bn of net cash, however this is counter balanced by a significant negative working capital balance due to the upfront cash nature of the industry as well as around EUR 500m of cash to be paid out relating to risk provisions, restructuring and delayed tax payments over the next few years. Overall, the management are targeting a 20% equity to assets ratio versus the 13% it sits at now. We believe they should achieve this by 2023 via disposals and earnings generated. With respect to return on capital employed they target a fairly unimpressive 10%, on our calculations this should be comfortably surpassed if they achieve their disposal strategy and margin targets.

With respect to valuation the company currently has a negative enterprise value due to the high net cash position, however, due to offsetting liabilities we think it is best to look at the business on a price to earnings basis, making some allowance for the low cash tax rate due to historic tax losses of over EUR 250m. We value the stock conservatively on a nine times multiple of our expected 2023 earnings giving upside of circa 80% to the end of that year.

Top Five Long Holdings as at 28 May 2021

Company	Country	Sector	% of NAV
STO SE & Co KGaA	Germany	Materials	7.5
Vossloh AG	Germany	Industrials	3.8
HUGO BOSS AG	Germany	Consumer Discretionary	3.1
Costain Group Plc	United Kingdom	Industrials	2.8
UP Global Sourcing Holdings Plc	United Kingdom	Consumer Discretionary	2.8
			20.0

Exposures as at 28 May 2021

Longs%	Shorts%	Gross Exposure%	Net Exposure%
78.5(77.2)	27.7(27.9)	106.2(105.1)	50.8(49.3)

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 28 May 2021

Country	Gross%	Net%
Austria	3.9	2.0
Belgium	1.8	1.8
Finland	0.5	-0.5
France	4.2	3.1
Germany	25.4	18.7
Italy	4.1	4.0
Luxembourg	1.2	1.2
Netherlands	3.3	3.3
Norway	5.3	-1.5
Other	0.7	-0.7
Spain	0.7	0.7
Sweden	5.6	1.3
United Kingdom	43.1	19.5
United States	3.4	-0.0

Market Cap	Gross%	Net%
>£2bn	19.5	-0.8
£700m - £2bn	24.5	6.1
£200m - £700m	38.7	22.7
<£200m	23.4	22.8

Positions	May	Apr
Long	69	67
Short	52	50
Longs Opened	3	3
Longs Closed	1	6
Shorts Opened	5	4
Shorts Closed	3	2

Sector	Gross%	Net%
Communication Services	2.0	-0.1
Consumer Discretionary	23.5	4.4
Consumer Staples	4.7	3.1
Energy	0.0	0.0
Financials	10.5	9.5
Health Care	3.6	2.6
Industrials	24.8	12.8
Information Technology	19.9	2.0
Materials	9.6	8.9
Real Estate	6.1	6.1
Utilities	0.0	0.0
Other	1.5	1.5

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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