Ennismore European Smaller Companies Fund

Investor Newsletter for the month of July 2021

Issued on 9 August 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 352m as at 30th July. Total assets under management by Ennismore Fund Management were GBP 592m. This fund is hard closed to new investment with the number of shares in issue capped with capacity available through redemptions. If you would like to invest when capacity is available through redemptions please contact Adam Sullivan on +44 (0) 20 7368 4224 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 July 2021

	Share Class[2]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share[1]	**153.30**	**179.74**	**25.91**	**25.68**	**25.79**
Period	**% Change**				
July 21	**2.8**	**3.5**	**2.8**	**3.3**	**3.3**
June 21	1.0	1.1	1.0	1.1	1.1
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
2021 to date	**13.3**	**18.9**	**13.4**	**19.2**	**19.1**
Annualised return[3]	**13.0**	**12.0**	**9.5**	**9.4**	**9.4**
Since launch[3]	**1461.9**	**1176.3**	**159.1**	**156.8**	**157.9**
	Discrete 12 Month Rolling Performance - % Change				
To 31 July 21	23.6	30.6	23.6	30.8	30.8
To 31 July 20	-11.6	-10.8	-11.6	-11.9	-12.0
To 31 July 19	8.7	6.6	8.7	6.8	6.9
To 31 July 18	3.1	3.4	3.1	3.3	3.4
To 31 July 17	12.9	6.3	12.9	8.1	8.0

[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 2.8% in July. Our long and short books contributed 2.7% and 1.2% respectively on a gross basis. Our short position in a US education company contributed 1.2% as the share price fell heavily on the news that the Chinese government will regulate much of the online education sector into becoming non-profit making entities.

Top 5 Contributors and Detractors for July 2021

Contributors	MTD (bp)
US education company	123
Sto - Preferred	122
Secure Trust Bank PLC	40
Cegedim SA	38
Sanderson Design Group Plc	33

Detractors	MTD (bp)
UP Global Sourcing Holdings PLC	-36
UK online retailer	-27
HeiQ PLC	-18
Rush Street Interactive Inc	-16
UK gaming services company	-14

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

lastminute.com N.V. – Swiss online travel company (0.5% NAV)

lastminute.com is a CHF 425m market-capitalized, Swiss listed, online travel company that offers online travel agent services, price comparison websites for flights and hotels, online media services and makes venture investments in the travel industry. We expect lastminute.com to be among the beneficiaries of the leisure travel rebound as countries gradually re-open from the Covid-19 lockdown measures that brought travel to a standstill. While the company has been impacted severely by the virus outbreak, it managed to reduce its fixed cost base considerably and maintain a net cash balance. Notably lastminute.com - contrary to its competitors - did not have to raise any equity during the crisis. We have not only been impressed by the operating performance during the pandemic but equally by the continuous margin improvement leading up to Covid-19. In our view the shares are an undiscovered investment opportunity and significantly undervalued for the quality of the business, reflected in its high return on invested capital, strong cash conversion and growth outlook.

The Group is well-diversified across countries and brands. Their largest markets include the UK (24% of 2020 revenue), France (23%), Germany (16%), Italy (14%) and Spain (10%). The online travel agent segment is the core of the business (82% of 2020 gross revenue) and sells flights, hotels, car rentals and holiday packages through its brands lastminute.com, weg.de, Bravofly, Rumbo and Volagratis. The value proposition is to bundle the fragmented supply side of airlines and hotels, and enable the end consumer to compare prices and book their travel online. Like other marketplaces the segment enjoys attractive economics due to its asset-light nature and the favourable working capital dynamics with customers paying upfront and suppliers being paid later. The online travel industry has consolidated over the years as players strengthen their position against suppliers and customers. Lastminute.com is one of the few standalone online travel companies left, which we believe would make it a potential acquisition target and particularly suitable for the larger industry players including Booking.com and Expedia

Group. While we recognize that lastminute.com is a smaller competitor in the space, the company took market share before Covid-19 driven by the growth in holiday packages.

In the years prior to Covid-19, lastminute.com managed to improve its revenue mix by reducing the exposure to the more commoditized flights offering and increasing the share from the less commoditized holiday packages. The company has invested in the technology that creates and prices dynamic packages, the strength of which is validated by the fact that Booking.com uses the underlying technology in Europe. The change in the revenue mix had a margin-accretive effect as holiday packages are less price transparent and carry a higher commission than flights. The impact and strong operating leverage were reflected in the 2019 results: while revenue grew 20% year-on-year to EUR 349m, the operating profit jumped 180% to EUR 36m and resulted in a post-tax return on invested capital including intangible assets of circa 33%. Further, the beginning of 2020 was in line with the strong 2019 growth trajectory and earnings before interest, taxes, depreciation, and amortization were expected to be in excess of EUR 80m for the full year 2020 according to management. This would have implied a multiple of only circa nine times net operating profit after tax based on the current enterprise value according to our calculation.

Clearly, the business was impacted by Covid-19 in 2020; revenue declined by 70% to EUR 105m, and an operating loss of EUR 66m was realised. lastminute.com reacted by cutting costs and negotiating better terms with vendors and lenders. Customers were also reimbursed with vouchers to preserve cash. Altogether, the company cut 35% of fixed costs or EUR 31m in 2020 and they expect another EUR 10-15m in cost savings in 2021. This sum is a significant flow-through to earnings, expected to increase the share of variable expenses to circa 70% of total costs and translate into an expected operating profit margin of circa 18% by 2023. While the 2021 results are still impacted by the Covid-19 restrictions, we expect a full recovery to 2019 booking levels by 2023. Also, the company has a net cash position of EUR 11m, with EUR 120m in available cash and no major debt repayments due this year. One of the few positive outcomes for the Group from the pandemic is the acceleration of the structural shift from offline to online bookings which is expected to support a normalized mid-single digit percentage revenue growth after 2023.

The economic interests of the founder and management appear to be aligned with those of the shareholders. Their combined shareholding is circa 38% and a significant portion of the compensation plan that has recently been put in place is linked to a share price that is up to 55% higher than the current one. We think that the qualities of lastminute.com and the material operational improvements that were realized before Covid-19 justify a valuation multiple of 15x enterprise value to 2023 net operating profit after tax (the year of a full normalization) This indicates a fair value of circa CHF 57 per share by the end of 2022, an upside of circa 50% versus the current share price.

Top Five Long Holdings as at 30 July 2021

Company	Country	Sector	% of NAV
STO SE & Co KGaA	Germany	Materials	8.8
Vossloh AG	Germany	Industrials	3.7
Studio Retail Group PLC	United Kingdom	Consumer Discretionary	2.9
Cegedim SA	France	Health Care	2.8
D4t4 Solutions PLC	United Kingdom	Information Technology	2.8
			21.1

Exposures as at 30 July 2021

Longs%	Shorts%	Gross Exposure%	Net Exposure%
78.3(76.1)	30.9(28.2)	109.2(104.3)	47.4(47.8)

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 July 2021

Country	Gross%	Net%
Austria	3.9	1.8
Belgium	1.8	1.6
Finland	0.6	-0.6
France	4.2	3.0
Germany	28.3	19.6
Italy	3.8	3.6
Luxembourg	1.2	1.2
Netherlands	3.0	2.8
Norway	5.0	-0.9
Other	0.8	-0.8
Spain	0.6	0.6
Sweden	7.0	0.5
United Kingdom	42.2	18.0
United States	3.9	-0.9

Market Cap	Gross%	Net%
>£2bn	16.9	-0.3
£700m - £2bn	24.2	6.9
£200m - £700m	45.4	18.7
<£200m	22.7	22.1

Positions	Jul	Jun
Long	66	66
Short	66	57
Longs Opened	2	1
Longs Closed	2	4
Shorts Opened	10	8
Shorts Closed	1	3

Sector	Gross%	Net%
Communication Services	2.7	-0.7
Consumer Discretionary	27.3	4.5
Consumer Staples	5.5	1.3
Energy	0.0	0.0
Financials	10.0	9.0
Health Care	4.0	2.9
Industrials	23.8	12.9
Information Technology	19.2	1.8
Materials	10.8	10.0
Real Estate	5.9	5.9
Utilities	0.1	-0.1
Other	0.0	0.0

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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.

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