Ennismore European Smaller Companies Fund

Investor Newsletter for the month of August 2021

Issued on 6 September 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 354m as at 31st August. Total assets under management by Ennismore Fund Management were GBP 597m. 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 31 August 2021

	Share Class[2]				
	GBP A £	GBP A €	GBP B	EUR A	EUR B
NAV per Share[1]	**154.42**	**180.04**	**26.10**	**25.75**	**25.86**
Period	**% Change**				
August 21	**0.7**	**0.2**	**0.7**	**0.3**	**0.3**
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	**14.2**	**19.1**	**14.2**	**19.5**	**19.4**
Annualised return[3]	**13.0**	**11.9**	**9.5**	**9.4**	**9.4**
Since launch[3]	**1473.4**	**1178.4**	**161.0**	**157.5**	**158.6**
	Discrete 12 Month Rolling Performance - % Change				
To 31 August 21	27.7	32.8	27.7	33.2	33.2
To 31 August 20	-14.3	-13.2	-14.3	-14.2	-14.2
To 31 August 19	8.1	7.0	8.1	7.0	7.2
To 31 August 18	2.7	5.9	2.7	5.3	5.2
To 31 August 17	12.0	3.2	12.1	5.0	5.0

[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 0.7% in August. Our long book contributed 2.1% while the Fund's short exposure cost 1.0%. Our long position in STO cost the fund 0.7% as the company reported very strong first half year results but gave a cautious guidance update.

Top 5 Contributors and Detractors for August 2021

Contributors	MTD(bp)
Piteco SpA	52
Vossloh Ag	50
Rush Street Interactive Inc	33
UP Global Sourcing Holdings Plc	29
Evs Broadcast Equipment S.A	25

Detractors	MTD(bp)
STO SE & Co KGaA	-69
US media company	-30
UK payment processing company	-23
UK building products distributor	-20
Sonans Holding AS	-20

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

Talgo S.A – Spanish Manufacturer of High-Speed Trains (0.6% NAV)

Founded in 1942, Talgo started with the idea of manufacturing trains that were lighter and more efficient. Its name TALGO, Tren Articulado Ligero Goicoechea Oriol, which literally means "light articulated train by Goicoecha and Oriol" is testament to this. Today its business is still predicated on this idea. Taken public in 2015, the company currently has a market capitalisation of EUR 570m and generated revenues of EUR 487m last year from its niche in manufacturing and maintaining light high-speed trains. The pandemic took its toll last year but Talgo's historic financials show industry leading operating margins, healthy returns on capital and a solid balance sheet, indicating a competitive edge which we believe is driven by its differentiated innovative products, an asset light manufacturing model and the constantly growing maintenance business. The maintenance business was the initial reason that attracted us given its very high profitability, high cash generation and its recurring nature that provides good visibility, implying a high margin of safety. This was before COVID-19 and the commensurate virtual standstill in public transportation. With improving mobility Talgo is on track to return to its previous strength next year, and with strong tailwinds from government initiatives supporting railways, we see significant upside from current levels.

Talgo's business reminds us of the story "David vs Goliath" given the big incumbents in the major European railway markets (France and Germany), and the fact that the company did not have a High-Speed Train (HST) in the early 1990s when the TGVs and ICEs were already running abroad. It took Talgo almost ten years to get their Talgo 350 HST running, and judging from the financial results over the last ten years (average pre-tax return on capital of 14.3% and double digit operating margin throughout with the exception of last year) their small size has not been a disadvantage. Talgo is doing things differently. It brought out innovative concepts such as natural tilting, mono-axle articulations, and lightweight construction with wider coaches. Advantages of those concepts are higher speeds in curves, less wear and tear of the infrastructure, less energy consumption, higher capacity and better comfort. Its asset-light manufacturing model, with 70% of its supply chain outsourced, enables Talgo to be very flexible and selective with tenders, choosing the ones where its products are most differentiated and where it can achieve attractive margins with a good cash profile. In addition, Talgo's proprietary technology was a prime driver for why third parties were reluctant to tender for maintenance contracts, resulting in almost all of it being done inhouse. A bonus from this is that the continuous feedback-loop from its long-term maintenance contracts enable the engineers to constantly improve its products, in turn improving reliability.

The maintenance business was significantly hit by the mobility restrictions of the pandemic. This is also the reason for the unusual development of revenues and operating profit in 2020. Although revenues increased 21.3% from EUR 402m to EUR 487m, operating profits were down to negative EUR 3m after EUR 51m in the previous year. The increase in revenue is due to the success of its manufacturing operations with the execution of large orders like the HST for the Spanish operator Renfe, whereas the very lucrative revenues from maintenance were strongly depressed. This year we expect revenues to increase to circa EUR 600m and operating profit to reach EUR 55m, still impacted by lower utilisation of Talgo trains. We estimate that maintenance generates operating margins above 20%, with little capex requirement given that work is mostly done from its customers sites. Nearly 100% of trains in operation are still maintained by Talgo with the numbers of vehicles under maintenance increasing from almost 2,000 in 2012 to close to 3,000 as of last year. Talgo expects to reach around 3,600 with existing contracts by 2023. We think the fair value of this part of the business covers the current market capitalisation. Including approximately EUR 45m in revenues from sales of maintenance equipment and its overhaul business, and excluding manufacturing, we estimate that Talgo could generate revenues of close to EUR 300m and operating profits of around EUR 60m by 2023. This is against a current enterprise value of EUR 638m with net debt of EUR 68m. We expect net debt to come down by year-end given improved cash generation and working capital management.

With many initiatives launched by governments across the world such as the green deal in Europe and a large infrastructure plan for the US, railway seems to be in an attractive situation, well placed to benefit from a shift towards greener transportation. We believe Talgo is well positioned and, based on our 2022 assumptions of revenues of around EUR 600m and operating profit of around EUR 73m, Talgo trades on just eight times operating profit to our estimate of year end enterprise value of around EUR 590m. We are convinced that it is too cheap. If shares continue to remain cheap, with increasing consolidation within the sector (there have been two takeover announcements in the space over the last month) we think it is possible that Talgo could become a takeover target. Given the positive backdrop we think a multiple of twelve times next year's operating profit is still moderate for a good quality business, the large share of attractive maintenance revenues and an improved growth outlook, translating into 50% upside over the next 18 months.

Top Five Long Holdings as at 31 August 2021

Company	Country	Sector	% of NAV
STO SE & Co KGaA	Germany	Materials	8.1
Vossloh Ag	Germany	Industrials	3.7
UP Global Sourcing Holdings Plc	United Kingdom	Consumer Discretionary	3.0
D4t4 Solutions Plc	United Kingdom	Information Technology	2.8
Studio Retail Group Plc	United Kingdom	Consumer Discretionary	2.8
			20.4

Exposures as at 31 August 2021

Longs%	Shorts%	Gross Exposure%	Net Exposure%
75.9(78.3)	33.3(30.9)	109.2(109.2)	42.7(47.4)

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 August 2021

Country	Gross%	Net%
Austria	3.8	1.9
Belgium	2.1	1.7
Finland	0.6	-0.6
France	4.2	3.0
Germany	26.4	19.1
Italy	3.5	3.4
Luxembourg	1.2	1.2
Netherlands	3.4	2.6
Norway	5.6	-1.7
Other	0.9	-0.9
Spain	0.6	0.6
Sweden	7.0	0.0
Switzerland	2.8	-1.8
United Kingdom	42.4	15.0
United States	4.7	-1.0

Market Cap	Gross%	Net%
>£2bn	20.2	-2.1
£700m - £2bn	25.5	8.6
£200m - £700m	42.2	15.5
<£200m	21.3	20.6

Positions	Aug	Jul
Long	66	66
Short	63	66
Longs Opened	1	2
Longs Closed	1	2
Shorts Opened	3	10
Shorts Closed	6	1

Sector	Gross%	Net%
Communication Services	3.1	-1.1
Consumer Discretionary	27.6	4.9
Consumer Staples	4.9	0.8
Energy	0.0	0.0
Financials	8.9	7.8
Health Care	3.9	2.8
Industrials	24.4	11.7
Information Technology	20.8	1.3
Materials	10.1	9.3
Real Estate	5.3	5.3
Utilities	0.2	-0.2
Other	0.0	0.0

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.

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