Ennismore European Smaller Companies Fund

Investor Newsletter for the month of October 2021

Issued on 4 November 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 332m as at 29th October. Total assets under management by Ennismore Fund Management were GBP 570m. 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 29 October 2021

	Share Class[2]				
	GBP A £	GBP A €	GBP B	EUR A	EUR B
NAV per Share[1]	**151.49**	**179.44**	**25.60**	**25.58**	**25.70**
Period	**% Change**				
October 21	**-1.8**	**0.0**	**-1.8**	**-0.4**	**-0.4**
September 21	-0.1	-0.3	-0.1	-0.3	-0.2
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	**12.0**	**18.7**	**12.0**	**18.7**	**18.7**
Annualised return[3]	**12.8**	**11.8**	**9.1**	**9.1**	**9.2**
Since launch[3]	**1443.5**	**1174.2**	**156.0**	**155.8**	**157.0**
	Discrete 12 Month Rolling Performance - % Change				
To 31 October 21	28.3	36.9	28.3	36.8	36.8
To 31 October 20	-17.0	-20.6	-17.0	-20.9	-20.9
To 31 October 19	9.9	13.0	9.9	12.3	12.4
To 31 October 18	4.5	3.4	4.5	3.5	3.5
To 31 October 17	5.6	8.3	5.6	8.1	8.1

[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 decreased by 1.8% in October. Our long and short books cost 1.5% and 0.2% respectively. Our short position in a Norwegian energy machinery supplier cost us 0.7% after reporting third quarter numbers above market estimates.

Top 5 Contributors and Detractors for October 2021

Contributors	MTD(bp)
D4T4 Solutions Plc	32
UK online retailer	24
UK travel services company	22
UK payment processing company	19
Modulight Oy	16

Detractors	MTD(bp)
Norwegian energy machinery supplier	-74
STO SE & Co KGaA	-49
UP Global Sourcing Holdings Plc	-32
Sanderson Design Group Plc	-28
Scandic Hotels Group AB	-22

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

Loomis – Swedish cash logistic service company (1.0% NAV)

Loomis is a SEK 18bn market capitalised, Sweden-listed cash logistic service company that provides cash-in-transit (CIT) and cash management services (CMS) to retailers and banks mainly in Europe and the US. The business has been significantly impacted by the Covid-19 outbreak last year and, while we understand that it may not be a linear pick-up, we clearly see volumes coming back as the pandemic recedes. On top of this, we see interesting margin-enhancing growth opportunities for the company going forward and the potential for some attractive bolt-on acquisitions. With the share price still down more than 35% since the highs in February last year, we believe the market is currently failing to appreciate the qualities of this business and the recovery potential as more and more countries gradually reopen from lockdown measures.

Circa 60% of the SEK 18.8bn revenues that Loomis generated in 2020 are within CIT, whose main activities include cash transport for banks and retailers and ATM servicing. CIT is a lower growth, lower margin business compared to CMS and customers are charged based on the number of times Loomis stops at their premises for cash collection. 30% was coming from CMS, which consists of processing, checking and storing customers' cash at Loomis's cash centres, while the remaining 10% includes international transport of cash, valuables and others. Both the US and Europe account for about half of Loomis's revenues, and the company usually has a top two market share in its geographical markets, which tend to be duopolies or oligopolies with strong barriers to entry.

2020 was a difficult year for the business, especially in Europe where revenues declined 15% organically and operating profit margins halved to 6%. The US has proven to be more resilient thanks to less strict lockdowns, with organic revenues down 2% and a very strong operating profit margin of 15.7%. We expect growth to continue to be in double digit territory in the US for 2021, with margins declining slightly due to some labour cost pressure that the company should be able to pass through to clients next year. Europe has so far struggled to recover from the lows of 2020, but margins have started improving thanks to the adjustment in the cost base that Loomis recently implemented. Excluding acquisitions and exchange rate movements, we are still expecting revenues in Europe to be around 7% below 2019 levels in 2023. Going forward, we expect two key drivers to support growth and improved profitability. The first is the increasing rate at which banks outsource cash management services to external providers. Overall, even though the percentages vary depending on the country, banks still deal with around 50% of total cash volumes internally in Loomis's key geographies, but this number is gradually coming down year after year, to the benefit of outsourcing players like Loomis's CMS business. Another interesting revenue driver is SafePoint, an automated safe installed at petrol stations or small retailers in which business owners deposit their banknotes, getting the amount credited on their bank account no later than the day after the deposit and transferring the risk to Loomis at the same time, who will then manage the collection and transport. We estimate that SafePoint accounts for roughly 10% of total revenues and achieves operating profit margins of around 20%; the business was growing at about 10%-15% per year before Covid-19 and we believe it will be back in full growth mode in 2022, when we estimate it will account for roughly 20% of group operating profit.

With the recently released third quarter results the company has announced a new share buyback of SEK 200m to be executed during the fourth quarter, following another one for SEK 150m last quarter. We are confident that the current net bank debt of SEK 3.5bn, plus SEK 0.5bn in pension liabilities, versus the strong, sustainable, free cash generation of around SEK 1.4bn we expect next year, leaves ample room for these buybacks and also for some bolt-on acquisition opportunities. The company has regularly made acquisitions, paying on average between 7 and 10 times enterprise value to operating profits, and we believe these may become particularly attractive now that some small, family owned competitors have been severely impacted by the Covid-19 driven slowdown.

While we understand the market's concern that the use of physical cash is losing share to digital alternatives, we firmly believe it is overdone. In fact, while in some economies, for example in the Nordics, there has been a structural decline, Euro banknotes in circulation have nearly doubled since 2009 and USD circulation has grown at a 6% average annual rate in the past 22 years. In this context, Loomis has grown at an average organic annual rate of circa 3% for the five years to 2019. To accelerate long term growth and enter the digital payments space, the company decided last year to launch Loomis Pay, a complete end-to-end payment platform for merchants which manages all types of payments, including cash, card and other digital alternatives, both in-store and online. While it is still very early days, and while we think the company's target of SEK 3bn in sales in 5 years is ambitious, we like the proposition of Loomis becoming a one-stop-shop for merchants that have to deal with both cash and digital payments, and we believe Loomis will be successful in upselling this solution to their existing client base. However, given its infancy, we include nothing related to Loomis Pay in our valuation, although we do believe, with time, it could achieve above group profitability and create significant value for shareholders.

Overall, we are convinced the current share price clearly undervalues the business and its recovery potential. Given the upside we see from a comeback of European volumes and a revenue mix shift towards more profitable business areas, we believe a multiple of 15x enterprise value to 2022 net operating profit after tax is fair, which would point to an upside of around 45% vs current price to December 2022.

Top Five Long Holdings as at 29 October 2021

Company	Country	Sector	% of NAV
STO SE & Co KGaA	Germany	Materials	8.4
Vossloh AG	Germany	Industrials	3.7
D4t4 Solutions Plc	United Kingdom	Information Technology	3.1
Studio Retail Group Plc	United Kingdom	Consumer Discretionary	2.9
Cegedim SA	France	Health Care	2.7
			20.7

Exposures as at 29 October 2021

Longs%	Shorts%	Gross Exposure%	Net Exposure%
71.9(73.9)	41.0(35.8)	112.9(109.8)	30.9(38.1)

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 29 October 2021

Country	Gross%	Net%
Austria	4.6	1.1
Belgium	2.3	1.8
Finland	1.2	-0.0
France	4.8	2.5
Germany	25.0	17.5
Italy	0.7	-0.0
Luxembourg	0.6	0.6
Netherlands	3.4	2.7
Norway	6.6	-3.3
Other	0.9	-0.9
Spain	0.7	0.7
Sweden	8.1	-0.4
Switzerland	4.7	-1.6
United Kingdom	43.4	11.8
United States	5.9	-1.5

Market Cap	Gross%	Net%
>£2bn	23.9	-6.7
£700m - £2bn	23.7	5.0
£200m - £700m	45.0	12.9
<£200m	20.3	19.6

Positions	Oct	Sep
Long	68	68
Short	75	71
Longs Opened	1	3
Longs Closed	1	1
Shorts Opened	7	8
Shorts Closed	3	0

Sector	Gross%	Net%
Communication Services	3.6	-0.1
Consumer Discretionary	28.8	-0.1
Consumer Staples	5.4	0.0
Energy	0.0	0.0
Financials	7.6	6.9
Health Care	5.3	2.7
Industrials	27.0	11.1
Information Technology	20.4	-3.0
Materials	10.7	9.5
Real Estate	4.0	4.0
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.

For further information please contact:	Adam Sullivan, Ennismore Fund Management	+44 (0) 20 7368 4224	subs@ennismorefunds.com
For dealing please contact:	Northern Trust International Fund Administration Services (Ireland) Ltd	+353 (0) 1 434 5103	Ennismore_TA_Queries@ntrs.com

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For further information please contact:	Adam Sullivan, Ennismore Fund Management	+44 (0) 20 7368 4224	subs@ennismorefunds.com
For dealing please contact:	Northern Trust International Fund Administration Services (Ireland) Ltd	+353 (0) 1 434 5103	Ennismore_TA_Queries@ntrs.com