Ennismore European Smaller Companies Fund

Investor Newsletter for the month of November 2021

Issued on 6th December 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 336m as at 30th November. Total assets under management by Ennismore Fund Management were GBP 579m. 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 November 2021

	Share Class[2]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share[1]	**154.22**	**181.27**	**26.06**	**25.88**	**26.00**
Period	**% Change**				
November 21	**1.8**	**1.0**	**1.8**	**1.2**	**1.2**
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	**14.0**	**20.0**	**14.0**	**20.1**	**20.1**
Annualised return[3]	**12.8**	**11.8**	**9.2**	**9.2**	**9.2**
Since launch[3]	**1471.3**	**1187.2**	**160.6**	**158.8**	**160.0**
	Discrete 12 Month Rolling Performance - % Change				
To 30 November 21	19.1	25.5	19.2	25.6	25.6
To 30 November 20	-7.8	-12.3	-7.8	-12.3	-12.4
To 30 November 19	5.9	10.2	5.9	9.2	9.4
To 30 November 18	6.5	5.7	6.5	5.9	5.9
To 30 November 17	8.9	5.0	8.9	5.7	5.7

[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 1.8% in November. Our long book cost 0.4% while the Fund's short exposure contributed 2.8%. Our long in U&I contributed 1.3% after the company agreed to be acquired by Land Securities for a 73% premium. Our long position in Studio Retail cost us 1.1% as the company reduced profit guidance for this fiscal year.

Top 5 Contributors and Detractors for November 2021

Contributors	MTD (bp)
U and I Group Plc	125
UK software company	64
STO SE & Co KGaA	59
Intertrust N.V.	57
UK online retailer	43

Detractors	MTD (bp)
Studio Retail Group Plc	-110
D4T4 Solutions Plc	-41
Novem Group	-39
Cegedim SA	-28
Dutch online retailer	-24

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

UP Global Sourcing Holdings Plc – UK branded products manufacturer (3.0% NAV)

UP Global Sourcing (UPGS) owns a portfolio of brands which produce a range of household items sold into various retail chains and online stores across Europe. This GBP 167m capitalised business has, in the last few years, diversified its business considerably. It now has a wider geographical exposure and a range of growth channels which should lead to solid structural growth across the business over the medium term. We believe that this change, alongside the stronger brand portfolio resulting from the recent acquisition of the previously licensed Salter brand, is not being fairly reflected by the market.

The company focuses on the "value for money" end of the market, often seeing product trends and then producing better value equivalents. Key reasons for their success are their agility and having the internal resources to design and liaise with external manufacturers. To this end they have people on the ground in Asia, focused on ensuring that the time to market of any new product is as quick as possible. UPGS have shown their execution capabilities in this throughout the Covid-disrupted period. More recently they seem to have handled logistics and freight tightness very well. Their strong performance in this respect, we believe, has enhanced the company's position considerably with their customer base, especially within the supermarkets segment (27% of sales, up from 24% the prior year) which had strong footfall alongside a sometimes-struggling supply chain. UPGS's increased exposure to supermarkets is a positive point in our view, because of its regular and dependable footfall. We believe they've taken market share in this channel. However, the main channel is still the discount retailers (38% of sales), often having exposure to retail chains which are continuing to grow their store estate. Online accounts for 15% of sales, however, due to the tightness in the freight sector from Asia to Europe, this was held back by prioritisation of their longer standing offline customers in the second half of the financial year. The company still targets online penetration of 30% of sales in the future, and we see this as a key growth leg for the business over the coming years.

UPGS grew revenue by 18% to GBP 136m in the year to July 2021 and has grown over the last five years at a rate of 12% per annum. We expect that overall, they will grow organically at around 10% per annum over the next few years. They have various brands, including Salter (21% of sales, "licensed in" prior to its recent acquisition), Beldray (31%), Progress (5%), Intempo (5%), Kleeneze (2%) as well as the licensed in - non-electrical kitchen only - Russell Hobbs brand (12%). Having several brands helps for growth across geographies, with different names resonating in different regions. It also helps by offering some exclusivity for products for certain brands for different customers. Geographically the company has most of its sales exposed to the UK (68%), with Germany (10%) and the Rest of Europe (20%) the two other main regions. International revenue has been held back by Covid-related store closures more than in the UK. Going forward however we expect it to be another important pillar of growth, with a strong uptake of UPGS's offering translating into increased confidence in the coming years.

The Salter brand, founded in 1760, is one of the oldest brands alive. It was acquired by UPGS in July this year for a total of circa GBP 34m. We believe Salter adds value in three ways. Firstly, this acquisition means that only 10% of UP's proforma revenue is now licensed in. This de-risks the earnings profile going forward. Secondly, Salter's brand is a strong UK brand within the defensive weighing scales segment, and looks cheap at a circa 10 times earnings multiple. Finally, now that the brand is owned, it makes sense for UPGS to lead more with this brand internationally, leaning on its long heritage to exploit another leg of growth. We believe that there is potential for further value-accretive acquisitions in the future. The company forecasts that the acquisition of Salter will add more than GBP 16.7m to sales next year, and we expect the operating margin to increase from 8.3% to circa 10% due to Salters strong margins of over 20%. With respect to product split we calculate that, proforma, the largest product areas will be Housewares including weighing scales and Small Domestic Appliances (both over 30% of sales), along with Laundry and Audio (both over 10%).

Another big positive is that management are well aligned with shareholders. The Chief Executive Officer, Simon Showman, and Managing Director, Andrew Gossage, own around 30% of the company between them. We believe that this ensures this high-quality management team have a real, long term, focus. For example, when Covid hit last year, they continued to invest in inventory and new product development, unlike some competitors. They have also been very proactive on shipping issues, identifying this risk more than a year ago and have an abnormally detailed focus on the supply chain, which we believe is a significant competitive advantage. This comprehensive monitoring system goes down to such a granular level that they are alerted to any raw material and component delays that impact their suppliers and are likely to lead to production delays weeks later. This visibility leaves them in a much better position to ensure customer expectations are fulfilled.

With low capital intensity and working capital sitting at around 10 percent of sales, the company generates a good return on capital of over 20% (post tax including the Salter acquisition). They are highly cash generative, enabling them to pay out half of earnings and generate a sustainable and growing three percent dividend yield. The total bank debt plus deferred consideration sat at around GBP 22m at the financial year end, which we are comfortable with, given our expected operating profit next year of over GBP 16m.

Overall, we see UPGS as a company that is a real top-quality operator in an industry sometimes seen as being lower quality. We think that through delivering operational excellence, together with an unstinting strategic focus on the future, they will come out of these tough times in much stronger overall shape. We value the business on 17 times operating profit after tax, leading to an upside of over 50 percent to July 2023.

Top Five Long Holdings as at 30 November 2021

Company	Country	Sector	% of NAV
STO SE & Co KGaA	Germany	Materials	8.5
Vossloh Ag	Germany	Industrials	3.5
UP Global Sourcing Holdings Plc	United Kingdom	Consumer Discretionary	3.0
U & I Group Plc	United Kingdom	Real Estate	3.0
Costain Group Plc	United Kingdom	Industrials	2.7
			20.6

Exposures as at 30 November 2021

Longs%	Shorts%	Gross Exposure%	Net Exposure%
68.0(71.9)	39.0(41.0)	107.0(112.9)	29.0(30.9)

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 November 2021

Country	Gross%	Net%
Australia	0.4	-0.4
Austria	4.1	1.4
Belgium	2.5	1.7
Finland	0.7	0.2
France	3.9	2.7
Germany	23.0	16.6
Italy	0.6	-0.0
Netherlands	2.6	2.6
Norway	6.7	-3.7
Other	0.5	-0.5
Spain	0.9	0.4
Sweden	9.0	-1.7
Switzerland	5.0	-2.1
United Kingdom	42.0	14.2
United States	5.3	-2.5

Market Cap	Gross%	Net%
>£2bn	20.4	-5.9
£700m - £2bn	23.4	4.1
£200m - £700m	39.9	8.1
<£200m	23.3	22.7

Positions	Nov	Oct
Long	65	68
Short	74	75
Longs Opened	1	1
Longs Closed	4	1
Shorts Opened	6	7
Shorts Closed	7	3

Sector	Gross%	Net%
Communication Services	3.6	-0.2
Consumer Discretionary	26.3	-1.2
Consumer Staples	4.6	-0.3
Energy	0.0	0.0
Financials	6.2	5.7
Health Care	5.3	2.0
Industrials	25.8	10.7
Information Technology	18.9	-1.9
Materials	10.7	9.3
Real Estate	5.2	5.2
Utilities	0.4	-0.4
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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