Ennismore European Smaller Companies Fund

Investor Newsletter for the month of December 2021

Issued on 7 January 2022

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 341m as at 31st December. Total assets under management by Ennismore Fund Management were GBP 584m. 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 December 2021

	Share Class[2]				
	GBP A £	GBP A €	GBP B	EUR A	EUR B
NAV per Share[1]	**156.60**	**186.51**	**26.46**	**26.56**	**26.69**
Period	% Change				
December 21	**1.5**	**2.9**	**1.5**	**2.6**	**2.7**
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	**15.8**	**23.4**	**15.8**	**23.2**	**23.3**
Annualised return[3]	**12.8**	**11.9**	**9.3**	**9.4**	**9.4**
Since launch[3]	**1495.6**	**1224.4**	**164.6**	**165.6**	**166.9**
	Discrete 12 Month Rolling Performance - % Change				
To 31 December 21	15.8	23.4	15.8	23.2	23.3
To 31 December 20	-4.8	-9.9	-4.8	-9.9	-9.9
To 31 December 19	6.9	13.3	7.0	11.9	12.0
To 31 December 18	4.0	2.9	4.0	3.0	3.1
To 31 December 17	9.6	5.4	9.5	6.1	6.1

[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 increased by 1.5% in December. Our long and short books contributed 2.0% and 0.6% respectively.

Top 5 Contributors and Detractors for December 2021

Contributors	MTD (bp)
Norwegian energy machinery supplier	61
STO SE & Co KGaA	48
UP Global Sourcing Holdings Plc	43
Dutch online retailer	37
S&T AG	37

Detractors	MTD (bp)
UK travel services company	-21
UK retailer	-19
UK consumer services company	-19
UK online retailer	-13
UK payment processing company	-10

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

Gesco – German investment holding company (1.0% NAV)

Gesco is an investment company that acquires and owns small German-based industrial businesses. We wrote about Gesco in 2018 after participating in an equity raising, and now think it is a good time to provide an update about the development and outlook of the company. Even though we expected a more gradual development we are very satisfied with Gesco's strategic positioning, and excited by the outlook of its businesses. We think Gesco is a better company now, having sold its exposure to the automotive sector at the end of last year, focussing on higher quality businesses and its operational excellence. There is clear evidence that the strategy is working so far having raised this year's guidance twice, and many of its portfolio companies generate double digit profit margins together with good cash generation. Since we invested, Gesco has generated substantial cash flows which helped to lower overall debt and finance further acquisitions. Given this, we believe that Gesco is cheaply valued, and a fair valuation of the shares yields upside of more than 40%. Digging deeper into the individual businesses we think there is even more upside and the current market capitalisation is not a good yardstick for the true value of its underlying assets.

Over the last couple of years the company has had to digest the disruption caused in the automotive sector, and more recently the impacts of the Covid-19 pandemic. Also, when we last wrote on Gesco the company was looking for a new CEO and found a good match with Ralph Rumberg and the appointment of the CFO Kerstin Mueller-Kirchhofs. Taking a long-term view and aiming for sustainable improvements they initiated the strategy “NEXT LEVEL” to foster superior growth, profit margins and cash flows. The company also aims to increase its stability through balancing the portfolio structure by creating two more anchor investments alongside the largest portfolio company Dörrenberg, as well as turning all remaining companies into “hidden champions”. A big leap forward in this strategy was the sale of the Mobility division. This was not an easy decision as Gesco is proud to be a good and long-term home for Mittelstands-companies with no natural successor. The impact of the pandemic may have accelerated the decision to exit the automotive segment, but the timing was still good in late 2020 when order books started to fill up again. One year later with auto manufacturers and suppliers being once again hit by the chip shortage, a sale would have been even more difficult. Gesco has now exited all direct automotive business and has sold off revenues based on 2020 of around EUR 98m. Excluding the discontinued business Gesco achieved revenues of EUR 397m and operating profits of EUR 16.7m in the very demanding year 2020. For 2021 we expect revenues for fiscal year 2021 to recover strongly to close to EUR 500m and operating profit to improve to EUR 40m. This compares to peak revenues achieved back in 2018 of EUR 580m and operating profit of EUR 42m, but we think that the quality of profits and cash generation has improved and will prove more sustainable in the future. What makes us particularly confident is our more detailed research into some of the key underlying companies within Gesco.

Starting with Dörrenberg, representing around 40% of total revenues. It is a leader in high alloyed tool steel, with in-depth metallurgy knowledge and numerous self-developed patents on steel. It is unfortunately the only company where we as an outsider have high transparency on the financials. It is growing at around 5-6% over a full business cycle with operating margins averaging close to 10% and pre-tax return on capital in the high teens. An indication of the good business quality can be found when revenues dropped more than 40% in 2009 and the operating margin dropped only to 5.2%, its lowest levels on our records over the last 20 years. We think an enterprise value of ten times operating profits is not too demanding. This would translate to a value close to EUR 200m and compares to Gesco’s current enterprise value of EUR 323m with little net debt of EUR 46.5m including leasing liabilities of EUR 20.1m. Looking at the second largest holding, Setter, this is where we believe the potential of Gesco and the cheap valuation becomes obvious. Setter is the world’s leading manufacturer of paper sticks used for cotton buds and lollypops. When it was taken over in 2004 Setter was a very large fish in a small pond with revenues of around EUR 10m. Paper sticks had a 20% share of the total cotton buds market with plastic holding the remaining 80%. Through its dominant position in this niche, Setter focused on improving its competitive position as the quality and price leader. With the announcement of the European Union in 2018 to ban all plastic based cotton buds by July 2021 the small pond all of a sudden became much bigger. Luckily Setter not only boast a very high market share, it has also developed its own machines from where it produces billions of billions of paper sticks. Interestingly not even customers are allowed to see the production facilities – let alone investors. And with more than 15 years “Vorsprung durch Technik”, competition will have a hard time to crack this. Setter enjoyed very good growth over the last few years within some early mover markets, with Italy banning plastic sticks in 2019 and the UK in 2020. But it is a global trend, and India for instance wants to ban plastic-based cotton buds by July 2022. As such, we believe that last reported sales of EUR 54m in 2020 leaves plenty of room to grow and think Setter will become the second anchor holding within Gesco, reaching EUR 100m in the mid-term. As Setter is a non-cyclical business and has always had an above average financial profile - we estimate mid-teens operating margins and pre-tax return on capital in the twenties which we see only improving with scale - we think that on a standalone basis a fair value of this very high quality business model could well be worth Gesco’s market capitalisation in two to three years’ time.

There are more hidden gems in the portfolio of Gesco and a sum of the parts valuation could easily yield upside of 100%. Looking at the historic valuation and given the sale of struggling companies, the market should reward the shares over time with the upper end of its average valuation multiple. Based on our estimate of an operating profit of EUR 44m in 2022 and an enterprise value to operating profit multiple of ten times the shares offer upside of more than 40% over the next 12 months. We cannot predict the economy and given the industrial nature of Gesco there is always a strong correlation, but with Setter increasing in size there is a good margin of safety embedded. And with the reinstatement of a dividend next year which should yield around 3%, and good insider buying across the year, there is further support.

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

Top Five Long Holdings as at 31 December 2021

Company	Country	Sector	% of NAV
STO SE & Co KGaA	Germany	Materials	8.8
UP Global Sourcing Holdings Plc	United Kingdom	Consumer Discretionary	3.7
Vossloh AG	Germany	Industrials	3.5
D4t4 Solutions Plc	United Kingdom	Information Technology	2.8
IG Group Holdings Plc	United Kingdom	Financials	2.6
			21.5

Exposures as at 31 December 2021

Longs%	Shorts%	Gross Exposure%	Net Exposure%
66.3(68.0)	38.5(39.0)	104.8(107.0)	27.9(29.0)

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 December 2021

Country	Gross%	Net%
Austria	2.8	2.8
Belgium	2.4	1.6
Finland	0.6	0.2
France	3.9	2.9
Germany	22.2	16.8
Israel	0.5	-0.5
Italy	0.7	-0.1
Netherlands	2.2	2.2
Norway	6.3	-3.3
Other	0.5	-0.5
Spain	1.0	0.5
Sweden	9.7	-3.2
Switzerland	4.7	-1.5
United Kingdom	42.2	12.5
United States	5.1	-2.5

Market Cap	Gross%	Net%
>£2bn	17.0	-3.8
£700m - £2bn	26.0	2.9
£200m - £700m	40.2	7.8
<£200m	21.6	21.0

Positions	Dec	Nov
Long	65	65
Short	72	74
Longs Opened	3	1
Longs Closed	3	4
Shorts Opened	3	6
Shorts Closed	5	7

Sector	Gross%	Net%
Communication Services	3.7	-0.1
Consumer Discretionary	28.6	-0.9
Consumer Staples	4.7	-0.8
Energy	0.0	0.0
Financials	6.2	5.7
Health Care	5.2	2.0
Industrials	24.8	10.9
Information Technology	17.8	-0.5
Materials	11.1	9.7
Real Estate	2.2	2.2
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.

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

Risk Warning

This document is issued by Ennismore Fund Management Limited ("Ennismore", "the Company") which is authorised and regulated by the Financial Conduct Authority.
This document is confidential and is intended solely for the information of the recipient and may not be passed on or disclosed to any other person. This information should not be reproduced or disseminated in any form without the prior written permission of Ennismore Fund Management Limited.
This document is a marketing communication. Please refer to the Ennismore European Smaller Companies Plc Prospectus, supplement thereto and to the KIID before making any final investment decisions.
A copy of the English version of the Prospectus of the Fund and the Key Investor Information Document (KIID) relating to the Fund may be obtained online from www.ennismorefunds.com or alternatively received via email upon request by contacting clients@ennismorefunds.com. Where required under national rules, the KIID will also be available in the local language of the relevant EEA Member State.
A decision may be taken at any time to terminate the arrangements made for the marketing of the Fund in any EEA Member State in which it is currently marketed. In such circumstances, Shareholders in the affected EEA Member State will be notified of this decision and will be provided with the opportunity to redeem their shareholding in the Fund free of any charges or deductions for at least 30 working days from the date of such notification.
This document is for information purposes only and is not an offer to sell or an invitation to buy shares in Ennismore European Smaller Companies Fund (the "Fund"). In particular, it does not constitute an offer or solicitation in any jurisdiction where it is unlawful or where the recipient may not lawfully receive any such offer or solicitation. It is the responsibility of any person in possession of this document to inform themselves of, and to observe, all applicable laws and regulations of relevant jurisdictions.
Content in this document is provided for information only and is not intended for trading purposes. Any information and opinion in this document is subject to change by the Company without prior written notice. Content in this document is not an invitation or inducement to engage in any investment activity and is not appropriate for the purposes of making a decision to carry out a transaction or trade in any of the companies mentioned in this document. Nor does it provide any form of advice amounting to investment advice or make any recommendations regarding particular financial instruments or investment products. Use of this document is no substitute for obtaining proper investment advice from an authorised investment professional.
We hereby disclose that as at the date of first issue of the report to which this is an Appendix, we held positions in the companies discussed in that report and we are thus subject to conflicts of interest in respect of these companies. The analysis presented on these companies has not been prepared in accordance with legal requirements regarding the independence of investment research and as such is considered non-independent research, as defined by COBS 12.3.2R of the FCA Handbook and as a marketing communication.
Although the Company considers the content of this document to be accurate at the time it was written, we do not guarantee the accuracy of the information presented or of our opinions. The factual information contained in this document may become inaccurate as a result of the passage of time and should therefore be read for historical information only. Future expectations are the opinion of the Company at the time of writing and are subject to change without notice, and the Company does not undertake to provide information concerning changes to its opinions and expectations in any way. All forecasts are subject to risks and uncertainties that may cause actual results to differ materially from those which were expected.
This document is not intended to provide a complete description of the investment, research and due diligence process utilized by Ennismore. Ennismore may modify its investment process and method for evaluating portfolio investments in any manner that it deems appropriate without notice to investors. The information contained herein may be approximate and is used to show the overall investment management process that Ennismore engages in.
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.

Additional Information for Recipients in Switzerland

The Fund has not been approved for distribution in or from Switzerland by the Swiss Financial Market Supervisory Authority. As a result, the Fund's shares may only be offered or distributed to qualified investors within the meaning of Swiss law. The Representative of the Fund in Switzerland is Bastions Partners Office SA with registered office at Route de Chêne 61A, 1208 Geneva, Switzerland. The Paying Agent in Switzerland is Banque Heritage, with registered office at Route de Chêne 61, 1208 Geneva, Switzerland. The place of performance and jurisdiction for Shares of the Fund distributed in or from Switzerland are at the registered office of the Representative.

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

Warning: This newsletter is issued by Ennismore Fund Management Limited, authorised and regulated by the Financial Conduct Authority. Past performance is not necessarily a guide to future performance. The value of shares can go down as well as up and is not guaranteed. Changes in rates of exchange may also cause the value of shares to fluctuate. Any reference to individual investments within this newsletter should not be taken as a recommendation to buy or sell. This newsletter should be read in conjunction with the full text and definitions section of the Prospectus dated 20 December 2018 and Supplement thereto. The Prospectus, Supplement and Key Investor Information documents are available in English at www.ennismorefunds.com