Ennismore European Smaller Companies Fund

Investor Newsletter for the month of January 2022

Issued on 4 February 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 343m as at 31st January. Total assets under management by Ennismore Fund Management were GBP 578m. 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 January 2022

	Share Class[2]				
	GBP A £	GBP A €	GBP B	EUR A	EUR B
NAV per Share[1]	**158.31**	**189.47**	**26.75**	**26.96**	**27.08**
Period	% Change				
January 2022	**1.09**	**1.59**	**1.10**	**1.51**	**1.46**
December 2021	1.54	2.89	1.53	2.63	2.65
November 2021	1.80	1.02	1.80	1.17	1.17
October 2021	-1.83	-0.04	-1.84	-0.39	-0.39
September 2021	-0.07	-0.29	-0.08	-0.27	-0.23
August 2021	0.73	0.17	0.73	0.27	0.27
2022 to date	**1.09**	**1.59**	**1.10**	**1.51**	**1.46**
Annualised return[3]	**12.84**	**11.96**	**9.33**	**9.43**	**9.48**
Since launch[3]	**1512.99**	**1245.41**	**167.50**	**169.60**	**170.80**
	Discrete 12 Month Rolling Performance - % Change				
To 31 January 2022	23.42	30.68	23.44	30.37	30.38
To 31 January 2021	-7.48	-12.08	-7.47	-12.07	-12.10
To 31 January 2020	2.93	6.80	2.90	6.09	6.25
To 31 January 2019	7.63	8.09	7.66	7.67	7.70
To 31 January 2018	6.13	4.06	6.12	4.73	4.72

[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 1.1% in January. Our long book cost 3.4% while the Fund's short exposure contributed 5.2%. Our long position in Studio Retail Group Plc cost the fund 0.8% as it disappointingly reduced profit forecasts for this financial year but also stated they need to negotiate an increase in their funding facilities to cover for a short term build up in inventory.

Top 5 Contributors and Detractors for January 2022

Contributors	MTD (bp)
Norwegian energy machinery supplier	52
Swedish software company	45
Norwegian waste management company	38
UK online retailer	38
UK online retailer	31

Detractors	MTD (bp)
Studio Retail Group Plc	-84
D4T4 Solutions Plc	-49
Rush Street Interactive Inc	-33
Novem Group SA	-26
Costain Group Plc	-24

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

Premier Foods Plc– UK Packaged Food Company (2.2% NAV)

Premier Foods is a GBP 1bn market capitalised predominantly branded food producer, generating around GBP 900m of sales mainly in the UK. Their stable of brands include strong household, and even iconic, names such as Ambrosia, Batchelors, Bisto, Mr. Kipling, Oxo and Sharwood's. Over the last two years the business has grown their brands, partly assisted by Covid-19 tailwinds, but they seem to be holding on to much of this increased revenue base as the hospitality sector reopens. In the past the business was held back by its high debt and pension levels, however we feel this is now under control and their profitable and resilient business can focus more easily on growing organically and via bolt on acquisitions. Overall, we feel this now should enable the stock market to focus on its high-quality branded portfolio and deserves a rerating.

Around 90% of Premier Food's revenue is in its branded portfolio, where they hold No. 1 national market shares in its categories – Ambient Cakes, Flavourings & Seasonings, Cooking Sauces, Quick Meals & Snacks and Ambient Desserts (in descending order of sales for the year to March 2021). Their market shares in the UK range from 16% in Cooking Sauces up to 44% in Flavouring & Seasonings, where they own the top two brands in that category (Bisto and Oxo). As of the third quarter to the end of December the branded segment is growing at over 5% per annum over the last two years and continues to take market share. The rest of the business' turnover is in non-branded, selling a range of food products - as long as it doesn't compete with its branded portfolio – to various customers including into the foodservice sector, typically to fill up its capacity.

Premier Foods, as a matter of course, continually focuses on operational efficiencies sometimes via quick payback capex projects. The commercial teams are charged each year with improving product gross margins. Clearly, given cost inflationary pressures, this ongoing work is as important as ever to hold, and indeed increase, their 15% operating margin. With respect to inflation generally we do feel that their high market shares will put them in a good position with respect to passing on price increases to their supermarket customers.

The pension deficit of Premier Foods has been a weight on the company over the past decade, partly being a hangover of the ill-advised decision to buy Rank Hovis McDougall Plc in 2006. As of the last actuarial valuation in 2019 the total deficit was GBP 214m. However, this now looks to be on a positive trend with the two pension plans getting close to being able to merge in the next couple of years leading to a reduction in catch up payments from the current GBP 46m per annum level. We prudently value the future discounted cash flows required to fund this deficit at GBP 250m. The balance sheet is also now in a better place, with respect to the second negative effect of the acquisition, with net debt adjusted for factoring as of September 2021 sitting at a much more manageable circa GBP 355m compared to GBP 500m as of March 2019. We expect the business to generate around GBP 60m free cash flow per annum now, assisted by a refinanced, lower interest rate and net debt position. Given the defensive nature of their revenues they may even now acquire the odd bolt on brand, to leverage their strong customer relationships and broaden their categories further, or alternatively start to pay out a higher dividend than their nominal 1% yield currently. Given the background of the company we're confident the current management won't make the mistakes of the past in overpaying for any future deals.

Stripping out an accounting anomaly pension surplus we calculate return on invested capital is around 13% pre-tax due to its acquisitive past, by the previous management. On the same basis return on capital employed is circa 100% pre-tax which gives a better representation of the cash generative appeal of their brands.

Now that Premier Foods is on a much more solid footing, we believe it gives them more ability to invest the money required to innovate and continue to slowly take market share. This should lead to a virtuous circle of structurally higher growth and over time increasing margins, gaining from the benefit of scale. International markets are one area of opportunity for growth, currently sitting at only 5% of sales, however current freight costs may hold this back in the short term.

Overall, we view Premier Foods rating as too low given its portfolio of strong, highly cash generative brands and their improved financial position now means it should be valued at a much fairer rating. Putting the stock on 16 times our expected March 2023 operating profit after tax and adjusting for net debt and pension liabilities gives around 40% upside over the next 14 months.

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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 January 2022

Company	Country	Sector	% of NAV
STO SE & Co KGaA	Germany	Materials	8.8
UP Global Sourcing Holdings Plc	United Kingdom	Consumer Discretionary	3.5
IG Group Holdings Plc	United Kingdom	Financials	3.4
Vossloh AG	Germany	Industrials	3.2
D4t4 Solutions Plc	United Kingdom	Information Technology	2.5
			21.3

Exposures as at 31 January 2022

Longs%	Shorts%	Gross Exposure%	Net Exposure%
67.0(66.4)	32.9(38.5)	99.9(104.8)	34.1(27.9)

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 31 January 2022

Country	Gross%	Net%
Austria	2.8	2.8
Belgium	2.4	1.7
Finland	0.5	0.1
France	3.5	2.6
Germany	21.9	15.6
Israel	0.3	-0.3
Italy	1.5	0.9
Netherlands	2.4	2.4
Norway	5.0	-2.3
Other	0.5	-0.3
Spain	0.6	0.6
Sweden	8.8	-2.8
Switzerland	5.2	0.9
United Kingdom	39.1	14.6
United States	5.2	-2.3

Market Cap	Gross%	Net%
>£2bn	14.2	-0.7
£700m - £2bn	24.6	3.6
£200m - £700m	41.4	13.3
<£200m	19.6	17.7

Positions	Jan	Dec
Long	65	65
Short	70	72
Longs Opened	4	3
Longs Closed	4	3
Shorts Opened	6	3
Shorts Closed	8	5

Sector	Gross%	Net%
Communication Services	3.8	0.7
Consumer Discretionary	29.4	1.1
Consumer Staples	4.9	-0.4
Energy	0.0	0.0
Financials	6.8	6.1
Health Care	4.9	1.8
Industrials	23.0	11.3
Information Technology	13.4	2.4
Materials	11.3	9.4
Real Estate	2.2	2.1
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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