Ennismore Global Equity Fund

Investor Newsletter for the month of March 2022

Issued on 8 April 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 USD 203m as at 31st March. Total assets under management by Ennismore Fund Management were USD 725m. The number of shares issued by our funds is capped in order to limit the level of assets under management in each strategy. We currently have capacity available in the Ennismore Global Equity Fund. If you would like to invest please contact Adam Sullivan on +44 (0) 20 7368 4224 or email subs@ennismorefunds.com.

Performance as at 31 March 2022

	Share Class					
	GBP	**GBP A**	**EUR**	**CHF**	**EUR I**	**USD I**
NAV per share[1]	**10.93**	**10.87**	**11.23**	**10.55**	**8.57**	**8.58**
Period	**% Change**					
March 22	**-3.3**	**-3.3**	**-4.3**	**-4.9**	**-3.5**	**-3.3**
February 22	-3.2	-3.2	-3.3	-4.6	-3.3	-3.2
January 22	-1.7	-1.7	-1.2	-0.5	-1.8	-1.7
2022 to date	**-7.9**	**-8.0**	**-8.6**	**-9.7**	**-8.3**	**-7.9**
Annualised return[2]	**1.6**	**1.5**	**2.1**	**1.0**	**-4.0**	**-4.6**
Since launch[2]	**9.3**	**8.7**	**12.3**	**5.5**	**-14.3**	**-14.2**
	Discrete 12 Month Rolling Performance					
To 31 March 22	**-0.2**	**-0.2**	**0.6**	**-6.9**	**-1.5**	**-0.5**
To 31 March 21	**-5.1**	**-5.1**	**-1.5**	**2.8**	**-6.5**	**-5.5**
To 31 March 20	**-13.2**	**-13.4**	**-15.6**	**-19.4**	**-14.7**	**-12.7**

[1]Source: Administrator, Net Asset Value. [2]Since inception of GBP, GBP A, EUR and CHF share classes on 03/10/16, EUR I share class on 03/07/18, USD I share class on 02/01/19. Note: All performance figures net of fees. **Past performance is not a guide to future returns.**

Top 5 Contributors and Detractors for March 2022

Contributors	MTD (bp)
TGS ASA	68
Nordic Entertainment Group AB	65
Boa Vista Servicos S.A.	61
D'Ieteren Group SA	50
Synthomer PLC	38

Detractors	MTD (bp)
Royal Mail PLC	-126
thyssenkrupp AG	-81
Flutter Entertainment PLC	-71
Schibsted ASA	-71
Roblox Corporation	-43

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

Top Five Long Holdings as at 31 March 2022

Company	Country	Sector	% of NAV
Royal Mail PLC	United Kingdom	Industrials	6.9
Buzzi Unicem SpA	Italy	Materials	6.6
Deliveroo PLC	United Kingdom	Consumer Discretionary	6.6
Synthomer PLC	United Kingdom	Materials	5.1
Schibsted ASA	Norway	Communication Services	4.8
			30.0

Exposures as at 31 March 2022

Longs%	Shorts%	Gross Exposure%	Net Exposure%
94.0(91.1)	45.0(40.2)	139.1(131.3)	49.0(50.9)

Figures in brackets refer to previous month end. All exposures are calculated on a delta adjusted basis. All calculations are subject to the impact of rounding

Exposures by Country, Market Cap & Sector as % NAV and Positions as 31 March 2022

Country	Gross%	Net%
United States	47.6	-1.3
United Kingdom	31.1	26.6
Germany	11.1	0.9
Sweden	9.5	6.2
Norway	8.2	3.9
Italy	7.0	6.2
Netherlands	5.4	3.3
Belgium	3.2	3.2
Austria	2.8	-2.8
South Korea	1.8	1.8
Australia	1.8	-1.8
Other	9.5	2.8

Market Cap	Gross%	Net%
>$10bn	35.4	11.8
$5bn - $10bn	17.3	8.5
$1bn - $5bn	67.0	33.1
<$1bn	19.4	-4.4

Positions	Mar	Feb
Long	44	45
Opened	3	4
Closed	4	5
Short	94	99
Opened	8	3
Closed	13	13

Sector	Gross%	Net%
Communication Services	27.7	21.7
Consumer Discretionary	27.5	12.0
Consumer Staples	11.8	7.4
Energy	0.3	-0.3
Financials	6.2	1.6
Health Care	3.7	-3.3
Industrials	24.7	4.1
Information Technology	16.1	-4.5
Materials	19.6	11.6
Real Estate	1.5	-1.5
Utilities	0.0	0.0
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.

The fund had a poor first quarter, down between 7.9% and 9.7% (depending on currency). While the short book performed well, adding 6.8% to NAV (an implied return of 16.4%), the return from the long book was very disappointing, costing 14.1% (an implied return of -15.5%).

Equity markets were weak overall, and, in the context of rising interest rate expectations, the weakness was skewed to higher growth businesses including some in the fund's portfolio. On the long side, advertising funded businesses Schibsted ASA and Pinterest, Inc. ("Pinterest") cost 1.9% and 1.4% respectively. Gaming platform Roblox Corporation ("Roblox"), a new position this year, also cost 1.2%. Weakness in those names was to be expected in this environment, and was more than matched by our exposure to more speculative, unprofitable businesses on the short side, which have exhibited some correlation with growth companies.

The only real positive among the long book was seismic mapping firm TGS ASA, contributing 0.9%. This was largely driven by the huge spike in energy prices after Russia invaded Ukraine, supported by the shares starting the year at a valuation not much above the book cost of the company's survey library alone. We exited the position in March.

The real surprise to us was that, after an initial rally in the first few days of the year, our more value-focused names also underperformed. None more so than Royal Mail PLC, which cost 3.2% of NAV. This was despite a positive trading update in January, confirming underlying operating profit would be in the range of £800-850m for the year to March.

With valuations even further depressed we hold only modestly lower exposure to value positions than we did at the start of the year. But we have materially increased our exposure to growing companies, particularly higher growth names - where the sell off since last September has thrown up some very interesting opportunities. It's worth noting the increase in exposure understates the shift in capital, as they have also underperformed the rest of the book on average, so would have shrunk absent incremental capital. Growing companies now account for almost 60% of NAV, with higher growth businesses a little under 40%. Most of our higher growth positions are solidly cash generative. One which is not is Deliveroo plc ("Deliveroo"). However, this is perhaps the most striking example of repricing we have found, supported by an extremely strong balance sheet that should more than fund the business to profitability. We discuss Deliveroo in more detail later, but before that we give a bit more context for how we think about the change in positioning.

How much is a bird in the bush really worth?

It is not very insightful to point out that investing is, at its core, about anticipating the future. But contemplating the nature of that process can be revealing. How far ahead should we be trying to look? When is this too difficult? How should we compare a highly certain but modest return against a potentially outstanding but very uncertain outcome?

In theory we should value businesses by discounting all of the future cash flows to shareholders over the life of the company back to their present value. Practically speaking that is an unrealistic task. Sell side analysts infamously get forecasts of next year's earnings pretty wildly and consistently wrong, let alone trying to look five or twenty years into the future. We don't claim to do better. And even aside from the financial forecasts, what decides the discount rate we use to estimate the present value?

Given the obvious impossibility of making precise financial projections decades into the future, we take shortcuts. For instance, a typical valuation process for most investors might involve trying to estimate the financials for a company for say 2-5 years into the future, and then applying a multiple to the earnings or cash flows that the business is expected to generate at that point. This isn't because we are lazy! It's about trying to make the right trade-off between being roughly right and precisely wrong.

However, the nature of those shortcuts that the marginal investor makes shifts over time, reflecting investors' level of confidence or aggressiveness in aggregate. The two main dimensions along which those shifts happen are how far into the uncertain future investors are willing to look, and what discount rate they will accept to convert those future expectations back to present value today. Even a company trading at 50 times current earnings looks cheap if your model projects rapid growth for long enough. Modelling 25% compounded profit growth for ten years, assuming a long-term terminal multiple of 15 times earnings (roughly the long-term average for the market as a whole), and then discounting back at 8% results in upside to fair value of 30%. Using all the same assumptions but only projecting six years out suggests fair value is 30% below the current price.

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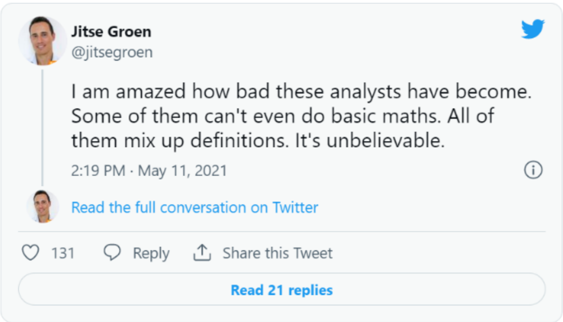
We obviously can't peer into the financial models that other investors are using to reach their own valuations of a company. But we have certainly noticed some pretty dramatic shifts since September last year. Take Etsy, Inc. ("Etsy") for example. Its share price fell by over two thirds from a peak in the last quarter of 2021 to its trough in February. Based on consensus estimates, expectations of Etsy's cash generation over the next couple of years have barely changed during that time. And there's been no obvious shift in the underlying competitive environment either. So we need to look elsewhere to explain such a large share price move.

Uncertainty has increased in the last few months: on top of the increasingly clear exit from the era of COVID restrictions, which is seeing spending shift back from goods towards services and from online to offline, accelerating inflation is clearly crimping consumer discretionary incomes. These changes are undoubtedly persuading investors to weigh near term earnings more heavily relative to potential earnings power five to ten years out than they were six months ago. Interest rates have also increased, helping to drive up the discount rates investors use to value Etsy's more distant earnings stream. From our perspective, the fair value of Etsy is not much different than it was four or five months ago, and with a run-rate free cash flow yield of well over 5% on the core Etsy marketplace, we find the valuation attractive at the current price. So, having sold out of our position in Q4, we bought it back yet again in Q1.

As discussed above, the major shift in the portfolio in Q1 is a significant addition to our exposure to higher growth companies – both existing and new positions – the largest additions being Deliveroo, Roblox, National Vision Holdings Inc, Pinterest, and Etsy. Deliveroo was the largest single capital deployment of the quarter.

A man with a hammer

In May last year Jitse Groen, CEO of Just Eat Takeaway.com NV ("Just Eat"), went off on a Twitter rant against analysts. It started like this:



This was sandwiched between questioning the success and motives of the food delivery business of Uber Technologies, Inc. ("Uber"). The underlying reason Groen has been so reactive seems to be Just Eat's rapid loss of market share, particularly in the UK. And, ominously, fundamental mistakes in the way his company gathers data that is crucial to running the business. It contributed to us exiting our long position in early 2021. More recently it helped inform our decision to make a new investment in one of its competitors.

Having responded on Twitter, Uber was forced (we assume) to issue a regulatory filing in late 2020 which disclosed for the first and only time the volume of its food delivery business in the UK:

Item 2.02 Results of Operations and Financial Condition.

Uber Technologies, Inc.'s (the "Company's") Delivery business recorded approximately 32 million Uber Eats delivery trips in the UK in the three months ended September 30, 2020, compared to approximately 12.5 million trips in the three months ended September 30, 2019.

The statement is as brief as possible but contains a wealth of valuable information. First off it shows just how wrong Just Eat's estimation of its position in the UK market was at the time. In a November 2020 presentation, based mostly on credit card data, it included a presentation slide showing that it had 17 million orders in October that year, and pegging Uber at 9 million and the third player, Deliveroo, at 7 million:

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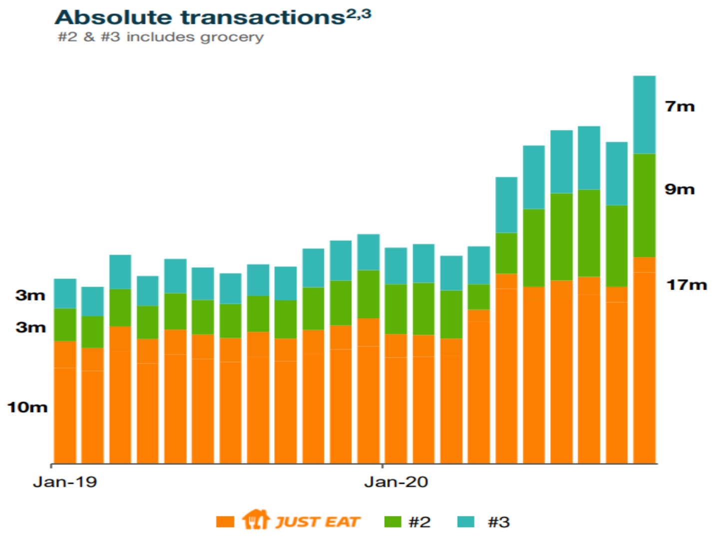

Taking these numbers as the base rate, a pixel count of the chart shows Just Eat management was estimating Uber made about 21 million deliveries in Q3 20. Uber's SEC filing states the number was half as high again! Just Eat's data didn't look any better once Deliveroo started reporting quarterly numbers, following its March 2021 IPO. While Just Eat had it at something like 16 million deliveries for Q3 20 it actually reported 23 million. Again that's almost 50% higher than what Just Eat has in its chart, with only a small part of the difference explained by the fact that Deliveroo data includes Ireland.

We guess (hope) it is safe to assume that Just Eat got its own transaction volumes right. But the overall message management was hearing was clearly wrong. Instead of the 55% market share it was reporting, by Q3 20 it was in fact down to 45%. At a time when very significant investment was being made in defending share – Just Eat's UK profitability went from a profit of over €200m in 2019 to a loss of over €100m in 2021 – this may well have led to some very big and expensive mistakes. It surely led to management underestimating the viability of the logistics model in key markets, allowing some competitors to build much stronger businesses than they might have otherwise.

Uber hasn’t reported this level of data granularity on its position in any of its European markets again. We don't think we need them to because having data for a couple of quarters allows us to confirm how accurate proxy data is. App usage for Q3 20 implies UK market shares of 43%, 35% and 22% for Just Eat, Uber and Deliveroo. The actual numbers based on order volumes were 46%, 32% and 23%. Not a perfect match but very close. And the proxy has worked well for the two companies that we do get reported numbers for every quarter. So we seem to have a data source that allows us to track market share pretty accurately, even though one player doesn't disclose much.

If the Q3 20 numbers suggest Just Eat had bigger problems than it realised, rolling the volume data forward to today implies it is Uber that should be worrying. We estimate its market share peaked at the start of 2021 and then started declining. Just Eat has seen its share stabilise in recent quarters. The big winner has been Deliveroo. App usage implies it has continued to grow the fastest, reaching something like a 27% share of orders in the UK currently.

We know this underestimates Deliveroo's success because it has a higher average order value than its competitors. For Q4 21 this was £23.40 in the UK and Ireland combined. For Just Eat the comparable number was a little under £20. Unfortunately, we don't have this data point for Uber but there are good reasons for thinking it is low. Uber's strategy for gaining market share was to build volume quickly by delivering for quick service restaurants ("QSRs"), and McDonald's Corporation ("McDs") in particular. Some estimates have the Golden Arches alone accounting for two thirds of its UK volume in the early years. That will be a lot lower now but we believe it may still be over 30% of its volume. Overall, the skew to low priced restaurants is still significant. We think it’s unlikely Uber does better than Just Eat's average order value. On that basis it looks like, by value, the UK market for quick food delivery is now split almost evenly between the three players.

A market with three roughly equal sized players can be very profitable – we might refer you back to our write up on cement in our last letter. But that depends on many factors, one of which is how mature the market is. When there is still a lot of growth to come there is a risk that the temptation to landgrab will outweigh being financially rational. So it definitely

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matters that, even in a relatively well established market like the UK, the proportion of takeaways that are ordered online and delivered is still quite low. And that addressable market is now supplemented by deliveries of small grocery orders too. We anticipate the size of the overall market will probably increase at a compound rate in the mid-teens over the next 5 years. There is a lot to be tempted by.

This is where it is important to remember that, even within one country, we are not actually looking at one market. It is split in two. To see this more clearly we need to go back in time a little. 10 years ago food delivery businesses like Deliveroo and Uber didn't exist. There were only marketplace websites like Just Eat (which, in the UK, competed with Hungry House). None of these were listed but we remember looking at them at time and thinking that they looked like great companies. They reminded us a lot of the classified advertising websites that we had invested in (like Schibsted ASA, which we still own today). The model was to operate a central platform where consumers could order in one place from as many restaurants as possible. A natural monopoly. The marketplace took a few percent of the value of each order as payment and passed it on. That was basically it. The cost base had a large fixed element so scale proved extremely profitable – when Just Eat had its IPO in 2014 its reported UK margin was about 40%, and this had increased to over 50% by 2017 before competition began to bite.

The limitation of the marketplace model is that it can only serve a restaurant that already does its own delivery. A lot don't. Enter Deliveroo in 2013, which began at the opposite end of the scale by providing both the order platform and access to couriers to fulfil it, starting with restaurants in central London. Here was a market that currently had no supplier and that was providing almost completely incremental demand to the restaurants, which previously couldn't fulfil delivery orders. This grew the overall takeaway market and explains why restaurants are prepared to give up about a quarter of the value of an order to the delivery firms. On the face of it this looks like it makes these orders very low margin, but the key is they are incremental and that they avoid a lot of the cost of serving the same order in house. No waiting staff or cleaning front of house, marginal rent etc. What the consumer sees is (mostly) the same price as they pay eating in, but we think the economic reality is a restaurant sells for 75% of its list price and uses the rest to pay for courier delivery. With an average order size over £20, and an additional revenue stream from a small fee charged direct to consumer, the numbers add up. Revenue per order in the UK is about £6.50. A rider can make a bit more than two deliveries per hour and gets paid about £10 per hour on average. Deliveroo makes a gross profit per order in the UK of over £2, and over £2.50 in London, which is comparable to the marketplace model.

This level of profitability surprised us. In our June 2020 letter we estimated it was making only half that. That was partly because, pre-IPO, we could only get limited disclosure from aggregated numbers which include less profitable markets outside the UK. But we also over-estimated the cost per order. We said at the time we couldn't see how Deliveroo could get enough scale to make a profit. We now think that was wrong, because we have much better information on the unit economics of its UK business.

You now have two quite different business models serving different ends of the takeaway delivery market. Both seem viable, just not everywhere. They overlap in the middle but at each end they are really quite separate. Even though all three players offer their platform as a marketplace Just Eat is still totally dominant at this end. We don't see that changing, but the proportion of takeaways that are fulfilled this way will continue to decline. This shift has mostly been driven by the logistics model expanding supply but at the margin it also gives a competitive alternative to restaurants that previously employed their own delivery drivers. At the other end of the market Deliveroo is in many places almost as dominant - just count the number of couriers you see from each brand in a city centre like London.

The key question for us is how defensible is this market position? The most obvious way to protect it would be to sign up restaurants on exclusive supply deals. While there is some of that, and it helps in the short run, in the end it isn't that sustainable. On renewal it's more important for the platform to keep restaurant choice than it is to retain exclusivity. That's even more true when it comes to couriers. So if a logistics player is going to keep out the competition it is mostly going to do it by consumers choosing not to switch. Natural inertia is helpful here but Deliveroo has something better too. Nearly half its UK customers now have a monthly subscription instead of paying a fixed fee per order (partnering with its shareholder Amazon.com, Inc. to offer this as part of its Prime service was a big accelerator of adoption last year). These consumer fees are a relatively small piece of the overall economics, but they are the part that the customer sees. This means a subscriber is much more expensive for a competitor to tempt away with discounting. And they are better customers too, buying more frequently and spending more when they do (Deliveroo's most popular subscription package has a £25

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minimum order value). That means the unit economics can still be better for Deliveroo despite lower average consumer fees per order. It also implies that a clear majority of its UK revenue now comes from these customers.

If we are right, what you don't want is to be stuck in the middle, without leadership of any niches, offering delivery on low value orders in areas with moderate population density. And that seems to be exactly where Uber sits in the UK (although not in some other countries). It's not only that QSR orders are low value, the restaurant chains have more bargaining power too. They can get a lower take rate which makes the delivery economics even tougher. They hold all the chips (literally). While the McDs deal with Uber was initially exclusive it isn't any more. Uber's food delivery business in the UK could well now be shrinking as a result. We don't think it can be profitable either way. In the long run it may have to do something drastic – either cut its losses and exit or try and buy Deliveroo (but we doubt that would get competition authority approval). For now it seems stuck, unwilling to admit that it can't succeed in one of its big food delivery markets. However, there is recent precedent for Uber to exit a large market after it pulled out of Brazil earlier this year. Other than sunk costs (losses) these businesses are capital light, so exiting can be relatively painless if the contribution before central costs (the platform) is negative.

The Deliveroo IPO a year ago was priced at 390 pence. The shares today trade for 113p, a drop of more than 70%, valuing the whole company at around £2bn – and making it one of the least successful major London listings ever. That said, its Europe-listed peers Just Eat and Delivery Hero SE haven't performed much better (both are down about 60% over the year). But only looking at equity masks an important difference. Those competitors are now levered, thanks to convertible debt issues made when high growth stocks could do no wrong, so the decline in enterprise value (EV) over the period is lower. But for Deliveroo, with well over a billion pounds in net cash, EV is down close to 90%! The market isn't just saying it is less confident in future earnings growth, it's implying the business doesn't have much chance of surviving. At the same time, US peer DoorDash, Inc. is acquiring the much smaller Scandinavian food delivery business Wolt Enterprises OY for €7bn. Someone is getting this wrong.

We've already outlined why we think Deliveroo's business is doing much better than the market is giving it credit for. But it still loses money overall. If that doesn't change then it will be us who are proved wrong. In its 2021 results a few weeks ago Deliveroo management gave, for the first time, a fairly detailed bridge to what they expect mature profitability to look like and on when they expect to achieve it – breakeven by early 2024 and a 4%+ operating margin on gross transaction volume (before depreciation and amortisation) in 2026. In general this is a low capex business – Deliveroo doesn't own the courier assets but it is starting to provide infrastructure to restaurants in limited way, dark kitchens where restaurants can lease space and operate a delivery-only model. We don't know, the company doesn't know, how important that will get over time but even assuming pretty significant penetration that guidance is implying something like a 3% operating margin, which would be close to 10% on a reported basis (reported revenue being a little less than 30% of what consumers actually spend). With rapid growth continuing over the next 5 years that could mean Deliveroo operating profit is as high as £500m in 2026. As a reminder, the EV right now is less than twice that, so maybe we should be categorising it as a value stock!

We don't have as much visibility as management on all the levers to get the business to a 3% margin (they have been quite explicit about where in the profit and loss the benefits come, we just don't get to see all the inputs that get them there), but the obvious ones that we already expected are scaling fixed costs (the platform) and reducing marketing intensity (as the land grab phase ends). We are confident these benefits will come through but also recognise that the unit economics will vary significantly between markets. We have talked mostly about the UK so far because it is by far Deliveroo's most important region, but about half its orders come in other countries. Its unit economics are currently worse overall outside the home market. Partly because these are mostly less mature food delivery markets, partly because its competitive position is less strong. It is likely that in some countries Deliveroo won't get to the scale and premium positioning it needs (they exited Spain last year, for example) and that will dampen the fixed cost leverage coming from growth elsewhere. For what it's worth, though, before the company gave explicit guidance, we were using a 3% margin assumption long term because it matches what similar businesses earn. That's because this is not mostly about tech, or at least no more about tech than a lot of industries are now. This is fundamentally a mass market distribution business and these tend to earn low single digit margins. That's not a bad thing. Deliveroo's capital employed is going to be modest even if the mix of capital-intensive services increases in future, so the returns at that level of profitability would be very high. As will the return on our investment if the company delivers – which is what it's supposed to do after all.

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A summary of investor rights associated with an investment in the Fund is available online in English at www.ennismorefunds.com or it may be received upon request via email by contacting clients@ennismorefunds.com.

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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.

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.

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