Ennismore European Smaller Companies Fund

Investor Newsletter for the month of April 2022

Issued on 10 May 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 29th April. Total assets under management by Ennismore Fund Management were GBP 557m. The fund continues to limit capacity by capping the maximum number of units in issue, there is currently a small amount of capacity available due to the natural rate of investor turnover. 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 April 2022

	Share Class[2]				
	GBP A £	GBP A €	GBP B	EUR A	EUR B
NAV per Share[1]	**156.75**	**186.54**	**26.49**	**26.57**	**26.70**
Period	% Change				
April 22	**1.4**	**2.0**	**1.4**	**2.0**	**2.0**
March 22	0.2	-0.8	0.2	-0.8	-0.8
February 22	-2.6	-2.7	-2.5	-2.6	-2.6
January 22	1.1	1.6	1.1	1.5	1.5
December 21	1.5	2.9	1.5	2.6	2.7
November 21	1.8	1.0	1.8	1.2	1.2
2022 to date	**0.1**	**0.0**	**0.1**	**0.0**	**0.0**
Annualised return[3]	**12.7**	**11.8**	**9.0**	**9.1**	**9.1**
Since launch[3]	**1497.1**	**1224.6**	**164.9**	**165.7**	**167.0**
	Discrete 12 Month Rolling Performance - % Change				
To 30 April 22	9.8	13.6	9.8	13.3	13.3
To 30 April 21	13.3	13.1	13.3	13.3	13.3
To 30 April 20	-8.2	-9.2	-8.3	-9.5	-9.4
To 30 April 19	9.9	12.1	9.9	11.4	11.4
To 30 April 18	4.3	0.1	4.3	1.0	1.1

[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 1.4% in April. Our long book cost 0.9% while the Fund's short exposure contributed 2.7%.

Top 5 Contributors and Detractors for April 2022

Contributors	MTD (bp)
US food manufacturer	41
UP Global Sourcing Holdings Plc	39
US media company	37
Norwegian energy machinery supplier	24
Sanderson Design Group Plc	24

Detractors	MTD (bp)
Novem Group	-34
STO SE & Co KGaA	-31
German renewable energy equipment company	-19
Secure Trust Bank Plc	-17
Vertu Motors Plc	-15

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

Atea ASA– Norwegian IT infrastructure company (0.4% NAV)

Atea is a NOK 12.3bn market capitalised Norwegian IT infrastructure solutions company that provides third-party hardware and software developed by international technology companies to the public and private sectors across the Nordics and Baltics. The company also assists its customers with services including lifecycle management of IT assets, consulting and managed services. We consider Atea a defensive, market-leading business with an impressive long-term track record of organic growth and free cash flow generation in a structural growth industry. The customer feedback that we gathered highlighted the appeal of the company's broad range and availability of solutions as well as the delivery speed. Also, customers highlighted that Atea does not compete on price due to their expertise on the services side and the strong relationships with suppliers on the hardware side. With the share price down 31% since the start of the year, we believe that the current market valuation fails to reflect both the fundamental attractiveness of the business and the expected medium-term reversal of the negative impacts from both Covid-19 and the war in Ukraine.

Atea has a material scale benefit compared to its competitors. With a revenue of NOK 41bn (2021), the company is the number 3 in Europe. More importantly, they are the clear market leader in the Nordics with a market share of circa 20%. Not only has the Nordic share grown over time, but it is also more than three times the size of the region's number 2. Size matters in the IT infrastructure solutions industry for a variety of reasons. On the sourcing end, larger buying volumes lead to superior procurement conditions for Atea, and, in some cases, it can buy directly from its technology suppliers including Microsoft, Cisco, HP, and others. In addition, the large suppliers have been consolidating their vendor base at the cost of Atea's smaller competitors. There has been a similar dynamic on the customer side as clients look for a one-stop IT solutions provider instead of relying on multiple smaller, niche providers. This is reflected in Atea's more than 90% client retention rate. The decentralised structure with close proximity to customers enables the company to operate at the client's premises and react promptly in the case of urgent requests. Another advantage resulting from its superior scale is that many of the customer contracts, especially in the less-cyclical public sector which accounts for 60% of sales, are framework agreements in which the customer selects an IT partner for a 3–5-year term. Many competitors are not selected to be part of these larger contracts given their small size and limited history.

The continuous digitalization of companies has been driving a constant replacement demand for hardware, software and IT services. We do not expect the structural growth trend to change as the Nordic IT solutions end-market has historically outgrown the Nordic GDP. Furthermore, the defensiveness of Atea's business model is reflected in its growth track record: in the past 15 years, the average organic revenue growth in constant currency was circa 5% and there has only been one year with a revenue decline (3% during the Great Financial Crisis in 2009). Clearly, Covid-19 has been a challenge for the services segment, which accounted for 18% revenue in 2021, and reports the highest gross margin across the Group (65%). We expect a recovery as the capacity utilisation during 2020 and 2021 was impacted by the pandemic and associated lockdowns. While we acknowledge the severe supply chain constraints on the hardware side (50% of 2021 revenue) that have been elevated due to the war in Ukraine, especially data centres and networking equipment, we expect the challenges to ease in the medium-term and reduce the current record order backlog of more than NOK 6bn. In addition, we see the Danish segment (23% of 2021 revenue) as another margin-enhancing opportunity. The business has been turned around and led back to profitability in 2021 under the new country management team.

Atea's free cash flow generation benefits from limited investment needs and strong working capital dynamics. Returns have been equally strong with an average post-tax 29% on invested capital including goodwill in the past 2 fiscal years. Shareholders have also benefited from buybacks (the third programme within the past year concluded in March) and dividend payments, and we expect both to continue as Atea can rely on its robust balance sheet with a net debt, excluding leases, of circa NOK 120m, equivalent to a 0.1x leverage ratio.

We note that the Chairman and largest shareholder, 79 years of age, keeps buying shares and now, including close associates, owns circa 28% of the capital. We could see Atea being an attractive potential takeover target, both for a strategic player in the consolidating European market and for private equity funds, with whom the company and largest shareholder were in past discussions.

Overall, we consider the company undervalued given its resilient growth, its growing market leadership, and recovery potential. Based on the upside we expect from the recovering hardware and services segments and the associated margin-enhancing revenue mix shift, we value the stock at 16 times enterprise value to operating profits after tax, which implies an upside of circa 41% to the current share price to the end of 2023.

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Top Five Long Holdings as at 29 April 2022

Company	Country	Sector	% of NAV
STO SE & Co KGaA	Germany	Materials	8.0
IG Group Holdings Plc	United Kingdom	Financials	3.3
UP Global Sourcing Holdings Plc	United Kingdom	Consumer Discretionary	3.0
Vossloh AG	Germany	Industrials	2.8
D4t4 Solutions Plc	United Kingdom	Information Technology	2.7
			19.8

Exposures as at 29 April 2022

Longs%	Shorts%	Gross Exposure%	Net Exposure%
75.3(75.5)	37.9(40.5)	113.1(116.0)	37.4(35.0)

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 29 April 2022

Country	Gross%	Net%
Austria	3.5	2.8
Belgium	2.5	2.5
Finland	1.3	-1.1
France	4.2	3.3
Germany	24.7	17.5
Italy	2.2	1.4
Netherlands	2.5	2.1
Norway	5.0	-1.8
Other	1.6	-0.5
Poland	0.7	0.7
Spain	1.4	1.1
Sweden	9.6	-3.0
Switzerland	7.5	0.5
United Kingdom	40.5	14.6
United States	5.9	-2.7

Market Cap	Gross%	Net%
>£2bn	17.2	3.2
£700m - £2bn	36.9	1.0
£200m - £700m	38.9	16.2
<£200m	20.1	17.0

Positions	Apr	Mar
Long	79	77
Short	88	88
Longs Opened	3	12
Longs Closed	1	3
Shorts Opened	5	20
Shorts Closed	5	7

Sector	Gross%	Net%
Communication Services	3.5	0.8
Consumer Discretionary	32.8	6.5
Consumer Staples	8.3	-2.9
Energy	0.0	0.0
Financials	7.3	6.8
Health Care	4.6	1.6
Industrials	25.3	9.3
Information Technology	16.6	2.2
Materials	12.4	10.8
Real Estate	2.3	2.3
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.

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