Ennismore European Smaller Companies Fund

Investor Newsletter for the month of June 2022

Issued on 6 July 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 339m as at 30th June. Total assets under management by Ennismore Fund Management were GBP 540m. 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 30 June 2022

	Share Class[2]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share[1]	**156.47**	**181.76**	**26.44**	**25.89**	**26.01**
Period	% Change				
June 22	**0.7**	**-0.6**	**0.7**	**-0.5**	**-0.5**
May 22	-0.9	-2.0	-0.9	-2.0	-2.1
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
2022 to date	**-0.1**	**-2.5**	**-0.1**	**-2.5**	**-2.5**
Annualised return[3]	**12.5**	**11.5**	**8.9**	**8.7**	**8.7**
Since launch[3]	**1494.2**	**1190.7**	**164.4**	**158.9**	**160.1**
	Discrete 12 Month Rolling Performance - % Change				
To 30 June 22	4.9	4.6	4.9	4.2	4.2
To 30 June 21	15.7	22.5	15.6	22.8	22.8
To 30 June 20	-7.5	-9.0	-7.5	-9.8	-9.8
To 30 June 19	8.3	7.0	8.3	7.1	7.2
To 30 June 18	5.7	4.9	5.6	5.0	5.0

[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 0.7% in June. Our long book cost 5.6% while the Fund's short exposure contributed 6.5%.

Top 5 Contributors and Detractors for June 2022

Contributors	MTD (bp)
UK online retailer	59
Swiss online retailer	54
Norwegian energy machinery supplier	47
UK online retailer	44
UK renewable energy manufacturer	42

Detractors	MTD (bp)
STO SE & Co KGaA	-94
Dr. Martens Plc	-37
D4T4 Solutions Plc	-33
US education company	-30
Costain Group Plc	-27

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

DEFAMA Deutsche Fachmarkt AG – German real estate company (0.5% NAV)

DEFAMA invests in retail assets in rural areas across Germany. Since we last wrote on it in December 2017, the company's operations and performance have developed nicely. Given the changed interest rate environment along with a pullback in the share price, we think it is a good time to provide an update. The strategy and set up of the company remain the same, as it continues to prosper in its niche activity of acquiring and managing high yielding retail parks in smaller cities. Given its hands on approach and focus, it continues to find good quality assets in the right locations. Even with increased financing costs, Defama still has a viable business model since high yielding assets provide for good compensation which is also evident in an above average return on capital. Furthermore, higher inflation is starting to be a tailwind for DEFAMA's net rental income as nearly 90% of all rents are indexed. A recent capital increase, in which we participated, provided additional cash of around EUR 10m which will help to further accelerate its growth. As the company continues to be managed very efficiently, the funds from operations (FFO) will benefit strongly and we expect it to grow to an annualised EUR 12m by end of 2023. Assuming an FFO yield of 7.5%, which we find fair given the sustainable growth outlook, we believe the shares have an upside of more than 30% over the next 18 months.

Since its foundation in 2014 DEFAMA has had robust growth. Back in December 2017 the company had a market capitalisation of EUR 38m and their real estate portfolio consisted of 22 properties generating an annual net rental income of around EUR 6.3m which resulted in an FFO of EUR 3.2m. As of today, the portfolio consists of 58 properties generating EUR 19m net rental income which translates into an annualized FFO of EUR 9.5m, and the market capitalisation stands at EUR 115m. Though part of this growth was triggered by a capital increase in 2019, the FFO per share still grew from EUR 0.73 in 2017 to 1.60 in 2021, with the share price increasing in tandem. We are attracted by the fact that while growing strongly, the company remains true to its core values. This is particularly evident with regards to their cost-consciousness; they still have not moved into new fancy offices in Berlin, although the founder and CEO, Matthias Schrade, has indicated that he might need to move from his basement as it is getting space constrained. Other than that, the strategy remains the same with its focus on well-established retail parks in smaller cities valued between EUR 1 to 5m, which ideally have no competition in close proximity, have at least two strong anchor tenants, low vacancies, and limited investment needs. Even though asset prices have squeezed up, management has been disciplined throughout and we expect prices to revert providing even better opportunities to employ the cash from the capital increase.

We think it is worth highlighting the fact that all other metrics also remain the same. Whilst the weighted average lease term improved from 3.9 years to 4.7 years, the vacancy level remains low at around 5%, and debt continues to be fixed and long term with an average duration of 6.9 years and an average interest rate of 2.07%, down from 2.45%. We like Defama's financing structure through annuity loans as it provides a tailwind to its net asset value and has no refinancing risk. The current loan to value of 59% is acceptable considering the very conservative financing, and we expect it to remain around these levels given attractive investment opportunities. As DEFAMA reports under German Generally Accepted Accounting Principles (GAAP), assets are accounted at cost and therefore there is no impairment risk to its net asset value, which we expect to grow strongly from its recently stated EUR 98.6m.

Considering the changing interest rate environment, we are still confident that DEFAMA will continue to be successful with its strategy, while also seeing more attractive investment opportunities and increasing rents through indexation to partly compensate for higher financing costs. Therefore, we think that the company will be on a similar growth track for the next four years as it has for the previous four years. Although the current dividend yield of 2.1% is rather moderate, it will continue to grow, and we consider it adequate given the company's outlook. We believe the recent insider buying at current levels lends further support to the shares, and management is well aligned as they continue to hold around 28% of the share capital. With upside of 30% over the next 18 months and more to come we would like to repeat what we have said in 2017: given the significant opportunity for DEFAMA to grow, we are very happy to be investors for the long term.

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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 30 June 2022

Company	Country	Sector	% of NAV
STO SE & Co KGaA	Germany	Materials	5.7
Dr. Martens Plc	United Kingdom	Consumer Discretionary	3.2
Mobilezone Holding AG	Switzerland	Consumer Discretionary	2.9
IG Group Holdings Plc	United Kingdom	Financials	2.8
EVS Broadcast Equipment SA	Belgium	Information Technology	2.6
			17.2

Exposures as at 30 June 2022

Longs%	Shorts%	Gross Exposure%	Net Exposure%
77.3(74.1)	36.7(41.6)	114.0(115.8)	40.5(32.5)

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 June 2022

Country	Gross%	Net%
Austria	2.7	1.8
Belgium	2.6	2.6
Finland	1.5	-0.7
France	3.7	3.2
Germany	24.2	15.4
Italy	3.3	2.6
Netherlands	2.9	1.9
Norway	4.5	-1.4
Other	1.5	-0.1
Poland	0.7	0.7
Spain	1.4	1.2
Sweden	10.1	-4.0
Switzerland	9.1	1.2
United Kingdom	40.4	18.8
United States	5.4	-2.6

Market Cap	Gross%	Net%
>£2bn	18.7	7.5
£700m - £2bn	36.4	2.2
£200m - £700m	41.2	16.1
<£200m	17.7	14.8

Positions	Jun	May
Long	84	79
Short	93	90
Longs Opened	8	1
Longs Closed	3	1
Shorts Opened	9	6
Shorts Closed	6	4

Sector	Gross%	Net%
Communication Services	3.2	1.0
Consumer Discretionary	36.1	11.3
Consumer Staples	6.9	-1.6
Energy	0.1	-0.1
Financials	7.8	7.5
Health Care	4.4	1.4
Industrials	23.5	8.3
Information Technology	18.7	1.8
Materials	10.7	8.2
Real Estate	2.7	2.7
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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