Ennismore Global Equity Fund

Investor Newsletter for the month of June 2022

Issued on 12 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 USD 171m as at 30 June 2022. Total assets under management by Ennismore Fund Management were USD 656m. 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.

Top Five Long Holdings as at 30 June 2022

Company	Country	Sector	% of NAV
Royal Mail PLC	United Kingdom	Industrials	7.1
Buzzi Unicem SpA	Italy	Materials	6.8
Deliveroo PLC	United Kingdom	Consumer Discretionary	5.8
Wise PLC	United Kingdom	Financials	5.4
Schibsted ASA	Norway	Communication Services	5.0
			30.1

Exposures as at 30 June 2022

Longs%	Shorts%	Gross Exposure%	Net Exposure%
92.7(98.2)	37.1(40.8)	129.8(139.0)	55.6(57.3)

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 at 30 June 2022

Country	Gross%	Net%
United States	51.5	3.8
United Kingdom	30.7	27.5
Germany	8.5	3.8
Italy	8.5	7.6
Sweden	7.7	5.2
Norway	7.1	5.2
Austria	2.8	-2.8
Belgium	2.8	2.8
Ireland	1.3	1.3
South Korea	1.3	1.3
Japan	1.3	1.3
Other	6.1	-1.4

Market Cap	Gross%	Net%
>$10bn	22.7	6.9
$5bn - $10bn	21.0	11.9
$1bn - $5bn	67.1	45.0
<$1bn	18.9	-8.2

Positions	Jun	May
Long	44	45
Opened	0	4
Closed	1	3
Short	85	89
Opened	3	3
Closed	7	6

Sector	Gross%	Net%
Communication Services	24.8	20.2
Consumer Discretionary	30.4	16.8
Consumer Staples	11.2	6.4
Energy	0.0	0.0
Financials	12.1	8.0
Health Care	4.2	-1.4
Industrials	17.0	1.1
Information Technology	15.3	-3.8
Materials	13.3	9.7
Real Estate	1.4	-1.4
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.

Performance as at 30 June 2022

	Share Class					
	GBP	**GBP A**	**EUR**	**CHF**	**EUR I**	**USD I**
NAV per share[1]	**10.75**	**10.69**	**10.85**	**9.96**	**8.39**	**8.44**
Period	**% Change**					
June 22	**-5.2**	**-5.2**	**-6.3**	**-8.8**	**-5.4**	**-5.1**
May 22	0.4	0.4	-0.8	-0.5	0.3	0.3
April 22	3.3	3.4	3.9	4.0	3.2	3.3
2022 to date	**-9.4**	**-9.5**	**-11.6**	**-14.7**	**-10.3**	**-9.4**
Annualised return[2]	**1.3**	**1.2**	**1.4**	**-0.1**	**-4.3**	**-4.7**
Since launch[2]	**7.5**	**6.9**	**8.5**	**-0.4**	**-16.1**	**-15.6**
	Discrete 12 Month Rolling Performance					
To 30 June 22	**-4.5**	**-4.6**	**-4.7**	**-13.1**	**-5.9**	**-4.7**
To 30 June 21	**-7.9**	**-7.9**	**-2.5**	**0.6**	**-9.2**	**-8.3**
To 30 June 20	**-9.8**	**-10.1**	**-12.1**	**-15.4**	**-11.4**	**-9.6**

[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.**

Attribution %		GBP	EUR	CHF
Long	Q2 22	-15.7	-17.1	-19.2
	Q1 22	-14.1	-14.7	-15.6
	Q4 21	-2.3	-0.4	-3.6
	Q3 21	0.5	0.4	-0.7
Short	Q2 22	14.8	14.7	14.6
	Q1 22	6.8	6.9	6.8
	Q4 21	3.3	3.4	3.2
	Q3 21	5.8	5.8	5.8

Top 5 Contributors and Detractors for June 2022

Contributors	MTD (bp)
Roblox Corporation	68
Digital Turbine Inc	62
German printer manufacturer	47
German steel manufacturer	39
UK renewable energy manufacturer	33

Detractors	MTD (bp)
thyssenkrupp AG	-217
Wise PLC	-111
Royal Mail PLC	-98
Buzzi Unicem SpA	-94
Synthomer PLC	-81

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

The fund returned between -1.6% and -5.6% in Q2, depending on currency. In a solid quarter overall, the long book performed slightly worse than the market, costing 15.7%. But this was largely offset by the short book which again performed extremely well, adding 14.8% on an average exposure of 38.3%.

The main contributor in the long book was Swedish Match, which received a bid from Philip Morris at a 39% premium. It added a little over 1% to NAV. We have owned Swedish Match in the fund for almost three years and will be sorry to see it go as we remain excited by the opportunity for the smokeless business in the US. For us, the bid price undervalues the longer-term potential of this nicotine pouch franchise. We continue to hold the position as we see skewed risk-reward: very little risk of the all-cash deal breaking given the credit profile of the bidder and without a challenge on competition grounds in the US, against some possibility of a higher bid (whether prompted by a competitor or by hold-out shareholders).

There were several significant detractors in the long book: Royal Mail, Thyssenkrupp, Deliveroo, Viaplay Group (fka Nordic Entertainment Group) and Schibsted each cost more than 1.0% of NAV. Royal Mail delivered good results but qualified its guidance for this year as partly dependent on agreeing a pay deal with UK unions. So far, no agreement has come but with the current share price seemingly attributing a negative value to the UK operations, we believe this risk is heavily over-discounted in the valuation.

Thyssenkrupp sold off in line with steelmaking peers, even though most of the value is in other parts of its business. Its joint venture partner in hydrogen electrolysis, DeNora, listed in June and the implied valuation of Thyssenkrupp's share of this JV alone accounts for about two thirds of its market cap. On a net basis the position was less costly as we also held shorts in steel makers and hydrogen businesses against it.

Most of the short book contributed positively with fifteen positions adding more than 30 basis points to NAV. More than half of these were in the US. Major winning themes were the promotional part of the book, companies exposed to US consumer spending and European industrial businesses (including, as we mentioned, some that are held as a hedge against Thyssenkrupp). The return on capital of the short book was 38.6%, implying alpha of c. 29% points in the quarter.

Themes and variations

Since market conditions changed in November last year the MSCI World index is off 9.9% (measured since the end of October). The fund's NAV is down 5.8%. Our performance has been driven by three themes:

Shorts imploded as the highly speculative environment unwound

The short book contribution since the end of October is 27.2%, with the promotional part of the book particularly profitable. The performance has been very broad based, with 32 names contributing over 30bps to NAV over that period.

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Unsurprisingly the US, where speculation was most rampant, has been the largest contributor and delivered the best relative performance of geographies with material short exposure.

With hindsight it can be tempting to think we should have maintained a significantly larger exposure to our promotional short book. But volatility remained high in this corner of the market well into this year. Things are different now, though. The taps running seemingly endless capital into even the most speculative businesses are at best only a trickle today. We are more comfortable with the volatility that comes with shorting individual stocks now than we have been for some years.

It is important, we think, to note just how clearly the last few months demonstrates that our short book losses in 2020 were prompted by speculation rather than failures of fundamental analysis. Failed risk management is no less a failure, of course, but we think it is easier to correct. Taking all the names in the short book in 2020, more than half are down by 25% or more from where they ended 2019 as of 30 June.

Recession fear prompted material sell-offs in some of our value names

We have had a significant exposure to European cyclical businesses: mainly Royal Mail, Buzzi Unicem and Thyssenkrupp. We hedged some of that exposure but the net losses from this part of the long book have still been significant. Consumers are clearly under more pressure than expected at the start of the year, with another step up in inflation caused by the war in Ukraine. That is likely to reduce earnings over the next couple of years for all three of these businesses by more than we thought a few months ago.

That said, we have still been very surprised by the way the shares have been marked down, because each came into the year on a low valuation and (unlike previous cycles) with very strong balance sheets (they all have net cash). That has allowed Royal Mail and Buzzi Unicem to each repurchase over 3.5% of their shares since November. On free cash flow yields of c.15% there will likely be more of this to come even with lower earnings.

Thyssenkrupp is more complicated – it's a conglomerate of quite different businesses – but the discount to fair value is similarly dramatic. One way we can see this is that most of its market value is accounted for by unusually high working capital in the steel distribution business, which will now be unwinding as iron ore prices slump. That alone could free up a billion Euros of cash by year-end, which compares to the market cap of EUR 3.3bn.

We have concentrated the value part of the long book into the most compelling ideas, which combined account for about a third of NAV. Royal Mail and Buzzi remain our largest positions, each over 7% of the fund. Both stocks could easily double over the next couple of years without reaching an expensive valuation. Thyssenkrupp is likely to be worth 2-3 times its current market cap as its breakup continues.

We started picking over the carcasses of the growth meltdown

We steadily increased the portfolio's exposure to higher growth companies over the last six months. Until recent weeks the rapid sell off in this part of the market seemed almost indiscriminate. We think that has left many (but certainly not all, or even most) companies trading on attractive valuations.

We suspect that a lack of diversity of positioning amongst growth-focused investors is responsible for the largely coordinated sell-off of high growth names. Basically, the herd stampeded over a cliff. And we are not saying these names don't have further to fall. All we can do is take up the offer on bargains when we find them.

We have taken advantage of two types of opportunity: first, dominant businesses with defensible business models, long growth runways, positive free cashflow and solid balance sheets trading at relatively modest valuations (Etsy, Wise, Roblox), and second, well-positioned businesses with bulletproof balance sheets in sectors ripe for consolidation (Deliveroo in particular). Almost half the long book is now invested in what we would describe as high growth businesses, where the top line is expected to compound at over 10% over the three years ending 2024. For the first time in a long time, we have a big stake in businesses that will be a much bigger part of the future and we are very happy with that.

Wise plc

The most significant new position in the quarter was Wise plc. We think it highlights the failure of the market to discriminate, so far, between dubious business models and successful companies amongst the sell-off of growth companies. And it illustrates both the value and the challenge of searching for, and profiting from, an information edge.

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Wise offers the leading customer proposition in cross border transfers for consumers and smaller businesses, particularly outside of the remittance market, and is the largest non-bank provider by volume transferred - over 20% larger than Western Union at current run-rates. Founded in 2011 by two Estonians to solve their own frustrations with slow currency transfers that were both expensive and misleadingly charged, Wise is 5-10x cheaper than typical banks, charges transparently, and processes transfers far quicker. The business has grown rapidly throughout its history and became profitable in 2017.

We studied Wise at the direct listing in 2021, but found the price less exciting than the business, and passed. Why is the business interesting? Wise delivers outstanding customer satisfaction and strong financial results. Its net promoter score is 71, and in FY21-22 it grew revenue 33% with an EBITDA margin of 22%. The company is well financed, with over £350m of corporate cash on the balance sheet, and highly cash generative.

This financial performance flows from a combination of the excellent customer proposition and the company's cost leadership, the two elements being self-reinforcing in some respects. Wise has spent a decade building the infrastructure that allows it to complete 50% of transfers within 20 seconds. This includes direct integration into national payments systems in several markets (UK, Europe, Australia, Singapore, Hungary) and a very large network of correspondent banks, both global and local, around the world, largely automated compliance processes, and regulatory licences in over 40 countries.

Given these investments, as the business grows, the unit cost of a transfer declines. Wise reinvests the benefits into lower prices for customers, which encourages customers to use the product more, driving incremental volume and, in turn, resulting in lower unit costs. The management team is consciously emulating the "scale economies shared" strategy of Costco and Amazon. Scale economies result in the largest player also being the cost leader, and this allows the leader to use price as a weapon both to drive growth in its own business and deter competition by making it tough for smaller players to both be competitive and make money. The strategy has the potential to drive a virtuous cycle that is difficult to break.

Customer priorities in this business are price, transfer speed, ease of use, reliability, and transparency. Given Wise's strategy, success on some of these dimensions supports improvements along others. For instance, the ability to deliver such a high proportion of instant transfers is enabled by the depth and breadth of Wise's infrastructure, which is only economically justifiable with a large transfer volume. Customers value a fixed price at the time of starting a transfer - this promise is essentially costless for Wise on an instant transfer but may be expensive for another operator who sends the money two days later at a potentially quite different rate.

It isn't surprising that a business offering the best service finds it relatively easy to attract and retain customers. Wise claims to acquire two thirds of its new customers via word of mouth, i.e. without paying for them. This is supported by a comparison with listed peer Remitly Global, Inc ("Remitly"): every dollar of incremental gross profit for Remitly over the last year has cost it more than a dollar in marketing spend. Meanwhile Wise has been able to generate almost £4 of incremental gross profit for every pound of marketing spend over the same period. Alternatively, in the last six months Remitly grew gross profit by 70% whilst spending about 25% of revenue on advertising. Wise grew gross profit by 40% with ad spend only 5% of revenue. Again, Wise can reinvest this cost advantage into lower prices, likely reinforcing its ability to acquire customers virally, and its superiority on marketing efficiency.

The opportunity in this market is large. Industry consultant EDC pegs the annual volume at almost £20trn, of which about £9trn is within Wise's addressable market of consumers (£2trn or so) and SMEs (£7trn). The revenue pool from this £9trn of transfer volume is estimated to be about £180bn - or an average fee of about 2% (closer to 1.5% for businesses and c. 3% for consumers). The volume is forecast to grow by mid-single digits over the next few years. It is certainly possible that as low-priced operators gain share, price elasticity will result in volume growth faster than this. Wise is 70% or more cheaper than these averages and is transferring a run-rate of roughly £100bn currently - this gives it about 4% of the consumer market and less than 0.5% of the SME market. Most transfers by both consumers and SMEs are still done with banks, who are likely to be ongoing share donors to Wise and its fintech peers - either by losing their customers, or by signing up to Wise's platform offering (or a competitor) and diverting their transfer volumes over a more scaled, modern infrastructure.

Strategically, Wise has evolved significantly over the last 3-4 years. There are three key elements: first, the development of a proposition for businesses, which is the fastest growing segment, second, the development of the Wise account which

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creates a more engaged, stickier relationship with the customer, and third, the platform offering which offers banks and other financial institutions access to Wise's infrastructure.

The business offering is particularly interesting. Visa estimates there are over 100 million businesses globally which require cross border payments capability. Wise currently has almost half a million business customers, over half of which hold a Wise account, and which use the service for settling invoices and receiving international payments with local bank account details, managing payroll, managing expenses, and so on. Many will integrate their accounts into their accounting software. These relationships are likely pretty sticky.

On the consumer side over 20% of Wise's customers have accounts. Wise argues that many customers have come to use the account as a replacement for their bank account. With almost £7bn held as deposits in Wise accounts, 3 million customers holding Wise debit cards, and the emergence of an investment proposition with the launch of Wise Assets in the UK, Wise increasingly resembles a bank. The company maintains that it has no plans to become a bank. And whilst Revolut, which has always resembled a bank, is still regulated as an electronic money institution in the UK, it is currently seeking a licence and has received licences in several European countries. So, the future on this front is unclear. One framework for thinking about Wise's development, however, is that by focusing very specifically on building a great customer proposition in currency transfers, it has been able to acquire very efficiently a highly valuable group of internationally mobile consumer and business customers to whom it can layer on additional services. Given the current valuation, which we view as compelling without accounting for such additions, this is an interesting place to be.

The platform offering remains small, but allows banks and others to offer Wise's cheap, fast and transparent currency transfer product to their consumers via API connection to Wise's infrastructure. The most prominent customer today is probably Monzo. The logic of signing up is simpler for a neobank (without a legacy high fee revenue stream to cannibalise) than for a traditional bank – but the pitch that this legacy revenue stream will eventually disappear anyway is tough to argue with. There are larger platform players, and some banks will prefer a platform provider that isn't also a potential competitor, but the opportunity is substantial.

What are the risks? First is a new round of disruptive competition. However, this will certainly be tougher in the current VC funding environment than it might have been a year or two ago. And as discussed above, we believe Wise has constructed fairly robust barriers to entry. Second, incumbent banks self-cannibalising and more aggressively reducing the pricing umbrella that presents Wise with such a compelling share gain opportunity. This is more likely. The Swift network which facilitates most interbank cross border payments is improving its systems. HSBC recently launched its new "Global Money" proposition, which aims to be more competitive with the likes of Wise on both pricing and user experience. JP Morgan is organically building a UK retail bank under its Chase brand which has a competitive foreign currency debit card charging structure. Most retail banks are predominantly single country operations, however. They are very unlikely to be able to develop an international transfer proposition that is as broad as Wise's or cost competitive with it on many currency corridors. In addition, the fee income from international payments is particularly attractive and tough to give up: high margin and with minimal implications for capital requirements. We still see this share gain opportunity as very large for the next several years. Third, perhaps cryptocurrencies could over time eliminate the need to make transfers between fiat currencies? A full discussion of this point is too large for this letter, but we are sceptical of this argument. As an example of the challenges such a shift is likely to face, Meta (fka Facebook) announced the shutdown of its digital wallet Novi last week. This is pretty damning for the prospects of a crypto-linked digital wallet to disrupt Wise from a business with the global reach of Meta that had been working on the project for over three years. Finally, there are regulatory risks: founder and CEO Kristo Kaarmann is under investigation by the FCA relating to a late personal income tax payment several years ago. We do not see this having significant implications for the business. Our diligence suggests that Wise has a reputation for being relatively conservative in its compliance stance.

An unusual feature of our investment in Wise was our confidence in the company's ability to outperform near-term revenue expectations on top of our long-term assessment of the valuation. We've talked before (in Q4 2016 and Q3 2018) about differentiated information being the most clear-cut edge we can find on investments. Obtaining genuinely differentiated information about a public company is rare. We have discussed a few examples in the past in relation to short positions. For instance, highlighting Sirius Minerals' questionable off-take customers (October 2016 and Jun 2018), and demonstrating that Bio-On's partners had next to no money to fund their supposed commitments to spend tens of millions building plants (March 2019).

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With Wise, as part of our user experience testing, we identified a proprietary method of tracking Wise's customer activity. We are not paying for this data, and of course there is no insider information, but we have constructed a decent activity database covering the last four years. We've tested it against historic volume disclosures, and the correlation is strong. This means we have unusually precise insight into Wise activity before the company discloses its financials.

Until its FY21-22 results statement covering the period to March on 28 June, Wise's previous disclosure was a trading statement in January covering the October through December quarter. So, in June we had almost six months of activity data relating to periods for which financials had not been disclosed. The data was very strong, particularly in the April through June period – indicating a material acceleration in yoy growth between late 2021 and mid-2022. This interpretation was supported by several other datapoints we were tracking, for example, app usage (particularly in recently launched Brazil) and hiring activity. We were pretty confident that Wise was seeing strong (and accelerating) growth, much better than expected by the sell-side.

In its preliminary full year results statement in June, Wise disclosed a strong revenue performance for Q4, and more significantly issued guidance for FY22-23 revenue to be almost 10% higher than consensus expectations. We were right. And yet the share price fell by 20% over three days (it has since largely recovered). As many have said, investing is hard!

Whilst we had (and have) an insight into the top line, we didn't have any special knowledge on expenses. And margins disappointed, albeit fairly modestly. The main factor was an unexpectedly large recovery in costs (such as travel) that had disappeared alongside the pandemic. Investors placed more weight on the margin disappointment than the strong revenue performance. The experience illustrates the challenge of seeking better information than other investors have, and in general in predicting short term share price performance. There is now a huge "alternative data" industry serving investors all sorts of information on consumer spending, website and app traffic, satellite monitoring of ship / road / factory activity etc. Our view is that, in general, data which is publicly available (whether it is free or chargeable) will be discounted by the market – so paying for data mostly amounts to paying to keep up with the crowd and for information which is often noisy and with a short half-life. In this case, we had high confidence proprietary information about a significant outperformance of revenue expectations, and still were unable to call the reaction to the earnings announcement. Our focus is, and will remain, on trying to identify significant mispricings and having the patience to wait for them to be corrected.

Perhaps a bigger driver is that the earnings report played into a prevailing concern about whether Wise management really cares about the interests of shareholders, given the supposed mission to make currency transfers free, eventually. We see this concern as ironic given Wise's history as compared to most tech start-ups over the last decade - it has been remarkably capital efficient compared to most peers and has issued clear guidance for EBITDA margins to stay above 20%. To revisit the Remitly comparison, Wise has a 18%-point advantage on gross margin, and a c. 20%-point advantage on sales and marketing expense (partly because Remitly is growing somewhat faster). Price comparisons on routes with relevance to Wise suggests that Wise is cheaper than Remitly for customers, albeit certainly not on all routes or at all transfer amounts. So, these cost differences appear to be mostly structural, which suggests that Wise's margin target should be manageable without diluting the barriers to entry. With consensus expectations for EBITDA margins now set at around 20% for the foreseeable future, we may be in a position where future margin disappointment is less likely, and investors can't help but focus on the very strong growth performance and the valuation.

We expect Wise to grow revenue well over 30% this financial year (to March 2023), and to generate well over £150m of free cash flow. From this base, we anticipate annualised growth of perhaps 20% into the medium term and free cash flow approaching £300m by calendar 2025. Given the current enterprise value is a little over £3bn, we find this a compelling prospect.

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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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