Ennismore European Smaller Companies Fund

Investor Newsletter for the month of July 2022

Issued on 5 August 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 328m as at 29th July. Total assets under management by Ennismore Fund Management were GBP 505m. 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 July 2022

	Share Class[2]				
	GBP A £	GBP A €	GBP B	EUR A	EUR B
NAV per Share[1]	**151.58**	**180.90**	**25.61**	**25.76**	**25.88**
Period	**% Change**				
July 22	**-3.1**	**-0.5**	**-3.1**	**-0.5**	**-0.5**
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	**-3.2**	**-3.0**	**-3.2**	**-3.0**	**-3.0**
Annualised return[3]	**12.3**	**11.5**	**8.5**	**8.6**	**8.6**
Since launch[3]	**1444.4**	**1184.6**	**156.1**	**157.6**	**158.8**
	Discrete 12 Month Rolling Performance - % Change				
To 31 July 22	-1.1	0.6	-1.2	0.3	0.3
To 31 July 21	23.6	30.6	23.6	30.8	30.8
To 31 July 20	-11.6	-10.8	-11.6	-11.9	-12.0
To 31 July 19	8.7	6.6	8.7	6.8	6.9
To 31 July 18	3.1	3.4	3.1	3.3	3.4

[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 decreased by 3.1% in July. Our long book contributed 2.1% while the Fund's short exposure cost 4.7%. Our short position in a Swedish software company cost the fund 1.3% as the company reported above consensus results for the second quarter of the year. Our position in a Norwegian energy machinery supplier cost us 0.8% after they won a large customer order.

Top 5 Contributors and Detractors for July 2022

Contributors	MTD (bp)
Costain Group Plc	53
IG Group Holdings Plc	43
UK online retailer	42
STO SE & Co KGaA	33
Secure Trust Bank Plc	32

Detractors	MTD (bp)
Swedish software company	-129
Norwegian energy machinery supplier	-82
German renewable energy equipment company	-52
Fielmann AG	-38
US software company	-37

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

Dr. Martens Plc– UK footwear company (3.6% NAV)

Dr. Martens is an iconic, GBP 2.6bn market capitalised British footwear brand formed in 1960, renowned for its classic 1460 black leather boot. It has grown at an annualised rate of 27% over the last four years to March 2022 - no mean feat in a tricky period – to become a global business with GBP 908m of turnover, a strong operating margin of circa 25%, and post-tax return on invested capital of around 120%. The larger financial resources, due to its profit growth, have allowed the company to invest and experiment with innovation, which alongside increased marketing and growth of its own store network has created a virtuous circle. We feel the brand has, only in the last couple of years, started to fulfil its global potential. The business has increased its focus on its Direct To Consumer (DTC) channels i.e. website and own stores, as well as by internalising distribution where needed, and this has given it the ability to execute on this plan fully going forward with a mid-teens sales growth rate over the medium term.

For us, the key to investing in Dr. Martens is the brand. We feel the longevity of its “trendiness” is rare alongside still being a highly distinctive brand. This gives them pricing power, confirmed in market surveys, which is obviously important in this high inflation time, as consumers can only buy Dr. Martens shoes if they want the yellow stitched sole! It is also a brand which sells well across different income, gender, and age categorisations, assisted by its long history. This is important for its resilience in the long term. Numerically the strength of the brand is well represented by the high return on invested capital – excluding right of use assets and goodwill linked to the previous change of ownership – as mentioned.

The management are targeting at least 60% DTC revenues from current levels of 49%, with plans to grow their 158 own stores (20% of sales) by a further 25-30 this year. The USA, currently around 40% of sales, is a particular area of focus with at least half of their new stores to be situated there and significant scope to grow further from their base of 40 stores. The strong culture around the Dr. Martens’ brand “empowering rebellious self-expression” is also very well suited to being reflected in an increasing own store network where Dr. Martens can hand pick store personnel. Financially, on our calculations, we see a highly satisfactory payback of around two years on new store openings including inventory requirements. The growing number of stores typically lead to a local halo effect on online traffic, which helps DTC further and gives us confidence in their plans to increase profits by a circa mid-teens growth rate over the medium term.

A key aspect of their strategy going forward is the conversion of some countries distribution networks (e.g. Italy and Germany) to being owned, which allows them to control their wholesale customer base more, ensure the brand is nurtured and encourages more across range buying as opposed to just the core Dr. Martens models. This does often mean culling the tail of a country’s wholesale customer list, however this does lead to a much higher quality base. Adding more own stores alongside this gives a much stronger platform to grow the business going forward. Italy’s second-half revenue more than doubling was a good example of this.

Innovation, as mentioned, has been an important growth driver and, in our opinion, shows increasing confidence in the ability to stretch the brand across other subsegments of the footwear sector - the success of their sandals products being 6% of revenues, from 3% the previous year is a good case in point. Innovation helps to monetise their existing customer base better, which is important for top-line growth. Overall this has led to “Originals” products, most renowned with Dr. Martens, being around half of the revenue base and the other half with a strong Dr. Martens feel e.g. a chunky sole plus often yellow stitching.

With respect to leverage we estimate an average net debt of over GBP 100m last year which is very comfortable relative to its profitability. Cash generation is expected to be held back this year due to high capex in technology and on new stores, as well as higher working capital needed to rebuild stock levels. Given the focus on growth the dividend pay-out is fairly low at 30% leading to a just over 2% forward yield.

The company came to the stock market in January 2021 at a price of 370p and although we liked the business, we thought the valuation was full. Now 18 months on we think the stock is attractively valued, trading around 30% below the listing price, with a longer track record. Last year’s revenue and operating profits grew 17% and 20% respectively. They are guiding to high teens sales growth this year which was reiterated in the recent July trading update and implies on our calculation circa 260m of operating profit adjusted for lease interest.

The Chief Executive Officer Kenny Wilson has been at Dr. Martens for four years and has a background in other consumer branded businesses including Levi Strauss. We’re happy to see his incentivisation plan very much aligned with their growth targets.

The market doesn’t seem to believe their current trading is sustainable, perhaps given its high historic growth. We beg to differ due to the fact Dr. Martens is now a global business with the wider growth opportunities that entails. Putting this highly profitable, pretty unique brand on a multiple of 16 times our operating profit forecasts of GBP 280m, after-tax leads to an upside of 40% to March 2024.

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Top Five Long Holdings as at 29 July 2022

Company	Country	Sector	% of NAV
STO SE & Co KGaA	Germany	Materials	6.3
Dr. Martens Plc	United Kingdom	Consumer Discretionary	3.6
IG Group Holdings Plc	United Kingdom	Financials	3.3
Vossloh AG	Germany	Industrials	3.0
Mobilezone Holding AG	Switzerland	Consumer Discretionary	3.0
			19.2

Exposures as at 29 July 2022

Longs%	Shorts%	Gross Exposure%	Net Exposure%
84.1(77.3)	44.4(36.7)	128.5(114.0)	39.7(40.5)

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 29 July 2022

Country	Gross%	Net%
Austria	3.2	2.2
Belgium	2.7	2.7
Finland	1.6	-0.7
France	4.2	2.7
Germany	26.6	15.4
Italy	5.0	1.5
Luxembourg	1.2	-1.2
Netherlands	3.3	1.8
Norway	5.5	-2.2
Other	2.5	0.5
Spain	1.4	1.0
Sweden	12.2	-5.6
Switzerland	9.2	1.6
United Kingdom	42.9	23.9
United States	7.0	-3.9

Market Cap	Gross%	Net%
>£2bn	28.3	0.1
£700m - £2bn	37.1	5.9
£200m - £700m	44.5	19.0
<£200m	18.6	14.7

Positions	Jul	Jun
Long	85	84
Short	95	93
Longs Opened	3	8
Longs Closed	2	3
Shorts Opened	10	9
Shorts Closed	8	6

Sector	Gross%	Net%
Communication Services	4.3	0.2
Consumer Discretionary	35.0	11.3
Consumer Staples	7.6	-1.3
Energy	0.1	-0.1
Financials	9.3	8.8
Health Care	5.1	0.6
Industrials	28.4	9.2
Information Technology	23.3	-1.0
Materials	12.3	8.9
Real Estate	3.1	3.1
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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