Ennismore European Smaller Companies Fund

Investor Newsletter for the month of September 2022

Issued on 6 October 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 327m as at 30th September. Total assets under management by Ennismore Fund Management were GBP 490m. 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 September 2022

	Share Class[2]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share[1]	152.54	173.82	25.78	24.75	24.87
	% Change				
September 22	-1.2	-2.7	-1.2	-2.7	-2.7
2022 to date	-2.6	-6.8	-2.6	-6.8	-6.8
Annualised return[3]	12.3	11.2	8.4	8.1	8.1
Since launch[3]	1454.2	1134.3	157.8	147.5	148.7

[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 1.2% in September. With European equity markets declining in September our long book cost the Fund 8.5% while the Fund's short exposure contributed 7.5%. The largest detractor in September was our position in the German building materials company, Sto SE & Co, which contributed -126bps due to a 20% sell-off, in line with peers in the German building materials sector. Cegedim SA, a French healthcare technology company, contributed -53bps as they adjusted their profit outlook for 2022, guiding that operating profit will be down 30% from last year due to continued investment in innovation and wage inflation. We believe the stock is cheap as we are confident that investments will start to pay off and revenues will catch up with inflation next year. Our largest positive contributor was our short in a Swedish software company which contributed +69bps as potential new government legislation was seen to put its business model at risk in India. Our short position in a German automotive retailer helped add 55bps after reporting 1st half results, we believe gross margin pressure in used cars in the future will make it difficult for their business to become profitable. We were pleased to see JD Sports Plc report a solid 1st half result and keeping the guidance for similar earnings to last year.

Top Five Contributors and Detractors for September 2022

Contributors	MTD (bp)
Swedish software company	69
German automotive company	55
Swiss online retailer	47
US software company	46
Norwegian energy machinery supplier	41

Detractors	MTD (bp)
STO SE & Co KGaA	-126
Cegedim SA	-53
Secure Trust Bank Plc	-44
Evs Broadcast Equipment SA	-41
Novem Group	-41

SoftwareONE Holding AG – Swiss IT services company (0.9% NAV)

SoftwareONE is a CHF 1.8bn capitalised Swiss listed provider of software and cloud-only procurement and associated services. The company has had a relatively troubled history as a public business, having failed to deliver on some key financial promises that management made at the time of IPO in 2019. The market has not taken these disappointments lightly, and this is reflected in the share price that is down circa 40% from IPO price and about 60% from its peak in March last year. We think SoftwareONE is a growing, high return and solid business and believe it has now managed to finally stabilise its financial performance. We are convinced that the current depressed share price provides a good margin of safety and offers an attractive entry point into this appealing investment opportunity.

SoftwareONE serves approximately 65k business customers across 90 countries through two divisions: Software & Cloud ("S&C", 62% net revenues in 2021) and Solutions & Services ("S&S", 38%). S&C operates in a USD 600bn market and offers its customers access to a comprehensive software and cloud portfolio, drawing on relationships with more than 7.5k vendors, including AWS, Adobe, Citrix, Oracle but also Microsoft, which alone accounts for roughly two thirds of the divisional gross profit. While we would clearly prefer less concentration, the market is relatively concentrated by nature and the company's strategic relationship with Microsoft dates back more than 30 years, with SoftwareONE being Microsoft's largest channel partner and Azure's largest partner globally. What differentiates the company from competitors is its global presence, which reduces complexity for multinational clients and allows SoftwareONE to take advantage of low-cost geographies for its three delivery centres in India, Mexico and Germany.

S&S provides end-to-end professional and managed services, including design, development, purchasing, modernisation, migration and operational support. At USD 64bn, this is a smaller addressable market compared to S&C, and before COVID it was expected to grow at high teen rates but has since accelerated to an annual growth rate of around 30%. While the company has seen no slowdown in overall growth and expects S&S to account for 50% of gross profit in the medium term, we are a bit more cautious and expect the business to go back to a pre-pandemic high teen growth rate from 2023. The key drivers behind this growth include not only migration to the cloud and related services such as managed cloud support, hybrid/multi-cloud environments and security, but also cross-selling. In fact, SoftwareONE can leverage its proprietary insights into their existing clients' IT estates and offer them the S&S services they need. We believe the opportunity could be sizeable as only 25% of the company's clients purchase from both divisions, and these customers tend to spend 9 times as much as those who only buy S&C products. Moreover, around 60% of S&S is highly recurring in nature, which together with the mission critical nature of the key Microsoft products (Azure, 365 and Dynamics), provides good resilience to revenues.

SoftwareONE went public in Autumn 2019 at CHF 18 per share, and trades today at around CHF 11.5, equivalent to a 2023 enterprise value to adjusted operating profit after tax of circa 11 times. The reason why the stock is cheap is that, since its IPO, SoftwareONE has disappointed the market by downgrading its earnings before interest, tax, depreciation and amortisation (EBITDA) margin guidance from "approaching 35%" to "above 25%". We understand this was mainly the result of the COVID-driven acceleration in growth in the S&S business, which required additional investments and came with a negative EBITDA margin as the business was scaling up. Since then, the company reported two consecutive sets of good quarterly results, improved financial disclosure, reached positive EBITDA for S&S, hired a new CFO and plans to implement a new efficiency plan.

The three founders, including the chairman, own 29% of the shares and management own another 2% of the equity, making them very much aligned. The company has a very strong balance sheet with circa CHF 200m in net cash as of end of June, including a non-strategic equity investment in Norway-listed Crayon that could be liquidated. We are convinced this not only supports the current dividend yield of around 3%, but also would allow for strategic acquisitions and potentially a sizeable buyback if shares remain this cheap. The business achieves high factoring-adjusted post-tax returns on capital of more than 20%, and we conservatively expect it to grow by a high single digit percentage in 2023, below the current mid-term guidance of growth in the "mid-teens".

While it is now key that management delivers on the current guidance and rebuilds credibility, we think the current share price is already pricing in another disappointment and we believe that the market fails to properly value this growing, profitable and high return business. Applying a 2023 fair multiple of 14 times enterprise value to adjusted operating profit after tax, we believe the shares offer an upside of around 50% to the end of 2023.

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Top Five Long Holdings as at 30 September 2022

Company	Country	Sector	% of NAV
STO SE & Co KGaA	Germany	Materials	5.4
IG Group Holdings Plc	United Kingdom	Financials	3.2
Mobilezone Holding AG	Switzerland	Consumer Discretionary	3.1
Dr Martens Plc	United Kingdom	Consumer Discretionary	3.1
EVS Broadcast Equipment SA	Belgium	Information Technology	2.9
			17.7

Exposures as at 30 September 2022

Longs%	Shorts%	Gross Exposure%	Net Exposure%
79.9(81.8)	36.7(41.2)	116.6(123.0)	43.2(40.6)

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 September 2022

Country	Gross%	Net%
Austria	3.3	2.2
Belgium	2.9	2.9
Finland	1.4	-0.7
France	4.2	2.3
Germany	26.6	15.6
Italy	5.7	1.2
Luxembourg	1.3	-1.3
Netherlands	2.8	2.0
Norway	3.7	-1.0
Other	1.8	0.5
Spain	1.1	0.7
Sweden	7.9	-0.1
Switzerland	9.8	1.2
United Kingdom	37.5	21.7
United States	6.7	-4.2

Market Cap	Gross%	Net%
>£2bn	22.7	5.6
£700m - £2bn	31.3	5.2
£200m - £700m	39.8	16.7
<£200m	22.8	15.8

Positions	Sep	Aug
Long	86	83
Short	89	92
Longs Opened	6	0
Longs Closed	3	2
Shorts Opened	7	3
Shorts Closed	10	6

Sector	Gross%	Net%
Communication Services	4.6	0.9
Consumer Discretionary	32.3	11.7
Consumer Staples	4.4	-2.2
Energy	0.0	0.0
Financials	8.4	8.1
Health Care	4.4	-1.1
Industrials	25.6	11.4
Information Technology	19.7	2.3
Materials	12.6	8.5
Real Estate	4.5	3.6
Utilities	0.0	0.0
Other	0.0	0.0

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Monthly percentage return for the GBP A shares

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2022	1.1	-2.6	0.2	1.4	-0.9	0.7	-3.1	1.8	-1.2				**-2.6**
2021	-5.2	1.7	4.5	4.7	3.4	1.0	2.8	0.7	-0.1	-1.8	1.8	1.5	**15.8**
2020	-2.4	-2.8	-5.7	-0.8	-1.6	4.0	-3.8	-2.5	0.8	-3.1	9.6	4.5	**-4.8**
2019	1.4	-0.2	1.5	0.7	2.2	-0.7	0.6	0.6	0.6	0.2	-1.4	1.2	**6.9**
2018	-2.0	-0.8	0.0	0.7	0.9	2.0	0.3	1.1	0.3	-1.0	2.3	0.2	**4.0**
2017	1.2	-0.2	0.9	1.0	2.2	-0.6	2.7	1.5	-1.2	-1.2	0.4	2.6	**9.6**
2016	2.2	2.8	0.9	0.4	-1.2	2.3	1.3	2.3	1.6	1.9	-2.7	1.9	**14.5**
2015	-0.7	-3.1	0.0	2.2	2.2	0.8	1.9	0.8	0.5	0.5	0.7	3.8	**9.7**
2014	1.1	0.5	2.9	1.5	-1.4	-2.0	0.2	1.1	-0.2	0.8	2.0	-0.2	**6.4**
2013	6.5	2.7	1.5	-0.9	1.8	-0.9	2.8	1.2	1.6	4.2	1.2	2.3	**26.6**
2012	0.5	2.8	0.0	-1.4	-1.9	1.6	-2.0	2.5	-0.1	2.9	2.6	0.7	**8.4**
2011	2.9	0.5	5.3	0.5	-0.2	4.4	-0.7	-0.2	-0.2	2.9	-4.0	-1.4	**9.8**
2010	0.9	3.0	2.0	1.0	-1.6	-0.3	2.4	-1.5	3.4	2.3	-0.4	6.0	**18.4**
2009	-3.7	-1.6	-2.1	-6.5	4.0	-2.5	0.3	4.5	7.0	-1.1	2.0	-0.9	**-1.6**
2008	-1.4	3.4	0.1	1.8	-0.5	-2.9	-0.2	1.5	-8.5	-7.6	2.1	7.5	**-5.7**
2007	-2.2	1.3	2.4	2.9	0.5	1.5	0.5	-1.5	1.4	-0.3	-0.9	3.4	**9.1**
2006	4.0	2.3	4.8	4.2	-3.9	-4.0	-0.7	-1.4	-0.8	1.4	1.0	1.7	**8.4**
2005	3.2	4.2	0.4	-2.4	2.1	4.7	6.6	3.2	3.3	-5.2	2.5	4.9	**30.4**
2004	2.8	2.7	-0.5	2.1	-1.5	4.6	-0.9	1.5	1.7	1.9	2.8	4.4	**23.5**
2003	-1.5	2.8	1.4	4.9	4.7	0.0	3.3	1.5	2.2	0.9	2.1	3.8	**29.3**
2002	1.3	2.2	3.2	1.5	2.7	-1.0	-5.3	0.6	-4.1	3.3	2.5	-0.5	**6.2**
2001	2.4	0.7	-7.8	2.2	1.4	-0.7	0.4	1.8	-4.6	0.9	2.7	2.8	**1.5**
2000	11.8	20.7	-0.3	-4.6	2.5	1.8	1.0	0.1	-2.5	-3.0	2.6	3.2	**35.7**
1999	-0.3	1.0	0.8	6.6	1.4	3.3	4.6	1.4	-1.8	2.6	8.6	13.4	**49.0**

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