Ennismore European Smaller Companies Fund

Investor Newsletter for the month of October 2022

Issued on 4 November 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 28th October. Total assets under management by Ennismore Fund Management were GBP 483m. 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 28 October 2022

	Share Class[2]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share[1]	155.90	181.63	26.35	25.87	25.99
	% Change				
October 22	2.2	4.5	2.2	4.5	4.5
2022 to date	-0.4	-2.6	-0.4	-2.6	-2.6
Annualised return[3]	12.3	11.4	8.6	8.4	8.5
Since launch[3]	1488.4	1189.7	163.5	158.7	159.9

[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 2.2% in October. The long book contributed 3.8% while the short exposure cost the fund 1.3%. Coats Group Plc rose 19% in the month adding 43bps to performance and was our top contributor. At their capital markets day they raised mid-term growth targets to 6% from 5% as well as targeting EBIT margins of c. 17% by 2024 vs the c. 12% achieved in FY21. Sanderson Design Group Plc rose 28% in the month adding 39bps to performance. The company put out interim results in early October in line with expectations which were looked at favourably by the market given the uncertain macro-economic environment. Vossloh AG rose by 16% in the month adding 39bps to performance. This was driven by third quarter results where the business slightly upgraded its full year revenue and operating margin corridor. Their positive outlook is being driven in part by lower rising cost burdens than previously expected. The shares in both glass packaging manufacturers Vidrala and Verallia performed well in October, contributing a combined 32bps, after the companies' quarterly reports showed strong pricing power that led to profitability exceeding expectations.

Top Five Contributors and Detractors for October 2022

Contributors	MTD (bp)
Coats group Plc	43
Sanderson Design Group Plc	39
Vossloh AG	39
US education company	34
Dr. Martens Plc	30

Detractors	MTD (bp)
Secure Trust Bank Plc	-28
Koninklijke BAM Groep NV	-26
UK consumer services company	-25
UK online retailer	-18
VIB Vermoegen AG	-16

Top Five Long Holdings as at 28 October 2022

Company	Country	Sector	% of NAV
STO SE & Co KGaA	Germany	Materials	5.6
Dr Martens Plc	United Kingdom	Consumer Discretionary	3.4
IG Group Holdings Plc	United Kingdom	Financials	3.3
Vossloh AG	Germany	Industrials	3.2
EVS Broadcast Equipment	Belgium	Information Technology	3.1
			18.6

Exposures as at 28 October 2022

Longs%	Shorts%	Gross Exposure%	Net Exposure%
86.9(79.9)	40.1(36.7)	127.0(116.6)	46.8(43.2)

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 28 October 2022

Country	Gross%	Net%
United Kingdom	41.5	21.3
Germany	30.3	19.6
Switzerland	9.9	1.4
Sweden	9.3	-1.3
United States	6.2	-3.6
Italy	6.1	1.4
France	4.3	2.9
Norway	3.9	-0.9
Austria	3.5	2.3
Belgium	3.1	3.1
Netherlands	2.5	1.7
Finland	1.4	-0.7
Luxembourg	1.3	-1.3
Spain	1.2	0.9
Other	2.5	-0.0

Market Cap	Gross%	Net%
>£2bn	25.4	5.6
£700m - £2bn	34.4	7.4
£200m - £700m	44.6	18.0
<£200m	22.6	15.7

Positions	Oct	Sep
Long	91	86
Short	90	89
Longs Opened	6	6
Longs Closed	1	3
Shorts Opened	5	7
Shorts Closed	4	10

Sector	Gross%	Net%
Communication Services	5.0	0.7
Consumer Discretionary	37.0	12.9
Consumer Staples	4.3	-2.3
Energy	0.0	0.0
Financials	8.5	8.3
Health Care	5.0	-1.5
Industrials	26.2	11.9
Information Technology	21.8	2.4
Materials	13.6	9.6
Real Estate	5.7	4.8
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.

Coats Group Plc – UK textile manufacturer (2.1% NAV)

Coats is a GBP 1bn market capitalised, UK listed global company producing threads, performance materials and footwear components. This high quality, niche business has strong market positions and generates good returns on capital and profitability, helped by the low cost but significance of many of its materials in the quality of the final finished good. We also see the company being a resilient operation in turbulent times assisted by taking market share via innovation alongside reaping the benefit from cost efficiency projects planned. Finally, we believe they will come through these potentially difficult economic times as a broader, more profitable entity.

Following the USD 355m acquisition of Texon and Rhenoflex earlier this year, which added USD 200m of sales in the footwear components space, the business has a proforma USD 1.7bn '21 sales base (Coats reports in USD). This breaks down into 3 end markets – Apparel (53%), Performance Materials (24%) and the rest in Footwear. Coats now also has the number 1 global market position in premium thread and structural footwear components, sitting at 25% and 23% respectively.

In the apparel market Coats mainly sells a range of threads. The need for good quality thread (e.g. doesn't break) is important in our view in terms of the perception of a product's quality while only being around 1% of the cost of the garment. This helps with pricing power, crucial in these inflationary times. The Footwear division now sells threads, like that used in apparel as well as components which gives important structure to the shoe e.g. heel, toe, and insole, into over 300 brands. In footwear it's common for brands to mandate Coat's products are used in the production of their shoes by the brand's contracted manufacturers which is obviously very helpful for repeat business as many trainer models have multi-year lives. In 2021 the footwear and apparel end markets achieved a solid 15% operating margin.

Performance Materials makes a range of materials & composites which sells into various industries and products, Personal Protection being the largest at 40% of the segment. Profitability has recently been hit by difficulty in staffing up in USA, but they

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will benefit by moving production into Mexico, which is targeted to bring margins back up to over 13% versus the 6% reported in 2021 by the end of 2024.

Overall, by 2024 Coats is looking to save USD 50m per annum from various strategic projects, such as optimising its production footprint, of which USD 15m is expected to be seen this year. Costing USD 35m, if executed well, this seems like a very healthy return. We view these projects as crucial to at least maintain their margins in inflationary and potential demand headwinds.

Coats has a very diversified customer base of 40k customers and even though we would expect the increased size of their footwear business to lead to their biggest customer becoming more important they will still have low customer concentration.

Innovation is a key focus of the business helping to support both growth and margins. An example of this is their recycled polyester threads as well as components (including some made from old compact discs!). Recycled products made up 8% of first half revenue, an increase of 40%, helping Coats to take additional market share.

We see the strategic value in the two acquisitions mentioned previously giving a fuller offering into their large footwear customer base as well as more exposure to a structurally higher growth segment. However, we need to be convinced they are particularly value accretive, having paid close to 10 times operating profits post synergies. Coats is however expecting a 16% post tax return by 2027 and a 7-year payback overall. Going into a higher interest rate environment and economic uncertainty we would have preferred for the management to focus on organic growth and reducing its financial leverage.

Over the last five years to 2022, we expect the business to have grown operating profits organically by circa 5% per annum to USD 228m with an operating margin of almost 14%. Trading in the first half of this year has been strong with sales and operating profits up 19% and 35% in constant currency respectively, with the company impressively being able to more than cover its cost inflation headwinds with price and productivity improvements. Going forward they are targeting organic revenue growth of 7-8% per annum, which we view as very achievable, as well as operating margins improving to over 20% from circa 16% prior to the recent acquisitions.

The company had a post-tax return on invested capital, prior to these acquisitions, of a respectable circa 17% although with these acquisitions we expect this to fall to around 15% next year. Although partly funded via an equity raise, the balance sheet post these acquisitions does have leverage. We believe net bank debt post these acquisitions sits at circa USD 440m, which we expect to reduce to USD 335m by the end of 2023. Overall, we're comfortable with this level of debt given the circa USD 270m operating profit we forecast next year, alongside its resilient end markets. Cashflow generation is held back by annual pension payments of USD 32m which we are hopeful, given recent moves in government bond yields, may reduce in the future. By 2024 we see cash generation moving to around USD 110m and a 9% free cash flow yield. Their cash generation does allow them to pay a reasonable dividend yield of over 3% more than 3 times covered.

The CEO Rajiv Sharma has been in place since 2017 and in that time the company has divested some non-core segments as well as making some small bolt-on acquisitions prior to this year's acquisitions but the Covid-19 pandemic has somewhat muddied the waters in terms of any judgement. Financial results have been solid so far in his tenure but the execution on the future forecast for this year's acquisitions alongside the strategic project cost savings would lead to a step up in value creation.

Overall, we view Coats as ahigh quality market leader, with exposure to resilient sectors that want innovation helping Coats to generate good, sustainable profitability while continuing to take market share. Valuing the business on a prudent 13 times 2023 post tax operating profit adjusted for minorities leads to a fair value of circa GBP 1.3bn and 30% upside to the end of 2023.

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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	2.2			**-0.4**
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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