Ennismore Global Equity Fund

Investor Newsletter for the month of November 2022

Issued on 7 December 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 112m as at 30th November. Total assets under management by Ennismore Fund Management were USD 581m. 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.

Performance as at 30 November 2022

	Share Class[2]					
	GBP	**GBP A**	**EUR**	**CHF**	**EUR I**	**USD I**
NAV per Share[1]	11.76	11.70	11.81	10.64	9.08	9.24
	% Change					
November 22	4.2	4.2	3.3	2.3	3.9	4.3
2022 to date	-0.9	-0.9	-3.8	-8.9	-2.9	-0.9
Annualised return[3]	2.7	2.6	2.7	1.0	-2.2	-2.0
Since launch[3]	17.6	17.0	18.1	6.4	-9.2	-7.6

[1]Source: Administrator, Net Asset Value.
[2]Source: Administrator, Net Asset Value, net income reinvested.
[3]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.**

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 4.2% in November. Our long book contributed 5.1% while our short exposure cost 1.0%.

The main contributors on the long side were the Fund's three largest holdings, Schibsted ASA which was up 20% and contributed 103bps, International Distribution Services Plc which was up by 18% and contributed 92bps and Buzzi Unicem SpA which was up 11% and contributed 63bps. On the short side the Fund gained 42bps from its position in a US healthcare company after a prospective drug failed to gain support from a panel of FDA advisors causing the price to fall 53% in the month. Our long position in Tucows Inc dropped by 32% and cost the Fund 60bps after Q3 results showed a sharp increase in cash outflows related to the accelerated build of their fibre networks. The remainder of the top detractors were short positions with only two names costing us more than 50bps.

We have increased our net exposure from last month but at 30.5% remain cautiously positioned.

Top Five Contributors and Detractors for November 2022

Contributors	MTD (bp)
Schibsted ASA	103
International Distributions Services Plc	92
Buzzi Unicem SpA	63
US healthcare company	42
US financial services company	41

Detractors	MTD (bp)
Tucows Inc	-60
Hong Kong software company	-58
German printer manufacturer	-50
US technology company	-32
Norwegian energy machinery supplier	-30

Top Five Long Holdings as at 30 November 2022

Company	Country	Sector	% of NAV
Schibsted ASA	Norway	Communication Services	6.1
Buzzi Unicem SpA	Italy	Materials	5.5
Intl. Distributions Services Plc (fka Royal Mail)	United Kingdom	Industrials	5.0
Admiral Group Plc	United Kingdom	Financials	4.3
Thyssenkrupp AG	Germany	Materials	4.3
			25.2

Exposures as at 30 November 2022

Longs%	Shorts%	Gross Exposure%	Net Exposure%
79.4(75.3)	48.9(47.6)	128.3(122.9)	30.5(27.7)

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 November 2022

Country	Gross%	Net%
United States	44.3	-22.5
United Kingdom	27.4	26.1
Norway	9.3	4.0
Germany	7.2	7.2
Sweden	6.5	3.7
Italy	6.2	4.8
Austria	4.2	-1.7
Japan	3.4	3.4
Belgium	3.3	3.3
Mexico	2.7	2.7
Switzerland	2.1	-0.5
South Korea	1.9	1.9
Hong Kong	1.9	-1.6
Spain	1.5	1.1
Brazil	1.2	1.2
Ireland	1.1	1.1
Australia	1.1	-1.1
Other	3.1	-2.6

Market Cap	Gross%	Net%
>$10bn	25.3	-2.1
$5bn - $10bn	19.5	4.3
$1bn - $5bn	68.0	33.4
<$1bn	15.5	-5.0

Positions	Nov	Oct
Long	47	46
Short	67	69
Longs Opened	4	2
Longs Closed	3	1
Shorts Opened	7	3
Shorts Closed	9	5

Sector	Gross%	Net%
Communication Services	21.7	14.9
Consumer Discretionary	22.6	3.8
Consumer Staples	8.5	3.0
Energy	0.0	0.0
Financials	14.0	7.3
Health Care	5.9	-4.9
Industrials	17.3	-1.1
Information Technology	19.2	0.8
Materials	14.1	9.1
Real Estate	2.7	0.0
Utilities	0.0	0.0
Other	2.4	-2.4

Geographic analysis relates to country of incorporation or listing. This may not represent the underlying economic exposure of the operating business.

Mayr-Melnhof Karton – Austrian packaging manufacturer (1.2% NAV)

It is very easy for the market to overlook a quality company when it does something boring - and there are few industries more boring than cardboard packaging. Mayr-Melnhof is the largest European producer of cartonboard and a leader in folding cartons, the primary end-product for cartonboard. The company has a strong track record of generating pre-tax returns on capital in the mid-teens, a history spanning more than a century, and is controlled by the founding family that have retained a stake of around 60% since listing in 1994. Mayr-Melnhof has a durable competitive advantage and is extremely resilient. We believe the stock is trading significantly below its fair value, especially given the long-term benefit from the structural shift towards sustainable packaging and the attractive injection of debt into the business undertaken since the arrival of CEO Peter Oswald in 2020. Reassured by strong levels of insider buying, we are pleased to add this business to our portfolio.

The company operates through two divisions: Board & Paper, which produces primarily cartonboard; and Packaging, which makes folding cartons from cartonboard. Packaging contributes circa 60% of operating profit, with Board & Paper contributing the remaining 40%. The primary end markets for these products are food, cigarettes, and, increasingly, pharmaceutical packaging. These are essentials, leading to very stable demand for Mayr-Melnhof's products - people will eat, smoke, and medicate regardless of the prevailing consumer sentiment. The non-discretionary nature of its products can be evidenced through its performance at a group level during the 2008 financial crisis and the 2020 pandemic, with pre-tax return on capital never falling below double digits in either stress-test.

The business model is cohesive, with the Board & Paper division producing almost a third of the cartonboard input to the Packaging segment. This vertical integration stabilises the company's supply, limiting the bargaining power of external suppliers and minimising downtime for both divisions. Although vertically integrated, both segments generate strong returns individually.

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The Board & Paper division runs its capacity at high utilisation rates with industry-leading efficiency and significant economies of scale. Mayr-Melnhof's Packaging division, with a market share of 12%, is no longer the number one player since Graphic Packaging's recent acquisition of the next largest company in the space, consolidating a combined 14% market share. However, we expect no negative impact given the slow-moving nature of the market and are not concerned that this acquisition will alter competitive dynamics. Mayr-Melnhof enjoys strong bargaining power with external suppliers and scale benefits in distribution, generating a historic operating margin of 8-10% across the group.

The business has completed four complementary acquisitions over the past two years. To fund this activity, it took on EUR 1.1bn in debt at an incredibly attractive 1.6% average interest rate largely fixed for eight years. With this debt and some cash, the company acquired circa EUR 1.5bn in revenue, paying about 1x turnover. We view increasing leverage as a very sensible direction to take such a stable business, calculating that this debt has boosted the company's return on equity to about 20%, an increase of over 50%. The focus of these acquisitions is to improve the Board & Paper division's virgin fibre capabilities, where it has historically been weaker than in recycled fibre, and to drive exposure to higher value-added products such as kraft paper and pharmaceutical packaging, which will be a key driver of margins in the medium term. Though acquiring a business is a lot easier than running it, we are pleased with recently instated CEO Peter Oswald's acquisitions on paper, and trust that his experience at his previous role at Mondi, where he completed 60 acquisitions in 28 years, puts us in good hands during the upcoming period of consolidation. We are additionally reassured by the fact that he worked alongside the current Mayr-Melnhof CFO Franz Hiesinger for 25 years at Mondi. During the period of Peter Oswald's tenure at Mondi for which data is available, from 2004 to his final full year in 2019, the company grew net profit from GBP 195m to 696m over the fifteen years, equivalent to 9% growth per annum.

We believe that the market is undervaluing the opportunity derived from the ongoing structural shift towards sustainable packaging. As the damage caused by unsustainable materials such as single-use plastic is exposed, more and more companies will look to paper packaging as a substitute: recycled fibre-based cartonboard can be recycled over twenty-five times and degrades in two months. While food will remain the key market, there is opportunity for plastic substitution in various other industries - for instance in industrial goods, pet food, and personal care. As the European leader in recycled cartonboard, with a market share of over a third, the company is well-positioned to capitalise on this trend, with management estimating that this structural shift alone accounts for circa 1% growth per annum.

Additionally, the business will benefit from quickly growing demand in Eastern Europe simply due to advantageous geographic presence; Mayr-Melnhof has three mills that are further east than each of Board & Paper key competitor Reno de Medici's mills.

Historically, the company has had no problems passing on price increases each year and, in light of recent cost inflation, has started adjusting its prices more frequently. It can do this because typically the packaging itself constitutes a very small cost relative to the cost of making what goes inside the packaging, and yet it is a crucial component: no packaging, no product. Hence, customers' emphasis is placed on reliability and availability rather than solely price; both guaranteed by the scale, vertical integration, and experience of Mayr-Melnhof. As a result of this pricing power, we are not concerned that further cost inflation will put much pressure on margins.

The company has had a record-breaking year to date, generating EUR 452m operating profit from EUR 3,450m revenue in the first nine months. We expect management to take this opportunity to write-off some gas reserves built up recently as a conservative energy hedge, perhaps as well as its Russian operations. Looking forward, 2023 will be a tough year, though still likely the second best in its history, with three expected periods of downtime in various plants and integration costs of recent acquisitions. Therefore, it is sensible to look to 2024, where we expect even stronger results than 2022 and continued consolidation of the market. With a capitalisation of EUR 3.2bn and an enterprise value of EUR 4.8bn, Mayr-Melnhof currently trades at circa nine times its enterprise value to its expected operating profit for 2024. Given the recent debt injection and the fact that we are expecting the company to be more acquisitive in the medium term, we believe that we are justified in estimating fair valuation at circa fourteen times operating profit, which gives a return of circa 45% over the next 18 months, although we expect to be shareholders for much longer than that. In addition, we are comforted by a 2% dividend yield which we expect to increase, given three times earnings coverage.

Monthly percentage return for the GBP A share class of the Global Equity Fund

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2022	-1.7	-3.2	-3.3	3.4	0.4	-5.2	4.6	0.4	-0.4	0.5	4.2		**-0.9**
2021	-2.6	1.4	2.6	3.0	0.7	-0.9	2.2	1.2	1.9	-3.9	1.8	2.3	**10.0**
2020	-4.7	-6.6	-5.4	4.6	-0.9	2.2	-4.4	-10.2	5.3	-0.7	-3.6	2.2	**-21.3**
2019	2.9	1.0	0.3	1.7	-0.2	0.5	1.0	1.8	1.9	0.0	-4.4	0.7	**7.3**
2018	-4.4	5.9	-0.9	3.3	2.9	5.9	1.9	4.0	0.9	0.8	0.5	-3.0	**18.6**
2017	-0.1	-1.4	-1.2	-2.9	1.7	-1.5	1.0	3.2	-2.8	1.3	-1.2	5.5	**1.3**
2016										1.3	-0.8	5.3	**5.8**

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