Ennismore European Smaller Companies Fund

Investor Newsletter for the month of January 2023

Issued on 6 February 2023

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 324m as at 31st January. Total assets under management by Ennismore Fund Management were GBP 480m. 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 31st January 2023

	Share Class[2]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share[1]	157.83	178.91	26.67	25.71	25.83
	% Change				
January 23	-2.8	-2.2	-2.8	-2.2	-2.2
2023 to date	-2.8	-2.2	-2.8	-2.2	-2.2
Annualised return[3]	12.3	11.2	8.5	8.2	8.2
Since launch[3]	1508.1	1170.4	166.7	157.1	158.3

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 2.8% in January. The long book contributed 4.0% while the short book cost the fund 6.6%. JD Sports Fashion Plc reported a good set of results and contributed 51bps of performance, we have now sold out of this position. Two US listed, Chinese stocks cost the fund 131bps and 63bps respectively. There was no significant news in either stock. Dr Martens Plc cost us 63bps after giving a disappointing third quarter trading update, in which there were further earnings downgrades due to logistic problems in North America. The fund has exited this position as we now have much less confidence in the company to grow volumes and profits going forward. IG Group Plc reported a pleasing half year result during January and we still believe the stock to be highly undervalued.

Top Five Contributors and Detractors for January 2023

Contributors	MTD (bp)
JD Sports Fashion Plc	51
Costain Group Plc	37
VIB Vermoegen AG	36
Moneysupermarket.com Group Plc	35
Cegedim SA	34

Detractors	MTD (bp)
US listed Chinese education company	-131
Dr Martens Plc	-63
US listed Chinese aerospace company	-63
Norwegian energy machinery supplier	-45
German renewable energy equipment company	-42

Top Five Long Holdings as at 31 January 2023

Company	Country	Sector	% of NAV
STO SE & Co KGaA	Germany	Materials	6.4
Vossloh AG	Germany	Industrials	3.8
UP Global Sourcing Holdings Plc	United Kingdom	Consumer Discretionary	3.5
EVS Broadcast Equipment SA	Belgium	Information Technology	3.5
IG Group Holdings Plc	United Kingdom	Financials	3.4
			20.6

[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.

Exposures as at 31 January 2023

Longs%	Shorts%	Gross Exposure%	Net Exposure%
88.5(88.9)	48.8(43.7)	137.3(132.5)	39.7(45.2)

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 31 January 2023

Country	Gross%	Net%
United Kingdom	39.4	18.6
Germany	35.4	22.5
Switzerland	11.6	1.4
United States	10.2	-8.2
Sweden	8.5	-3.2
Italy	7.7	1.6
Norway	4.3	-2.0
Austria	4.3	1.9
France	4.2	3.1
Belgium	3.5	3.5
Netherlands	2.6	1.8
Finland	1.9	-1.0
Hong Kong	1.4	-1.4
Spain	1.1	0.6
Other	1.2	0.5

Market Cap	Gross%	Net%
>£2bn	28.8	-1.8
£700m - £2bn	36.0	7.2
£200m - £700m	50.9	16.7
<£200m	21.5	17.5

Positions	Jan	Dec
Long	79	84
Short	90	89
Longs Opened	1	0
Longs Closed	6	3
Shorts Opened	5	5
Shorts Closed	4	6

Sector	Gross%	Net%
Communication Services	4.5	0.6
Consumer Discretionary	37.8	7.0
Consumer Staples	5.2	-3.2
Energy	0.0	0.0
Financials	10.2	10.1
Health Care	4.3	-0.5
Industrials	31.0	8.0
Information Technology	22.6	1.9
Materials	14.5	10.3
Real Estate	7.1	5.4
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.

Novem Group SA – German automotive supplier (1.9% of NAV)

Novem is a German, EUR 370m market capitalised, industry leader in trim and decorative interiors which sells into the premium autos sector. The company came to the stock market in July 2021, but it has had a difficult start to its listed life with the share price down by around 50%. With double digit operating margins, free cash flow yields and returns on capital employed we think the stock is now trading on unsustainably low valuation metrics at what we believe to be trough earnings.

Novem only supplies the premium segment of trim and decorative interiors and has a particular strength in wooden finishes (75% of sales). On listing they were one of only two global suppliers and had a very high market share of over 45% in premium models, which we see as a testament to the quality and price competitiveness of their products. We think they are likely to have taken market share over the last couple of years as less profitable competitors struggle to supply. Novem is a global supplier with over 80% of its manufacturing headcount in low-cost countries, vital to being a cost-efficient supplier. For the year to March 2022, they produced total revenue of EUR 615m, with Europe and the Americas being their main sales areas (52% and 36% respectively) and the rest going into Asia. One aspect we like about the autos interior sector is the lack of risk from different engine technologies in the future, and we believe there will only be further focus on improving the aesthetics of a premium car's interior to differentiate a brand's models.

The last couple of years have been a tough period for many auto suppliers due to a shortage in auto semiconductors which has then impacted the volume of new cars being built. This particular issue, although we think it will progressively improve going forward, is creating inconsistencies in the volumes demanded by their customers which is impacting production efficiency. Together with general inflationary pressures this has impacted margins, although still troughing at a credible circa 12% vs pre Covid-19 levels of 18%, showing the strong underlying profitability of the business.

Before the Covid-19 pandemic the business had grown at a growth rate of circa 9% over the preceding 10 years and we would expect to revert to these growth rates at least as the semiconductor shortages ease. In the first half of this financial year

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Novem's sales grew over 20% and we expect high teens overall this year. Although we think margins will bottom out this year at around 12%, we expect operating profit to increase to around EUR 83m.

Novem has a small 22% free float, with the majority owned by Cofra Holding Brenninkmeijer's family office - the founding family of C & A retail group. We think it would be advantageous for the free float to be higher although we believe a family office who have a long-term track record of ownership in the entity for over 10 years is likely to act sensibly. Both the CEO and CFO have been with the company for over 10 years, in which time the company has produced operating results much above current levels, before Covid-19 and its follow on impacts have hurt profits.

One risk that is fairly common in the auto supplier world is a large customer concentration, with 75% of sales going to their top three customers. The autos industry is typically tough for price negotiation, although does give some revenue visibility, with each contract typically agreed for the life of the relevant car model but including annual price decreases. The fact that Novem, given all these facts has still been able to keep operating margins over 10% and post-tax ROCE of circa 16% shows the efficiency of their business, probably helped by their scale and focus on the premium end of the market, versus other competitors.

Although there is some absorption from working capital, at around 20% of revenue, and capex in the future we still expect the business to generate around EUR 65m in free cash flow over the 18 months to March 2024. This will help to pay down the net bank debt, adjusted for EUR 50m of receivables factoring, of around EUR 190m, as of September 2022. We also think this level of cash generation can sustain the dividend, currently yielding circa 4.5%.

We expect the business to gradually increase its margins over the next few years although we don't, over the medium term, forecast the high teens peak margins seen in the past, we believe that mid-teens margins are possible though as more newly priced contracts become a higher proportion of the business. We however, value the business using a 12% operating margin next year and put this on a multiple of 13 times post-tax, lower than we would normally put on such a solid, strong market leader, due to its low free float. This leaves an equity value of EUR 750m and upside of 100% to March 2024.

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Historical Monthly Percentage Return for the GBP A Shares

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2023	-2.8												**-2.8**
2022	1.1	-2.6	0.2	1.4	-0.9	0.7	-3.1	1.8	-1.2	2.2	3.0	1.0	**3.7**
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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