Ennismore European Smaller Companies Fund

Investor Newsletter for the month of February 2023

Issued on 7 March 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 321m as at 28th February. 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 February 2023

	Share Class[1]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share[2]	157.71	180.04	26.65	25.87	25.99
	% Change				
February 23	-0.1	0.6	-0.1	0.6	0.6
2023 to date	-2.8	-1.6	-2.8	-1.6	-1.6
Annualised return[3]	12.2	11.2	8.4	8.2	8.2
Since launch[3]	1506.9	1178.4	166.5	158.7	159.9

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 0.1% in February. The long book cost 0.5% while the short book contributed 0.7% to the fund. February was a busy reporting period. We were happy to see a solid third quarter report from Novem AG, a company we wrote on last month, with good cash generation. Our short positions in two Swedish software companies contributed 39bps and 24bps respectively after profit warning in their earnings reports. On the negative side our short in a Swiss online retailer cost the fund 70bps as it sold part of its business which reduces its financial risk in the short term. We still believe the stock to be highly overvalued. UP Global Sourcing Holdings Plc also cost the fund 63bps after a trading update for the first half was poorly received by the market. To us the update looked fairly in line with our expectations, and we are still positive on this very well managed business. VIB Vermoegen AG had a negative contribution of 53bps, with the news that it will no longer pay a dividend and instead focus on growth causing the share price to fall.

Top Five Contributors and Detractors for February 2023

Contributors	MTD (bp)
US listed Chinese education company	51
Swedish software company	39
US listed Chinese aerospace company	32
Swedish software company	24
BFF Bank SpA	22

Detractors	MTD (bp)
Swiss online retailer	-70
UP Global Sourcing Holdings Plc	-63
VIB Vermoegen AG	-53
UK building products distributor	-36
STO SE & Co KGaA	-21

Top Five Long Holdings as at 28 February 2023

Company	Country	Sector	% of NAV
STO SE & Co KGaA	Germany	Materials	5.6
Vossloh AG	Germany	Industrials	3.8
Mobilezone Holding AG	Switzerland	Consumer Discretionary	3.5
IG Group Holdings Plc	United Kingdom	Financials	3.4
EVS Broadcast Equipment SA	Belgium	Information Technology	3.3
			19.7

[1]Source: Administrator, Net Asset Value, net income reinvested.
[2]Source: Administrator, Net Asset Value.
[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 28 February 2023

Longs%	Shorts%	Gross Exposure%	Net Exposure%
87.3(88.5)	47.6(48.8)	134.9(137.3)	39.7(39.7)

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 28 February 2023

Country	Gross%	Net%
United Kingdom	38.4	18.4
Germany	35.7	22.2
Switzerland	12.8	0.4
United States	9.2	-7.6
Italy	8.0	1.7
Sweden	8.0	-2.2
France	4.3	3.2
Norway	4.1	-1.5
Austria	3.4	1.0
Belgium	3.3	3.3
Netherlands	2.4	1.7
Finland	1.7	-0.8
Hong Kong	1.2	-1.2
Portugal	1.0	1.0
Other	1.3	0.0

Market Cap	Gross%	Net%
>£2bn	27.1	1.3
£700m - £2bn	39.7	5.8
£200m - £700m	48.0	15.2
<£200m	20.0	17.4

Positions	Feb	Jan
Long	78	79
Short	84	90
Longs Opened	1	1
Longs Closed	2	6
Shorts Opened	2	5
Shorts Closed	8	4

Sector	Gross%	Net%
Communication Services	4.1	0.6
Consumer Discretionary	35.8	7.1
Consumer Staples	5.5	-3.6
Energy	0.0	0.0
Financials	11.5	11.4
Health Care	4.2	-0.7
Industrials	32.2	7.4
Information Technology	21.0	3.0
Materials	14.2	9.8
Real Estate	6.3	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.

Gruppo MutuiOnline SpA – Italian price comparison and business process outsourcing provider (1.4% of NAV)

Gruppo MutuiOnline operates the leading Italian price comparison websites for mortgages, insurance, energy and e-commerce, as well as having a strong position in business process outsourcing (BPO) for the financial service industry in Italy. It has a market capitalization of EUR 1.1bn and achieved revenues of EUR 313m as of 2021 of which 43% was generated within the Broking division and the remainder in its BPO division. We wrote on MutuiOnline in 2015; having initially invested in 2012 at the peak of the European debt crisis and exiting this position only due to valuation reasons back in 2021. We are glad that we received a second chance to invest in this high-quality business again as the share price has halved over the course of last year, uncorrelated from a very satisfactory operating performance. The company continues to tick many boxes that we like. It is a leader in niche markets across many verticals with high barriers to entry given strong brands in its Broking division and is profiting from deep ties with its customers in the financial service industry in the BPO business. Given the scalability of its price comparison platforms the Broking business boosts superior margins but both segments are very profitable with operating margins averaging in the mid-twenties and very cash generative given low capital intensity leading to a high underlying pre-tax return on capital in the twenties. Excluding acquisitions, returns would be around twice this level. Although 40% of its business still relates to the Italian mortgage market, recent acquisitions will decrease its exposure even further putting the business on a broader footing. As we do not see the same risks of a collapsing mortgage market as was the case back in 2012, we find the shares attractively valued and see substantial upside in the medium and long term.

The management is fully aligned with investors with both founders still holding a 32% total shareholding. They remain cost conscious, focused on efficient capital allocation and keep their entrepreneurial spirit to profitably grow the business.

Since we last wrote on MutuiOnline, in December 2015, revenues grew strongly from EUR 121m to around EUR 313m as of 2021 and reported operating profit from EUR 32m to EUR 69m. The share price has more than tripled since then, although it is still down almost 50% from its peak. Including net debt reported as of Q3 2022 of EUR 134m and adjusting for the shares held in Moneysupermarket.com Group PLC, worth around EUR 110m we estimate MutuiOnline is trading on an undemanding historic multiple of 13.5 times underlying operating profits of EUR 82m. Given the headwinds from increased interest rates in its core mortgage business, we expect revenues to be flat and underlying operating profit to be down when the company reports its 2022 results in March, although not significantly given benefits from acquisitions and strength in other verticals. For this year we are quite optimistic about the current situation in Italy as most new mortgages are now fixed and structured as long duration annuity loans. Tracking the rates offered through MutuiOnline.it for many years, the current monthly rate for a typical 30-year fixed mortgage with 80% loan to value did not change dramatically compared to levels seen for example in 2018/19. Another supporting factor is the affordability of the Italian real estate market which is still trading below its peak reached in 2007. With a return of a state subsidized mortgage for young homebuyers in the first quarter of this year and a favourable base effect from refinancing, we expect 2023 to be a solid year for MutuiOnline's mortgage business.

Over the last decade MutuiOnline has grown both organically, we calculate a compounded average annual growth of 10%, and through acquisitions diversifying its business through new verticals in both of its segments. Last year MutuiOnline announced the two largest acquisitions in their history. Firstly Rastreator.com and LeLynx.fr from the UK based RVU Group for a total consideration of EUR 150m. Completed in early 2023 these businesses generated around EUR 62m in revenues and 8m in operating profit before interest, tax, depreciation and amortisation (EBITDA) in 2022. At 19 times EBITDA this does not look cheap, but we like the quality and the options of the businesses acquired. Rastreator is the Spanish number one insurance aggregator and LeLynx is the clear number two player in this field in France. But both markets are much less penetrated compared to more mature markets like the UK, Germany or Italy, giving scope that more direct insurance business will be funnelled through this sales channel in the future especially when competition is increasing. Although this is a big step change for MutuiOnline, given it is outside of Italy, we see great potential for growth and large upside for operating margins as they are often up to three times higher in mature markets. The other large acquisition announced in October last year is Trebi, the leading Italian software solutions provider for the leasing and rental industry. Through its 85% owned subsidiary Agenzia Italia, the clear BPO leader for the Italian leasing and rental market, MutuiOnline is paying EUR 85m for a software business that is expected to achieve EUR 19m revenues and EUR 8m of EBITDA for 2022. We very much like this move into software as it increases the share of wallet with its customers. Besides commercial synergies it will structurally increase the overall margin in the BPO segment and further improve the stickiness by offering an integrated solution, providing both the software and the service, to its customers. The purchase price for both entities has been financed via debt, and we expect net debt to increase to EUR 290m by year end.

We are not concerned about the higher debt level in the business, as the company has proven in the past that it is able to swiftly pay back debt. It will also not alter the dividend policy and we expect the company to pay out EUR 0.4 per share, as it did the previous two years, leading to a circa 1.5% yield. We rather like that the management is taking opportunities as they emerge. Without incorporating any substantial growth or synergies we forecast an underlying operating profit of around EUR 100m for this year and revenues of close to EUR 400m. As we expect MutuiOnline to continue to grow organically in the high mid-single digits, we think an enterprise value multiple of 16 times operating profit is fair, and we therefore see more than 30% upside over the next twelve months and substantially more if the potential of the acquired entities can be captured. It seems the founders and management take the same positive view on the stock given the very strong insider buying worth more than EUR 5m in the first quarter and we hope to be holders for the long term once again.

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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	-0.1											**-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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