Ennismore European Smaller Companies Fund

Investor Newsletter for the month of April 2023

Issued on 5 May 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 319m as at 28th April. Total assets under management by Ennismore Fund Management were GBP 485m. 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 April 2023

	Share Class[1]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share[2]	161.56	183.94	27.30	26.43	26.55
	% Change				
April 23	2.9	2.9	2.9	2.9	2.9
2023 to date	-0.5	0.5	-0.5	0.5	0.5
Annualised return[3]	12.2	11.2	8.5	8.3	8.3
Since launch[3]	1546.1	1206.1	173.0	164.3	165.5
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 2.9% in April. The long and short books contributed 2.6% and 0.4% respectively.

Fielmann reported better than expected sales and profits in Q1 and provided more details on its cost cutting program. LSL Property Services reported numbers which were around our expectations, although this year will be tougher due to a weaker housing transactions market in the UK. We feel the company's recent disposal of some low profit entities and move to a fully franchised Estate Agency will reveal a structurally higher margin and more resilient business going forward. Sanderson Design Group reported solid numbers although clearly is still being hindered by weak UK consumer confidence.

Top Five Contributors and Detractors for April 2023

Contributors	MTD (bp)
US listed Chinese education company	61
Fielmann AG	56
Grenke AG	43
UK online retailer	32
Costain Group Plc	31

Detractors	MTD (bp)
UK online retailer	-30
US software company	-20
UK technology company	-18
UK online retailer	-13
Vossloh AG	-12

Top Five Long Holdings as at 28 April 2023

Company	Country	Sector	% of NAV
STO SE & Co KGaA	Germany	Materials	5.6
Vossloh AG	Germany	Industrials	3.6
Costain Group Plc	United Kingdom	Industrials	3.5
IG Group Holdings Plc	United Kingdom	Financials	3.4
EVS Broadcast Equipment SA	Belgium	Information Technology	3.3
			19.3

[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 April 2023

Longs%	Shorts%	Gross Exposure%	Net Exposure%
87.0(88.1)	50.3(52.4)	137.3(140.5)	36.8(35.7)

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 April 2023

Country	Gross%	Net%
United Kingdom	41.2	18.7
Germany	36.7	22.7
Switzerland	13.3	-2.0
Sweden	9.6	-4.5
Italy	8.2	1.5
United States	7.6	-6.2
France	4.4	3.1
Norway	4.1	-0.8
Belgium	3.3	3.3
Austria	2.9	1.2
Netherlands	1.6	1.0
Finland	1.2	-1.2
Portugal	1.1	1.1
Hong Kong	1.0	-1.0
Other	1.2	0.0

Market Cap	Gross%	Net%
>£2bn	25.7	-1.9
£700m - £2bn	41.6	9.5
£200m - £700m	50.0	12.3
<£200m	20.0	16.9

Positions	Apr	Mar
Long	78	77
Short	88	90
Longs Opened	2	2
Longs Closed	1	3
Shorts Opened	2	11
Shorts Closed	4	5

Sector	Gross%	Net%
Communication Services	4.8	-0.4
Consumer Discretionary	36.9	6.6
Consumer Staples	4.2	-2.4
Energy	0.0	0.0
Financials	11.5	11.5
Health Care	4.1	-0.3
Industrials	33.5	6.4
Information Technology	22.8	0.1
Materials	14.3	10.0
Real Estate	5.2	5.2
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.

Grenke AG – German leasing company (1.9% of NAV)

Grenke AG specialises in small ticket leasing across Europe and abroad with leading positions in its core markets Germany, France and Italy. Founded in 1978 by Wolfgang Grenke it has established itself in its niche growing from a small base in Germany across more than 30 countries. It has a market capitalisation of EUR 1.5bn and as of last year generated new business leasing volume of EUR 2.3bn with EUR 344.5m net interest income and after-tax income of EUR 84.2m. Having followed Grenke for many years, we like the strength of its customer centric business model, focussing on automation and standardisation which led to its cost leader position in small ticket leasing. By focusing on its profitable niche and building a vast network of 33k reseller partners, as well as the huge volume of data it has generated throughout the years from its clients, Grenke has built a strong business moat. Pre COVID-19 this was generously reflected in the valuation, but two significant events have had major impacts - with the uncertainties of a pandemic putting its business into reverse for the first time ever followed by a well-timed bearish short seller report severely hurting credibility. The shares have dropped from an all-time high of around EUR 100 to a recent low below EUR 20 at the end of last year. As Grenke managed to overcome this period operationally unscathed we were happy to pick it up at a level we think is very attractive, and which is not pricing in Grenke returning to its profitability and growth path of the past. Even though the share price has recovered strongly, by more than 60% this year, it trades only slightly above its tangible book value at 1.3 times and we are confident that Grenke still offers significant upside.

Grenke operates a boring business model, but it is a fantastic success story and we have admired it over more than 20 years for its steady and profitable expansion compounding at an average 10% by just focussing on what it does best: providing small businesses with a financing solution to cover small ticket investments, like IT, photocopy and telecommunication equipment which still comprises ca. 60% of its leasing volumes, but also green investments like e-bikes. For the last two decades Grenke has proven its business model in Germany – building a large network of specialized resellers, developing a proprietary scoring model for a quick credit check, thereby collecting a huge data pool from its clients, and standardising and automating the whole process at a low cost. With an average acquisition value of around EUR 8.5k, processing costs are crucial to be competitive. With Grenke profiting from a growing acceptance of leasing across their core customer group of small and medium-sized enterprises and taking market share from smaller or less focused players like banks, it started to replicate its business model across many more markets. As of last year, Germany, Austria and Switzerland still represent around 25% of its new leasing business, with Western and Southern Europe taking a similar share each. As in the past, the majority (96%) of Grenke's leasing business is concentrated on small ticket leasing, below ticket sizes of EUR 25k, with nearly all lease contracts issued with full amortisation terms and refinancing aligned with its duration. Having gone through the great financial crisis and the European debt crisis and still being able to finance its leasing book at attractive terms – the business has been bullet-proofed.

Even though we were confident that the short report in 2020 was by no means similar to what had happened to Wirecard, and Grenke would eventually rebut most allegations, we were worried that it could cause collateral damage by damaging its credit worthiness. Financial institutions regularly rely on the financial markets for liquidity which can abruptly collapse if trust is lost as has been recently seen with regional banks in the US and with Credit Suisse Group AG. By seeing Grenke come through this tricky time it has demonstrated the robustness of its business model and it has enabled the company to fast forward decisions it would have otherwise taken only very slowly. Firstly, it has put an end to the franchisee model by which the company has been growing elegantly but, due to the structure, in a very opaque way and not in the best interest of general shareholders. Secondly, it has forced Grenke to communicate more professionally and transparently with its stakeholders to regain trust and credibility. It has also built a compliance structure that is installed within the managing board and is appropriate for the size of the company. This all comes at a cost – talking to the management team we estimate around a high single digit million Euro burden – but we think with Grenke recovering from the COVID-19 induced decline in new business volumes it will scale with a return to growth in the mid-term.

We invested in Grenke in January and were able to buy some shares at even better levels in March when the uncertainty about a potential banking crisis coincided with the adjustment of the mid-term guidance after the former CFO, Dr. Sebastian Hirsch, took over the CEO role. Initially we thought of it as a resetting of expectations and a prudent approach given the management change. But after discussing the new digitalisation strategy in more detail, we think the announced investment of EUR 45 to 50m over the next three years will eventually further strengthen the business giving them the ability to make credit decisions in seconds rather than minutes, benefitting online retailer business models even more, while also enabling more efficient scaling of the business. With this adjustment, Grenke expects to generate net income this year on par with last year, around EUR 85m, burdened by EUR 15m of costs related to redundancies, keeping data centres open while also ramping up for a cloud based set up. 2024 results will be impacted by a similar amount, but net income should improve to EUR 120m with 2025 marking the year where costs and efficiency gains start to balance. Adjusting for this investment Grenke is currently valued at a price to next year's earnings ratio of 11 times which we believe is cheap considering its scope for further growth and return to its previous profitability. We expect that it can recover from last year's low return on equity of around 7% back toward its historic average pre COVID level in the low to mid-teens. As Grenke continues to be in growth mode the pay-out ratio is modest at 25% with a current yield of around 1.5% but we expect it to double for financial year 2025 and to continue growing further. Even though the founder's reputation has been damaged, given the lack of transparency concerning its third-party interest in the franchise companies, we continue to like their engagement given these issues have been resolved and see interest aligned in the long term as their total stake of 40.84% remains. Recent insider purchases from the new CEO and management continue to support our positive view. Based on our estimate of next year's underlying net income and a fair multiple of 16 times we see upside of close to 50% over the next 18 months.

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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	-0.4	2.9									**-0.5**
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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