Ennismore European Smaller Companies Fund

Investor Newsletter for the month of May 2023

Issued on 7 June 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 303m as at 31st May. Total assets under management by Ennismore Fund Management were GBP 463m. 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 31 May 2023

	Share Class[1]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share[2]	156.75	182.23	26.49	26.18	26.31
	% Change				
May 23	-3.0	-0.9	-3.0	-0.9	-0.9
2023 to date	-3.4	-0.4	-3.4	-0.4	-0.4
Annualised return[3]	12.1	11.1	8.2	8.1	8.2
Since launch[3]	1497.1	1194.0	164.9	161.8	163.1
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 3.0% in May. The long book cost 5.4% while the short book contributed 2.7% to NAV.

Gruppo MutuiOnline reported better than expected and encouraging first quarter results despite the weak mortgage market in Italy. EVS Broadcast Equipment SA reported strong first quarter sales growth of over 25%, whilst also upgrading their sales range for the year. They also guided to a profit range which may mean growth in a non "big event" year, which would be a good sign of business momentum. Coats cost the fund 0.3% after their trading update confirmed a weak start to the year largely due to continued destocking. However they confirmed no change in profit expectations due to cost savings. Coor Service Management announced the loss of a historical contract with Ericsson, accounting for approximately 5% of revenues. While this was disappointing, we believe the investment case hasn't significantly changed and took advantage of what we see as a share price overreaction to add to our position.

Top Five Contributors and Detractors for May 2023

Contributors	MTD (bp)
US listed Chinese education company	55
Swiss online retailer	47
UK online retailer	30
UK online retailer	28
Hong Kong software company	24

Detractors	MTD (bp)
Costain Group Plc	-52
Coor Service Management Holding AB	-37
Grenke AG	-30
Coats Group Plc	-30
IG Group Holdings Plc	-28

Top Five Long Holdings as at 31 May 2023

Company	Country	Sector	% of NAV
STO SE & Co KGaA	Germany	Materials	5.2
Vossloh AG	Germany	Industrials	3.4
EVS Broadcast Equipment SA	Belgium	Information Technology	3.3
IG Group Holdings Plc	United Kingdom	Financials	3.2
Costain Group Plc	United Kingdom	Industrials	3.1
			18.2

[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 31 May 2023

Longs%	Shorts%	Gross Exposure%	Net Exposure%
87.3(87.0)	49.5(50.3)	136.8(137.3)	37.7(36.8)

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 May 2023

Country	Gross%	Net%
United Kingdom	42.9	20.1
Germany	34.5	20.7
Switzerland	11.6	-0.1
Sweden	11.4	-5.8
Italy	8.4	2.2
United States	7.3	-5.9
France	4.3	3.2
Norway	4.1	-0.8
Belgium	3.3	3.3
Austria	2.8	1.2
Netherlands	1.5	1.0
Finland	1.2	-1.2
Portugal	1.1	1.1
Other	2.3	-1.0

Market Cap	Gross%	Net%
>£2bn	25.8	-3.8
£700m - £2bn	42.3	13.4
£200m - £700m	46.6	12.1
<£200m	22.0	16.1

Positions	May	Apr
Long	78	78
Short	89	88
Longs Opened	1	2
Longs Closed	1	1
Shorts Opened	7	2
Shorts Closed	6	4

Sector	Gross%	Net%
Communication Services	4.9	-0.6
Consumer Discretionary	34.4	7.2
Consumer Staples	3.9	-2.0
Energy	0.0	0.0
Financials	11.6	11.6
Health Care	3.4	0.4
Industrials	35.2	7.1
Information Technology	24.6	-0.1
Materials	13.8	9.1
Real Estate	5.0	5.0
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.

Mister Spex SE – German optical retailer (0.6% of NAV)

Founded 15 years ago, Mister Spex is a EUR 125m market capitalised leading online optical retailer that generates EUR 210m in revenue across its core markets Germany, Austria, Switzerland and Sweden. The company, still run by its founder Dirk Graber, was established to challenge the traditional optician industry by selling prescription glasses, sunglasses and contact lenses online. Its success has triggered incumbent players to invest heavily in online too by offering virtual fittings and eye testing capabilities. Despite this period of strong investment, the share of online sales in prescription glasses remains low especially in Germany. Mister Spex has adjusted its strategy from a pure play online business to an omnichannel model by opening its own physical stores which have grown from scratch in 2016 to 71 stores in operation as of March this year. When Mister Spex went public during the stock market frenzy of 2021 - being a relative COVID-19 winner - it fetched a market capitalisation of close to EUR 900m at EUR 25 per share. As its growth ambitions turned out too optimistic, the hype faded quickly and the shares currently trade at only a fraction of its IPO price, just slightly above its current net cash position of around EUR 112m. Mr. Market has changed his mind about Mr. Spex, from valuing it as a disruptive business model at circa 4 times revenues to just 0.4 times revenues when leasing liabilities of EUR 62.5m as of Q1 2023 are included in the enterprise value calculation. With management aiming to turn free cash flow positive in 2024, we are more optimistic than what the current share price implies and think Mister Spex offers significant upside.

This is not a typical investment for us as Mister Spex's business model is still immature and loss making, but it operates in a very attractive industry, with positive demographic trends as more and increasingly younger people need corrective lenses, providing a good basis for profitable growth. As of last year, the business was still predominately an online business with 87% of revenue generated through its website, including low margin contact lenses which account for 31% of total revenue. This will change, and we think it is a sensible move to focus on offline expansion, moving the product mix towards high margin prescription glasses (currently only 39%) and concentrating on its core market Germany where it has the highest brand awareness which will help improve marketing efficiency. We estimate its domestic operations will grow to be the third largest optical retailer in Germany this year based on revenues of EUR 153m as of 2022. Profitability will improve with its adjusted strategy moving from a sales growth focus towards a margin focus with its "lean 4 leverage" efficiency program. Looking at the financials of similar or smaller peers we see no reason why Mister Spex should not be able to achieve at least mid-to-high single digit operating margins in the medium term. As of last year, Mister Spex has generated revenues of EUR 210m and negative earnings before interest, tax, depreciation and amortisation (EBITDA, its preferred key performance indicator) of EUR -12m. This year we can see in its first quarter results that its lean 4 leverage program is bearing early results. Although still negative, EBITDA increased from EUR -5.1m in the previous period to EUR -2m, an improvement being driven by higher gross margin through better product mix and price increases. Operating cash flow was also still negative due to building inventory in anticipation of price increases by suppliers. Overall revenue growth was muted at EUR 50m up 6% year on year, driven by its focus on Germany which was up 12% with revenue from international markets down 8%. Although the environment is still impacted by a historically weak consumer climate, management has kept the guidance of mid-to-high single digit revenue growth and a low single digit EBITDA margin for this year as well as targeting 10 new store openings.

We think this guidance is achievable, with a steadily improving consumer environment and the benefits of its adjusted strategy, and if management delivers it will lead to a rebuilding of trust and a re-rating of its shares. At the current market capitalisation, the company's cash position is providing a substantial margin of safety for our investment, and we would not be surprised to see a takeover attempt if the shares remain cheap, especially with EssilorLuxottica owning 11.3% of the shares outstanding, having increased its position from 7.9% in the public offering. In the long term, however, we see more upside if the business turns to a sustainable and profitable growth path and remains independent. With its strong brand, especially among younger customers, and dedicated omnichannel capabilities we are confident that Mister Spex will succeed and think the shares should at least trade at 0.7 times its revenues given its margin improvements resulting in an upside of more than 50% over the next twelve months.

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Historical Monthly Percentage Return for the GBP A Shares

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2023	-2.8	-0.1	-0.4	2.9	-3.0								**-3.4**
2022	1.1	-2.6	0.2	1.4	-0.9	0.7	-3.1	1.9	-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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A summary of investor rights associated with an investment in the Fund is available online in English at www.ennismorefunds.com or it may be received upon request via email by contacting clients@ennismorefunds.com.

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