# Ennismore Global Equity 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 USD 130m as at 31st May. Total assets under management by Ennismore Fund Management were USD 573m. 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 Global Equity Fund. If you would like more information or to invest please contact Adam Sullivan on +44 (0) 20 7368 4224 or email subs@ennismorefunds.com.

## Performance as at 31 May 2023

| | Share Class[1] | | | | | |
|---|---|---|---|---|---|---|
| | **GBP** | **GBP A** | **EUR** | **CHF** | **EUR I** | **USD I** |
| NAV per Share[2] | 12.91 | 12.84 | 13.04 | 11.66 | 9.87 | 10.16 |
| | % Change | | | | | |
| May 23 | -1.7 | -1.7 | 0.5 | -0.4 | -1.8 | -1.6 |
| 2023 to date | 3.4 | 3.3 | 6.6 | 5.2 | 2.6 | 3.5 |
| Annualised return[3] | 3.9 | 3.8 | 4.1 | 2.3 | -0.3 | 0.4 |
| Since launch[3] | 29.1 | 28.4 | 30.4 | 16.6 | -1.3 | 1.6 |
| Note: All performance figures net of fees. **Past performance is not a guide to future returns.** | | | | | | |

Comments below on performance refer to GBP A NAV per share unless otherwise stated, exclude fx and interest contributions to cash and are prior to expenses.

The Fund's NAV decreased by 1.7% in May. The long book cost 1.8% while the short book added 0.7%. Schibsted reported good results, while Tucows' broadband subsidiary Ting Fiber secured funding for its US network expansion. A Swedish real estate short also contributed as it suspended dividends amid ratings downgrades to its debt into junk territory. Our main detractor was International Distributions Services (fka Royal Mail) which after having reached an agreement with its unions in April, now faces a suspension of the deal following allegations of continuing "attacks in the workplace" on union members. The CEO also resigned during the month; this should help move negotiations in a positive direction going forward in our view.

## Top Five Contributors and Detractors for May 2023

| Contributors | MTD (bp) |
|---|---|
| Schibsted ASA | 54 |
| Hong Kong software company | 49 |
| Tucows Inc | 47 |
| Swedish real estate company | 37 |
| US technology company | 27 |

| Detractors | MTD (bp) |
|---|---|
| International Distributions Services Plc | -85 |
| Moneysupermarket.com Group Plc | -36 |
| US automotive manufacturer | -30 |
| US subprime lender | -30 |
| D'Ieteren Group | -29 |

## Top Five Long Holdings as at 31 May 2023

| Company | Country | Sector | % of NAV |
|---|---|---|---|
| Schibsted ASA | Norway | Communication Services | 4.9 |
| Admiral Group Plc | United Kingdom | Financials | 4.8 |
| Buzzi Unicem SpA | Italy | Materials | 4.4 |
| Moneysupermarket.com Group Plc | United Kingdom | Information Technology | 3.9 |
| D'Ieteren Group | Belgium | Consumer Discretionary | 3.8 |
| | | | 21.8 |

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

## Exposures as at 31 May 2023

| Longs% | Shorts% | Gross Exposure% | Net Exposure% |
|---|---|---|---|
| 81.2(78.7) | 35.1(35.8) | 116.3(114.5) | 46.1(43.0) |

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 States | 37.5 | -15.1 |
| United Kingdom | 27.3 | 27.3 |
| Germany | 8.3 | 8.3 |
| Norway | 6.9 | 3.7 |
| Japan | 6.7 | 6.7 |
| Sweden | 4.9 | 1.8 |
| Italy | 4.8 | 3.9 |
| Belgium | 3.8 | 3.8 |
| Mexico | 2.2 | 2.2 |
| Austria | 1.9 | -0.1 |
| Hong Kong | 1.8 | -1.1 |
| Brazil | 1.7 | 1.7 |
| Switzerland | 1.6 | 0.5 |
| Spain | 1.4 | 1.0 |
| South Korea | 1.3 | 1.3 |
| Ireland | 1.2 | 1.2 |
| Australia | 1.0 | -1.0 |
| Other | 2.0 | -0.1 |

| Market Cap | Gross% | Net% |
|---|---|---|
| >$10bn | 19.1 | -1.1 |
| $5bn - $10bn | 24.6 | 17.2 |
| $1bn - $5bn | 52.6 | 30.4 |
| <$1bn | 19.9 | -0.4 |

| Positions | May | Apr |
|---|---|---|
| Long | 52 | 49 |
| Short | 63 | 68 |
| Longs Opened | 4 | 3 |
| Longs Closed | 1 | 1 |
| Shorts Opened | 0 | 0 |
| Shorts Closed | 5 | 10 |

| Sector | Gross% | Net% |
|---|---|---|
| Communication Services | 17.6 | 13.4 |
| Consumer Discretionary | 19.3 | 6.4 |
| Consumer Staples | 5.5 | 2.4 |
| Energy | 0.0 | 0.0 |
| Financials | 14.9 | 11.1 |
| Health Care | 3.8 | -3.6 |
| Industrials | 18.5 | -0.1 |
| Information Technology | 21.2 | 5.4 |
| Materials | 13.3 | 9.8 |
| Real Estate | 2.0 | 1.3 |
| 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.

## Strix Group Plc – UK electrical component and appliance manufacturer (0.7% NAV)

Everyday, kettles installed with Strix safety switches are used over 1 billion times, across 100 countries, by 10% of the world's population. Not many companies have such global penetration - fewer still at a market capitalisation of GBP 225m. Strix was founded in 1951 after founder, Eric Taylor, invented a thermostat to control heated flying suits. In the 1980s, under the leadership of Mr. Taylor's son, John, the company developed a technology used in safety controls for domestic water boiling appliances and by the end of the decade was the global leader. The company now boasts a 56% global market share in its core niche of kettle safety controls – a long way ahead of its closest competitors, the largest of which possesses a low teen share. This core business is highly cash generative and we believe the market has offered us a very attractive entry point in light of a recent dip in performance due to COVID-related production restrictions in China. Combine this with some opportunistic M&A in recent months along with a new focus on reducing debt and we believe we have the makings of a compelling investment case.

Strix listed in 2017, when the private equity firm that had acquired it in 2005 sold its 100% holding for GBP 190m. The company has three segments: Kettle Controls (53% of sales), Appliances (25%), and Water (22%). The Kettle Controls division manufactures safety controls which disconnect power from the heating element once the water has boiled, preventing overheating. This segment generated revenue of GBP 85 million in 2021, and, we estimate, operating profit of GBP 25-30m. There are a couple of significant barriers to entry in this business. Firstly, Strix works with kettle OEMs to design kettles to fit Strix safety control specifications. This presents a material switching cost for kettle manufacturers who would have to redesign their kettles and update their production lines in order to install a competing safety control mechanism. Secondly, these safety controls perform a critical function of preventing overheating and potentially injuring users or damaging surroundings. Reputation is important with a critical input like a safety control, and none have a better track record than Strix. There is a degree of customer concentration in this segment with the largest customer accounting for 18% of sales in 2021, and the second largest at 14%. However, for the reasons mentioned, we believe the negotiating power lies with Strix and testament to this has been the segment's ability to consistently generate a pre-tax return on capital employed (ROCE) above 50%.

Having historically grown revenue by a low-mid single digit percentage per year, in 2022, the Kettle Control division reported a decline in sales of nearly 20% as a result of Zero COVID policy shutdowns in China, where more than 90% of kettles are manufactured, which led to a significant decline in production volumes. Whilst the dependence of the Kettle Controls segment on Chinese manufacturing is not ideal, we believe the valuation more than adequately reflects this risk. Typically, when kettle volumes have suffered in the past as a result of a deterioration in macroeconomic conditions or an exogenous event such as the COVID pandemic, demand recovers in 12-24 months, and there are early signs of that happening now. In Q4 2022, Strix's top 5 OEMs had average production line utilisation of 65%, whereas in the first quarter of 2023, a historically quiet quarter, utilisation at those OEMs rose to 83%. Additionally, in Q1, across the UK, US, Germany, and France, there has been an average year-on-year increase in kettle sales through Amazon of 17%. The limited life cycle of a kettle (typically around 4 years) generates a steady stream of replacement demand. Kettle volumes are growing at a mid-high single digit percentage in developing countries and closer to 1% in developed markets. This, combined with the enormous price differential between kettles and instant boiling taps, gives us confidence that kettles remain the most economical way of boiling water for a large proportion of the global population and that demand for them will continue into the future.

The majority of the Water and Appliances segments' revenue comes from three acquisitions made over the last 4 years, totalling nearly GBP 65m in consideration. The largest of these is particularly exciting. In October 2022, Strix announced the acquisition, from Waterlogic, of Billi, an Australian supplier of premium filtered and non-filtered instant boiling, chilled, and sparkling water systems with operations in Australia, New Zealand, and the UK. The divestment of Billi was a condition of the Waterlogic/Culligan merger and due to complications with the Competition and Markets Authority, Waterlogic became a forced seller, with Strix possessing exclusivity over the deal, resulting in a final purchase price of 3.8x earnings before interest, tax, depreciation, and amortisation (EBITDA), for a total consideration of GBP 38m. This for a business that reported GBP 44m in revenue in 2022, up from GBP 33m in 2021, GBP 10m in EBITDA, net income we estimate at GBP 5-6m, and a pre-tax ROCE of 86%. The numbers are strong, and our qualitative assessment of the business is equally positive. The products are offered both commercially and residentially and are supported by consumables such as filters, CO2 canisters, and spare parts, as well as maintenance services. Only Billi filters can be used in their taps, providing a strong captive base and reducing the threat of new entrants. Typically, with commercially installed taps, the customer signs a 5-year agreement with Billi which incurs on going costs for both rental and these aftermarket services. Two thirds of profits now come from a recurring revenue source such as this.

As of December 2022, the company had GBP 87m in net debt and the focus of capital allocation is now on deleveraging. Whilst sufficient time hasn't passed to judge properly, we are unconvinced by the M&A track record aside from Billi, and are happy to see the focus shift towards deleveraging and driving the efficiency of the current portfolio of companies. The current CEO, who owns over 1% of the company, joined in 2006, one year after the private equity buyout, and oversaw a much more aggressive de-leverage previously, from over 10x EBITDA to just 1.3x in 2021. Leverage currently stands at 2.2x EBITDA. Capital expenditure has also peaked for the foreseeable future after Strix spent nearly GBP 20m on a new manufacturing plant in China, which should improve operational efficiency with 73% of production lines now automated. The business' products also have a positive impact on the environment. Kettles limit the energy required to boil water since Strix's controls ensure the mechanism switches off once the water boils. Additionally, LAICA's filtered water jugs and Billi's taps both help substitute demand for bottled water.

Based on our estimates for the year ending December 2023, the company currently trades at 9x enterprise value (EV) to net operating profit after tax. The core kettle business has generated free cash flow (FCF) of around GBP 25m per year historically, and we believe as volumes return and margins recover over the course of the next 12-18 months, it should return to that level of performance. Based on this, and the quality of the business, we believe the Kettle Control division is worth at least GBP 300m. We are confident Billi is worth significantly more than the amount Strix paid for it and considering its capital light business model, significant recurring revenue, and double-digit top line growth, we believe it is worth closer to GBP 100m – or a trailing 12 months FCF multiple of 12.5x. The remaining parts of the business generated GBP 34m in revenue in 2021 and based on our estimate of normalized earnings of GBP 3m, we value these parts of the business conservatively at GBP 20m. Overall, this implies a total EV of GBP 420 million, and as the company deleverages, we believe there is upside of 60% over the next couple of years from today's market capitalisation of GBP 225m and EV of GBP 312m. Strix also pays a substantial dividend, and we estimate a forward yield of 6% which is covered twice by our estimate of 2023 net income.

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

| Year | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2023 | 0.7 | 0.8 | 0.1 | 3.4 | -1.7 | | | | | | | | **3.4** |
| 2022 | -1.7 | -3.2 | -3.3 | 3.4 | 0.4 | -5.2 | 4.5 | 0.4 | -0.4 | 0.5 | 4.1 | 6.2 | **5.2** |
| 2021 | -2.6 | 1.4 | 2.7 | 3.0 | 0.7 | -0.9 | 2.2 | 1.2 | 1.9 | -3.9 | 1.7 | 2.3 | **10.0** |
| 2020 | -4.8 | -6.6 | -5.4 | 4.6 | -1.0 | 2.2 | -4.5 | -10.3 | 5.3 | -0.8 | -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 | -4.5 | 0.8 | **7.3** |
| 2018 | -4.4 | 5.8 | -0.9 | 3.3 | 2.8 | 5.9 | 1.8 | 4.0 | 1.0 | 0.7 | 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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| For further information please contact: | Adam Sullivan, Ennismore Fund Management | +44 (0) 20 7368 4224 | subs@ennismorefunds.com |
| For dealing please contact: | Northern Trust International Fund Administration Services (Ireland) Ltd | +353 (0) 1 434 5103 | Ennismore_TA_Queries@ntrs.com |

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|---|---|---|---|
| For further information please contact: | Adam Sullivan, Ennismore Fund Management | +44 (0) 20 7368 4224 | subs@ennismorefunds.com |
| For dealing please contact: | Northern Trust International Fund Administration Services (Ireland) Ltd | +353 (0) 1 434 5103 | Ennismore_TA_Queries@ntrs.com |