Ennismore European Smaller Companies Fund

Investor Newsletter for the month of July 2023

Issued on 4 August 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 282m as at 31st July. Total assets under management by Ennismore Fund Management were GBP 457m. 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 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 July 2023

	Share Class[1]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share[2]	150.20	175.28	25.38	25.19	25.30
	% Change				
July 23	-1.6	-1.5	-1.7	-1.5	-1.5
2023 to date	-7.5	-4.2	-7.5	-4.2	-4.2
Annualised return[3]	11.8	10.8	7.7	7.7	7.7
Since launch[3]	1430.4	1144.6	153.8	151.9	153.0
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 1.6% in July. The long book contributed 1.8% while the short book cost 3.4% of NAV.

Our position in a Swedish software company reported results that were ahead of market expectations, especially at profitability level. While the share price has reacted very positively on the back of this, we remain convinced the structural risks the company is facing have not changed. KSB released an ad hoc statement citing a very successful first half and therefore increasing its full year guidance for order intake, revenues and operating profit. Moneysupermarket.com reported slightly better than expected first half results with an outlook of its full year performance towards the upper end of market expectations. Verallia reported strong results, significantly exceeding expectations on margins and increasing profits guidance for the year.

Top Five Contributors and Detractors for July 2023

Contributors	bp
German renewable energy equipment company	52
UK building products distributor	30
Cake Box Holdings Plc	25
KSB SE & Co KGaA	25
Costain Group Plc	25

Detractors	bp
Swedish software company	-80
Swiss online retailer	-70
UK online retailer	-38
US Software company	-32
UK online retailer	-24

[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.

Top Five Long Holdings as at 31 July 2023

Company	Country	Sector	% of NAV
STO SE & Co KGaA	Germany	Materials	4.3
IG Group Holdings Plc	United Kingdom	Financials	3.7
Vossloh AG	Germany	Industrials	3.6
EVS Broadcast Equipment SA	Belgium	Information Technology	3.6
Mobilezone Holding AG	Switzerland	Consumer Discretionary	3.4
			18.6

Exposures as at 31 July 2023

Longs%	Shorts%	Gross Exposure%	Net Exposure%
89.0 (87.1)	53.9 (49.7)	142.9 (136.8)	35.1 (37.4)

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 July 2023

Country	Gross%	Net%
United Kingdom	44.7	21.9
Germany	35.7	21.2
Switzerland	14.0	-1.6
Sweden	14.0	-6.1
Italy	6.3	-0.5
United States	6.2	-4.7
France	4.7	3.4
Belgium	3.6	3.6
Norway	3.6	-1.8
Austria	3.1	1.3
Netherlands	2.4	0.6
Portugal	1.2	1.2
Finland	1.0	-1.0
Other	2.3	-2.3

Market Cap	Gross%	Net%
>£2bn	33.2	-4.7
£700m-£2bn	40.5	5.5
£200m-£700m	48.3	17.6
<£200m	20.9	16.6

Positions	Jul	Jun
Long	69	71
Short	73	79
Longs Opened	2	1
Longs Closed	4	8
Shorts Opened	4	5
Shorts Closed	10	15

Sector	Gross%	Net%
Communication Services	5.4	-2.7
Consumer Discretionary	33.0	10.4
Consumer Staples	6.2	-3.5
Energy	0.0	0.0
Financials	10.7	9.6
Health Care	3.5	0.8
Industrials	35.5	10.2
Information Technology	29.6	-3.7
Materials	13.2	8.3
Real Estate	5.8	5.8
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.

Spirent Communications Plc – UK telecommunication testing company (0.8% NAV)

Spirent is a GBP 930m market capitalised provider of test and assurance solutions for telecommunication devices, networks and services. We have followed the company for a while and have been impressed by the changes that have been implemented since the new CEO joined the company four years ago. The recent macro-driven slowdown and the subsequent share price decline have finally given us the opportunity to build a position in what we believe is a high quality, well managed business with leading positions in their market niches and with interesting long term structural growth and margin expansion opportunities; factors that will help us through some short-term volatility in order to take part in the long-term upside potential.

Despite its UK listing and head office in Crawley, Spirent is a global business with geographical focus on the Americas, which accounted for 55% of last year’s USD 608m revenues, followed by Asia Pacific at 34% and EMEA with 11%. The company’s customer list consists of more than 1,100 customers and includes some of the biggest global telecommunication players, so we are not too surprised to see some client concentration with circa 22% of revenues being generated by the top 5 clients, which reflects the natural concentration in the industry.

Within its Lifecycle Service Assurance division, which accounts for 44% of revenues, Spirent provides lab-based testing of 5G mobile core networks and cellular and Wi-Fi devices. The remaining 56% of revenues are generated by the Network & Security division, which develops test methodologies, tools and services for virtualised networks and cloud infrastructures. Overall, about a third of the revenues come from software, a third from hardware and a third from services. Spirent’s market share varies according to business segments and applications, with the company being the global market leader, or joint market leader, in high-speed Ethernet testing and Wi-Fi device testing.

Spirent's CEO, Eric Updyke, joined the company in 2019 and we are impressed by the operational improvements his team has implemented, managing to transform a diverse company with different products and applications into a more integrated, more efficient entity. These include changes in the salesforce to make the process more customer centric, aiming for direct interactions with more senior management level contacts at a more diversified base of clients, and instilling a stronger vision to sell solutions rather than single products and to do that within large, long-term contracts. These actions have translated in an improved operating and financial performance of the business, with the top line growing at 6% annualised over the past 5 years, adjusted operating margins improving by more than 8 percentage points to 21.3%, or USD 130m, over the same period and an acceptable post tax return on capital of around 15% that increases to more than 40% if we don't add back impairments that were linked to acquisitions done over a decade ago. We are not alone in giving management credit for these achievements, as some of Spirent's peers have also praised them during our due diligence calls.

The company, together with the industry, has been experiencing a decline in growth in the past six months, due to customers delaying investment decisions because of a weak economic outlook. In fact, Spirent has reported revenues for the first half of 2023 of USD 223.9m, a decline of 20% year on year, and adjusted operating profits of USD 11.6m, a significant contraction compared to the USD 49m reported in the strong first half of 2022. The business has high operational leverage given its mostly fixed cost base, so we are not surprised to see a stronger decline in operating profits despite the gross margin remaining healthy at 71.9%, in line with a year ago, and we, along with management, expect a meaningful improvement in profitability in the second part of the year. On the positive side, the company has seen an increase of 5% in their orderbook since December to an all-time high of USD 303m, with early signs of some recovery in customer spending, and is finalising a significant lab and test assurance solution worth over USD 15m with a major retail bank, the majority of which will be delivered in the second half of the year.

While we acknowledge that there could be some short-term volatility ahead and we have no precise visibility on when this macro-driven weakness will end, we are convinced Spirent is a better, higher quality business than it used to be and we think the share price decline and consequent de-rating of the shares, which are down more than 40% since January, represents an interesting opportunity to start a long-term investment in the company.

In fact, we believe the positive long term market trends and growth prospects are still in place and will allow the company to achieve their 5% organic revenue growth target, supported by strong drivers such as continuous 5G and cloud growth and the expansion of hyperscalers. We are also convinced this growth, combined with the high operational leverage and some cost optimisation measures, will lead to improving operating margins over time. Spirent has a very strong balance sheet, with USD 148m in net cash as of end of June, which combined with its track record of healthy cash generation, provides strong support to an expected dividend yield of around 4%.

After the significant price decline year to date, Spirent shares trade today at a valuation of circa 10.5 times enterprise value to 2024 net operating profits after tax, which we believe is clearly undervaluing Spirent's business. We don't seem to be alone in reaching this conclusion; Mr Updyke, together with a number of members of the board, purchased more than GBP 150k worth of shares in March, and the company launched a GBP 56m share buyback program the following month. Additionally, we think Spirent could be an appealing acquisition target for some market players, and therefore we cannot rule out the possibility of an approach should the valuation remain at the current depressed levels. In our opinion Spirent's solid, high return on tangible capital business should be valued at 15 times enterprise value to 2024 net operating profits after tax, which points to an upside to the current share price of around 50% to the end of 2024.

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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 (%)	Annual
2023	-2.8	-0.1	-0.4	2.9	-3.0	-2.6	-1.6						**-7.5**
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.

A decision may be taken at any time to terminate the arrangements made for the marketing of the Fund in any EEA Member State in which it is currently marketed. In such circumstances, Shareholders in the affected EEA Member State will be notified of this decision and will be provided with the opportunity to redeem their shareholding in the Fund free of any charges or deductions for at least 30 working days from the date of such notification.

Under normal circumstances, as defined within the Prospectus, the Fund may charge up to 3% of the net asset value of any redemption to cover the costs associated with managing the redemption process, including the sale of assets within the Fund to generate the required cash. Currently this redemption charge is set at 2%.

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The examples of specific investments included herein are not representative of all of the companies purchased, sold or recommended for the Fund. The Fund's portfolio contains a much larger number of positions than the examples set forth herein and, accordingly, the examples are not intended to indicate the overall composition of the Fund's portfolio. It should not be assumed that investments in the companies identified will be profitable, that recommendations made in the future will be profitable or will equal the investment performance of those discussed herein, or are representative of investments that will be made in the future. There is also no guarantee that any of the positions are currently or will remain in the Fund. The information included in this document should not be considered a recommendation to purchase or sell any particular security or other financial instrument. All statements and expressions are the sole opinion of Ennismore and are subject to change without notice.

The list of contributors and detractors presented herein has been calculated by including those positions that contributed most significantly, either positively or negatively, to the performance of the Fund's portfolio during the period. This is not meant to be indicative of the performance of all positions contained in the portfolio. Past performance is not indicative of future results.

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