Ennismore European Smaller Companies Fund

Investor Newsletter for the month of September 2023

Issued on 5 October 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 293m as at 29th September. Total assets under management by Ennismore Fund Management were GBP 482m. 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 29 September 2023

	Share Class[1]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share[2]	159.52	183.89	26.96	26.42	26.55
	% Change				
September 23	3.0	1.7	3.0	1.7	1.7
2023 to date	-1.7	0.5	-1.7	0.5	0.5
Annualised return[3]	12.0	11.0	8.1	8.0	8.0
Since launch[3]	1525.3	1205.8	169.6	164.2	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 3.0% in September. The long book cost 2.3% of NAV while the short book contributed 5.3%.

A short in a US listed software company added 41bps to performance as the date to meet an end of September banking facility refinancing deadline approached, perhaps also not helped by news that the CEO had been given a $1.8m bonus only 10 days before said deadline. Our largest negative contributor was Novem Group, costing the fund 63bps as the share price seemed to react to news of a partial strike by the United Auto Workers union in the USA, affecting some of Novem's customers, which doesn't change our view on the company's undervaluation.

Amongst the news flow in the month, IG Group gave a quarterly update which showed continued slightly lower trading volumes but also announced that under the new regulatory regime the minimum capital requirements of the business have fallen by circa GBP 200m.

Top Five Contributors and Detractors for September 2023

Contributors	bp
Swiss online retailer	78
Norwegian energy machinery supplier	52
US software company	41
Evs Broadcast Equipment SA	37
German automotive company	36

Detractors	bp
Novem Group SA	-63
Swedish software company	-26
Antares Vision SpA	-24
Grenke AG	-19
Verallia SA	-18

[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 29 September 2023

Company	Country	Sector	% of NAV
EVS Broadcast Equipment SA	Belgium	Information Technology	4.3
Costain Group Plc	United Kingdom	Industrials	3.6
STO SE & Co KGaA	Germany	Materials	3.6
IG Group Holdings Plc	United Kingdom	Financials	3.2
Vossloh AG	Germany	Industrials	3.1
			17.8

Exposures as at 29 September 2023

Longs%	Shorts%	Gross Exposure%	Net Exposure%
83.5 (85.8)	47.5 (48.7)	131.0 (134.5)	36.1 (37.1)

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 29 September 2023

Country	Gross%	Net%
United Kingdom	44.4	22.9
Germany	29.1	18.8
Sweden	13.7	-4.5
Switzerland	12.8	-1.8
United States	6.4	-4.6
Italy	4.9	-0.3
Belgium	4.3	4.3
France	4.0	3.0
Norway	2.8	-0.1
Austria	2.7	1.3
Portugal	1.0	1.0
Other	5.0	- 3.8

Market Cap	Gross%	Net%
>£2bn	28.8	0.8
£700m-£2bn	32.3	3.3
£200m-£700m	47.1	14.0
<£200m	22.8	18.0

Positions	Sep	Aug
Long	78	68
Short	89	74
Longs Opened	11	0
Longs Closed	1	1
Shorts Opened	19	4
Shorts Closed	4	3

Sector	Gross%	Net%
Communication Services	5.8	-1.5
Consumer Discretionary	28.4	9.1
Consumer Staples	6.8	-4.5
Energy	0.0	0.0
Financials	9.4	9.2
Health Care	2.5	1.1
Industrials	32.4	9.5
Information Technology	27.5	-0.7
Materials	12.7	8.4
Real Estate	5.4	5.4
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.

Secure Trust Bank – UK specialist lender (1.8% NAV)

Secure Trust Bank is a GBP 120m market capitalised UK specialist lender. We wrote about the company back in January 2019 and since then it has generated GBP 145m in net profit and paid out GBP 45m in dividends. Yet the market capitalisation has fallen by circa GBP 140m in this time, with the share price more than halving. This does leave however a situation where the stock could double or triple and still not look overvalued. On our expectations it is now trading on a ridiculously low 3.5 times earnings multiple and 67% discount to tangible book.

Since we last wrote there has been a change of both CEO and CFO in 2021 and 2020 respectively and a strategic move to scale up the business via growth in some new markets as well as gaining from some competitors leaving the market. This has led to an increase in the loan book to GBP 3,200m at an annualised growth rate of circa 15% over the last 18 months to June 2023.

The loan book proportions by segment haven't changed so much. Retail Finance and Real Estate are now even more important being 75% of the total book, each amounting to around GBP 1.2bn. As a reminder the Retail segment lends across various consumer products including furniture, electronics and sports season tickets growing at almost 30% in the first half of the year with over 85% in interest-free lending with much of the income paid by the retailer. Obviously growing at this rate, we are very cognisant of credit risk so it has been very positive to see provision rates not move substantially in a period of increasing economic difficulties for the consumer. Secure Trust via its V12 brand has been assisted in its growth due to some banks pulling out of the market, perhaps due to its fairly niche size and increased technology requirements. We believe their market share now to be in the low to mid-teens for new lending. The Real Estate segment's loan book is now mainly lending to residential investment and development, and due to the interest rate environment, is growing much slower than Retail Finance at around 7% but continues to show very low impairments which is testament to its conservative lending with an average Loan-to-Value of around 56%.

One negative has been the Vehicle finance segment (circa 15% of the book) which has not grown as much as the company would have hoped as the prime/Personal Consumer Plan offering on their new platform has taken longer to scale via dealers than they expected. We believe they do have some mitigating factors though, with the recent historically unusual behaviour in used car values due to new car supply issues as well as different dynamics in car values for electric versus traditional engine making it harder to price correctly in a new lending subsegment. The plan is to put all of their lending propositions on one platform by the end of year which should help them to gain more traction with their dealer channel to market. The Commercial Finance segment, circa 10% of the loan book, is mainly factored receivables helping smaller companies working capital situation and very short duration lending with typically very low write offs. Similar to Real Estate there has been limited loan book growth currently.

Optically overall the revenue margin on its loan book has decreased in the last five years by around 230bp to around 5.8%. However, the company has continued to move up the credit quality scale in its market positioning which is not being fully shown in its results due to accounting standards requiring premeditative provisioning for the loan book leading to only 40bp of improvement to 1.4% in that time. Overall, this has led their return on average equity to fall from 13.1% in 2018 to, we expect, a not disastrous but unimpressive just over 10% for 2023. They target a substantially higher figure, around 15%, in the medium term. We expect the return to be close to 12% next year as we see the increasing benefit of scale pushing the cost to income ratio to close to 50%, the low end of its 50-55% target.

Given the growth strategy, management are aware that the returns need to step up to fund this strategy and we would much prefer that its 25% dividend payout policy was changed until their returns are shown to sustainably finance the greater than 15% loan book growth targets, given their Core Equity Tier 1 capital ratio currently sits around 13%, close to their internal 12% minimum target, the regulatory minimum is lower at 9.6%. As it stands the company sits on a historic 7% dividend yield which we would expect to increase this year given the dividend policy.

Secure Trust Bank continues to be a fairly niche lender which is underappreciated by the market. Over the last few years, it has become more prudent on its lending book which we believe will lead to more consistent profitability in the future. They have also invested in technology which should enable good quality lending growth in Retail and Vehicle Finance with increasing scale leading to higher group returns. It was also positive to see the CEO David McCreadie buying GBP 176k of shares in August at current levels. Putting the business on 9 times earnings and around tangible book for 2024 leads to upside of over 200% over the next 15 months.

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	3.1	3.0				**-1.7**
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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