Ennismore Global Equity Fund

Investor Newsletter for the month of August 2023

Issued on 6 September 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 126m as at 31st August. Total assets under management by Ennismore Fund Management were GBP 469m. 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 August 2023

	Share Class[1]					
	GBP	**GBP A**	**EUR**	**CHF**	**EUR I**	**USD I**
NAV per Share[2]	13.21	13.15	13.40	11.79	10.05	10.40
	% Change					
August 23	2.4	2.5	2.5	2.8	2.3	2.5
2023 to date	5.8	5.8	9.6	6.4	4.5	5.9
Annualised return[3]	4.1	4.0	4.3	2.4	0.1	0.8
Since launch[3]	32.1	31.5	34.0	17.9	0.5	4.0
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 increased by 2.5% in August, with the long book costing 1.8% and the short book adding 4.3%. Admiral Group plc is now the fund's largest position, and performed well after delivering solid half year numbers. The pain of cost inflation on motor insurers' margins has resulted in aggressive price increases in the region of 40-50% year on year for new business customers in the UK market. Having shed almost 10% of its peak UK motor customer base whilst prices have been catching up to cost inflation, management noted that volumes have stabilised in recent weeks. We would expect volume growth to resume from here in the UK, whilst the Italian business also looks set to accelerate. We think analysts are sharply under-estimating the likely outcome for revenues and earnings over the next couple of years. Buzzi SpA also had a good set of results, maintaining strong pricing and margins. Deliveroo plc reported solid interims with improved cash flow and announced a further £250m return of capital to shareholders; this is offset however by weak growth guidance, leading to the shares reversing some of the prior gains.

After a tough couple of months, the short book had a strong month in August. Performance was broad-based with fifteen names contributing more than 10bps. This largely reflects a shift in market conditions in the US, which accounts for a substantial chunk of our short portfolio. After returning 14.5% between the end of May and the end of July, the Russell 2000 index of smaller companies declined by over 5% in August. However, several positions also reported disappointing results in the period.

We have been fairly active on the short book in recent months, shifting against the market tide. After closing a net eighteen shorts between March and May, we opened a net twenty six positions between June and August as opportunities became more plentiful. After increasing from 30% in February to 46% in May, our net exposure has fallen back to 36%, towards the lower end of our typical range. As usual, our beta adjusted net exposure is lower, at 16%.

Top Five Contributors and Detractors for August 2023

Contributors	bp
US financial services company	90
Admiral Group Plc	83
Hong Kong software company	32
Buzzi Unicem SpA	31
US healthcare company	24

Detractors	bp
Deliveroo Plc	-38
Tucows Inc	-38
International Distributions Services Plc	-31
Moneysupermarket.com Group Plc	-30
Wise Plc	-29

[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

Top Five Long Holdings as at 31 August 2023

Company	Country	Sector	% of NAV
Admiral Group Plc	United Kingdom	Financials	5.5
Buzzi Unicem SpA	Italy	Materials	4.7
Schibsted ASA	Norway	Communication Services	4.5
D'Ieteren Group SA	Belgium	Consumer Discretionary	3.8
Moneysupermarket.com Group Plc	United Kingdom	Information Technology	3.2
			21.7

Exposures as at 31 August 2023

Longs%	Shorts%	Gross Exposure%	Net Exposure%
78.8 (79.9)	42.6 (41.8)	121.4 (121.7)	36.2 (38.1)

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 31 August 2023

Country	Gross%	Net%
United States	40.4	-19.2
United Kingdom	29.7	27.9
Germany	7.7	5.9
Norway	7.1	4.9
Japan	5.8	5.8
Sweden	5.4	1.7
Italy	5.2	4.1
Belgium	3.8	3.8
Mexico	2.1	2.1
Hong Kong	2.0	-1.4
Switzerland	1.8	0.2
Austria	1.6	-0.1
France	1.6	-1.6
Israel	1.5	-0.3
Spain	1.3	0.9
South Korea	1.0	1.0
Australia	1.0	-1.0
Other	2.5	1.5

Market Cap	Gross%	Net%
>$10bn	18.7	-3.6
$5bn - $10bn	31.5	23.1
$1bn - $5bn	51.1	17.2
<$1bn	20.1	-0.5

Positions	Aug	Jul
Long	59	58
Short	89	85
Longs Opened	2	2
Longs Closed	1	3
Shorts Opened	9	12
Shorts Closed	5	4

Sector	Gross%	Net%
Communication Services	18.4	15.0
Consumer Discretionary	20.3	4.4
Consumer Staples	6.8	1.6
Energy	0.0	0.0
Financials	16.0	10.1
Health Care	4.9	-4.7
Industrials	16.2	-3.4
Information Technology	21.9	2.3
Materials	13.2	9.3
Real Estate	3.3	1.9
Utilities	0.0	0.0
Other	0.3	-0.3

Geographic analysis relates to country of incorporation or listing. This may not represent the underlying economic exposure of the operating business.

Okamoto Industries Inc – Japanese rubber industrial company (0.9% NAV)

Set-up in 1934 as a raincoat and rubber-coated fabric manufacturer, Okamoto Industries ("Okamoto") has over the years expanded into a wide range of related products, ranging from consumer goods such as condoms, heat pads, boots, gloves and dehumidifiers, to industrial items including vehicle seat covers, construction wallpaper, adhesive tapes, and protective films. With the founding family still deeply involved and owning shares, the business is conservatively run and managed. The crown jewel, however, is the condoms division which was launched in 1969.

Condoms account for just around 10% of revenues but well over a third of profits. Okamoto is the market leader in Japan, twice the size of the next largest competitor in an industry where the top 3 players account for more than 90% of condoms sold. Selling a relatively low cost regulated medical device – with significant downside risks in the event of failure – ensures a good degree of brand loyalty and pricing power with its end-users, as buying the cheapest available contraceptive isn't going to impress any sexual partner. With ageing demographics in Japan, a reduction in drug store shelf space has kept potential new entrants away and reinforced scale advantages of the incumbents in distribution and marketing. The brand is also globally known for its ultra-thin condoms, which has seen increased foreign awareness thanks partly to the increasing number of international tourists to the country. Okamoto's reputation for high quality has undoubtedly helped sales grow outside of Japan, especially in places like China where the brand is considered a premium product, enabling it to compete with giants like Durex and offsetting weak growth in a mature domestic market.

Condoms are part of the group's household consumer goods segment which has steadily increased margins over time, generating a very respectable post-tax return on capital employed of over 20% today. This segment also contains a mix of high-quality branded products such as heat pads and dehumidifiers, as well as less differentiated ones like rubber boots. These categories clearly face more competition than condoms, but also share in the production and R&D capabilities of the group leading to cost efficiencies. The yen depreciation since the start of Abenomics has certainly helped by making Okamoto's exports more competitive and boosting tourism. However, such improvement in profitability is also driven by innovative product launches like the Zero One condom in 2015 as well as more active efforts to expand outside of Japan in recent years.

Okamoto as a whole generated JPY5bn in after-tax net income during the fiscal year ending March 2023, which we have viewed as a fair estimate of profits going forward. We were pleasantly surprised therefore when management upgraded full year net income guidance to JPY6.1bn for fiscal year 2024 alongside reporting Q1 2024 results a few weeks ago. Against a current market capitalisation of JPY84bn, at first glance the shares seem reasonably valued at around 14x earnings. This however ignores the net cash balance of JPY30bn and long-term deposits plus liquid Japan-listed securities of another JPY30bn on the balance sheet. Adjusting for these we're paying less than 4x net profits.

It is worth noting that the industrial segment, whilst accounting for almost two-thirds of group revenues totalling JPY64bn in fiscal 2023, is barely profitable right now – mostly due to volatile energy prices which are a key input. This division has historically generated operating margins in the mid-to-high single digit range, providing additional upside should conditions improve.

There's no broker analyst currently covering the company, which makes it less likely to be well-analysed, and we think this is a big driver of today's large mispricing. The shares aren't highly liquid either, although we were still able to build a decent sized position well within our internal liquidity rules. Our downside is well protected – the cash balance, liquid securities, and the mature Japanese condom business alone are enough to justify today's market capitalisation, plus some more. In effect we are getting the international growth aspect of the condoms unit – still in the early stages – plus around JPY90bn in non-condom revenues – which as a whole consistently generated profits over time – for free.

The shares currently have a dividend yield of around 2.3% which is more than thrice covered by net income. Buybacks are also a regular feature with the company, reducing the share count by more than 40% since the turn of the century. Valuing the existing business on a more reasonable 14x 2024 net profits gives an upside of more than 70% from today's levels.

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 (%)	Annual
2023	0.7	0.8	0.1	3.4	-1.7	-0.9	0.8	2.5					**5.8**
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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