Ennismore European Smaller Companies Fund

Investor Newsletter for the month of November 2023

Issued on 6 December 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 30th November. Total assets under management by Ennismore Fund Management were GBP 483m. 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 30 November 2023

	Share Class[1]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share[2]	163.07	189.21	27.56	27.08	27.22
	% Change				
November 23	1.1	2.2	1.1	1.8	1.9
2023 to date	0.5	3.4	0.5	3.0	3.1
Annualised return[3]	12.0	11.0	8.2	8.1	8.1
Since launch[3]	1561.5	1243.6	175.6	170.8	172.2
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 1.1% in November. The long book contributed 6.5% to NAV while the short book cost 5.0%.

Costain added 72bps on no major news. Ultimate Products added 68bps following good results at the end of the previous month. Our short position in a Nordic airline contributed 35bps as the company executed a highly dilutive rights issue.

Our position in a Swiss online retailer cost 108bps as the share price moved up on anticipation of more penetration in online prescriptions in Germany. We are still sceptical of eventual penetration levels as well as the threat of future entrants impacting market dynamics. A Swedish software company cost 60bps after reporting operating results and cash flow above expectations, we decided to exit this position as given its high financial leverage if operating trends continue to improve then the share price could be volatile on the upside in the short term.

Top Five Contributors and Detractors for November 2023

Contributors	bps
Costain Group Plc	72
Ultimate Products Plc	68
US Software company	45
SThree Plc	39
Nordic airline	35

Detractors	bps
Swiss online retailer	-108
Swedish software company	-60
US technology company	-43
US technology company	-23
Hong Kong software company	-23

[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 30 November 2023

Company	Country	Sector	% of NAV
EVS Broadcast Equipment SA	Belgium	Information Technology	4.4
Costain Group Plc	United Kingdom	Industrials	3.9
IG Group Holdings Plc	United Kingdom	Financials	3.4
STO SE & Co KGaA	Germany	Materials	3.4
Ultimate Products Plc	United Kingdom	Consumer Discretionary	3.4
			18.6

Exposures as at 30 November 2023

Longs%	Shorts%	Gross Exposure%	Net Exposure%
86.7 (80.4)	51.6 (45.8)	138.3 (126.2)	35.1 (34.6)

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 30 November 2023

Country	Gross%	Net%
United Kingdom	45.6	26.7
Germany	28.4	17.7
Sweden	13.0	-3.6
Switzerland	12.3	-1.8
United States	9.1	-7.6
Italy	4.8	0.1
Belgium	4.4	4.4
France	4.1	3.0
Austria	2.7	0.8
Norway	2.4	0.1
Poland	2.0	-2.0
Singapore	1.9	1.9
Canada	1.9	-1.9
Jersey	1.5	-1.5
Hong Kong	1.0	-1.0
Portugal	1.0	1.0
Other	2.2	-1.2

Market Cap	Gross%	Net%
>£2bn	29.9	-5.2
£700m-£2bn	37.3	3.0
£200m-£700m	46.5	17.8
<£200m	24.5	19.5

Positions	Nov	Oct
Long	79	80
Short	95	93
Longs Opened	1	3
Longs Closed	2	1
Shorts Opened	9	13
Shorts Closed	7	9

Sector	Gross%	Net%
Communication Services	6.0	-1.6
Consumer Discretionary	31.0	7.2
Consumer Staples	7.7	-5.5
Energy	0.0	0.0
Financials	10.2	10.0
Health Care	2.7	0.1
Industrials	35.1	12.8
Information Technology	28.2	-0.7
Materials	12.1	7.8
Real Estate	5.4	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.

SThree Plc – UK recruitment consultant (2.7% NAV)

SThree Plc is a UK listed, GBP 560m market capitalised, recruitment consultant focussed on the science, technology, engineering and mathematics (STEM) market, an area with long term structural growth which should support SThree's growth path in the future. Under relatively new leadership we believe long term investment and strategic changes are being made which will lead to more profitable and consistent results going forward. Coupled with a strong balance sheet, which gives them some optionality with respect to capital allocation, the stock market is giving very little credit to SThree trading on circa 10 times enterprise value to operating profit after tax.

In the past SThree, founded in 1986, was more a federation of entrepreneurial entities. The downside, we believe, was difficulty in creating consistency in corporate standards and culture leading to unpredictable results. Under the new Chief Executive Officer (CEO), Timo Lehne, we feel this is being addressed and will be helped further by the information technology transformation plan, discussed later. We also expect the move to implement best practice across the business to take time, but we would expect it to be completed in 18 months' time.

Timo Lehne has been CEO since March 2022; however he has been 18 years at SThree, being the 8th employee in their DACH (Germany, Austria & Switzerland) business until working up to lead that segment in 2017. We have been impressed with his clarity of thought in how to drive the business forward including quickly making the decision to enact the transformation to make SThree more of a single business via new software systems. Indeed, the ability to upgrade the technology stack was key to him taking on the CEO role.

The transformation plan involves changing the main Customer Relationship Management and Enterprise Resource Planning systems in the company as well as rolling out a new candidate portal. This is a major change, but the new CEO believes this will enable much better scalability of the business as well as better productivity in finding candidates. The roll out started recently in USA, going city by city, and we would expect this to have finished globally over the next couple of months. Given the increasing likelihood of using artificial intelligence generally, having a new technology base to work off could be a competitive edge over the coming years. The total cost is expected to be GBP 30-35m and the company expects a payback in 2 years and will eventually lead to GBP 20m plus per annum in increased profits.

SThree had turnover of GBP 1,639m in the year to November 2022. However, we prefer to focus on net fee income (NFI) for recruitment consultants given the pass-through nature of contractor revenue. On this basis the business generated just over GBP 430m in NFI, with operating profit of around GBP 77m adjusted for lease interest, growing organically 19% and 23% respectively. This conversion ratio of 18% was acceptable but we believe that hitting consistently over 20%, while growing the business would give more evidence of being a truly high-quality operator. As of last year, their 3 biggest country exposures were Germany, USA and Netherlands at 73% of NFI, with the remainder biased to the rest of Europe.

The company is very focussed on the contracting market (over 80% of NFI), which typically has higher barriers to entry because of the relatively higher working capital needs versus permanent as the recruiter is typically paid after the contractor has been paid by the recruiter. Contracting is also historically less economically cyclical, shown so far this year with contract NFI holding up very well while permanent looks to be down over 20%. The Employed Contractor Model (ECM), which accounted for 45% of all contract work last financial year, has been a strong success where SThree in reality do the full recruitment process which we feel is harder to replicate successfully. ECM means staff are technically employed by SThree Plc but in most countries contract termination dates are mirrored between clients and candidates so economically it is very similar.

In terms of return on capital the business, stripping out leases, generates an impressive post-tax return of over 30%. Due to the majority of capital employed being working capital then an increase in the conversion ratio is key to increasing this metric as opposed to an increase in NFI per-se. On the balance sheet we expect it to currently sit with around GBP 75m net cash. The cash generative nature of the business alongside the strong balance sheet means the expected dividend yield currently of 3.8% is very sustainable. The strong balance sheet also may be used to make bolt-on acquisitions, most likely in USA to strengthen their position which we would see as low risk and very selective.

In the first half of this financial year operating profits were weaker by 22% organically and we expect new business wins likely to have slowed down in the last 6 months as demand for staff in some end markets, especially technology, contracts from unsustainable levels a year ago. Overall, we expect profits to be down by around 10% this year and think profits may not increase much next financial year due to a weaker starting base. However, we expect an improvement in trading conditions by Financial Year 2025 and helped by all the transformation work we would expect profits of over GBP 80m.

Overall, we think the perception of SThree will change as it proves itself to be a consistently high return, cash generative business with strong leadership in the coming years. These traits allied to the fact it is exposed to attractive structural growth areas lead us to value the enterprise on 13 times operating profit after tax leading to upside of over 50% over the next 2 years.

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	1.1	1.1		**0.5**
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.

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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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