Ennismore European Smaller Companies Fund

Investor Newsletter for the month of January 2024

Issued on 7 February 2024

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 296m as at 31st January. Total assets under management by Ennismore Fund Management were GBP 490m. 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 January 2024

	Share Class[1]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share[2]	169.00	198.12	28.57	28.29	28.44
	% Change				
January 24	1.9	3.6	2.0	3.2	3.2
2024 to date	1.9	3.6	2.0	3.2	3.2
Annualised return[3]	12.1	11.2	8.4	8.3	8.4
Since launch[3]	1621.9	1306.8	185.7	182.9	184.4
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 1.9% in January. The long book cost 0.7% while the short book contributed 3.4% to NAV.

Our short position in a German online retailer contributed 63bps on no news. A short position in a Swiss solar company added 38bps after announcing a profit warning for 2023 as well as a need for further funding to finance their expansion plans going forward. Costain Group Plc added 28bps after issuing an inline trading update for 2023 with a net cash position of GBP 164m, which compares favourably to the current GBP 189m market capitalisation. IG Group Plc cost the fund 26bps after reporting fairly weak first half results, however we are still very positive on the stock due to its compelling valuation.

SThree Plc reported profits for the year inline with expectations on an underlying basis. XP Power Plc gave a trading update that seems to show demand starting to stabilise overall. SCS Group Plc exited the portfolio as its takeover was completed.

Top Five Contributors and Detractors for January 2024

Contributors	bps
German automotive company	63
Swiss solar company	38
Hong Kong software company	37
German renewable energy equipment company	29
Costain Group Plc	28

Detractors	bps
Swiss online retailer	-32
IG Group Holdings Plc	-26
Moneysupermarket.com Group Plc	-22
GRENKE AG	-22
US Software company	-21

[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 January 2024

Company	Country	Sector	% of NAV
EVS Broadcast Equipment SA	Belgium	Information Technology	4.7
Costain Group Plc	United Kingdom	Industrials	4.3
STO SE & Co KGaA	Germany	Materials	4.0
IG Group Holdings Plc	United Kingdom	Financials	3.5
Ultimate Products Plc	United Kingdom	Consumer Discretionary	3.4
			20.0

Exposures as at 31 January 2024

Longs%	Shorts%	Gross Exposure%	Net Exposure%
88.1 (92.0)	53.0 (53.5)	141.1 (145.5)	35.0 (38.5)

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 January 2024

Country	Gross%	Net%
United Kingdom	47.3	29.3
Germany	30.0	17.4
Sweden	13.0	-2.7
Switzerland	10.7	-2.5
United States	10.1	-8.4
Italy	5.1	-0.1
Belgium	4.7	4.7
France	4.0	2.9
Austria	2.6	1.1
Norway	2.3	0.2
Canada	2.3	-2.3
Poland	1.9	-1.9
Finland	1.6	-1.6
Jersey	1.5	-1.5
Portugal	1.0	1.0
Other	3.1	-0.7

Market Cap	Gross%	Net%
>£2bn	31.2	-3.7
£700m-£2bn	35.7	4.7
£200m-£700m	47.6	12.6
<£200m	26.6	21.4

Positions	Jan	Dec
Long	77	77
Short	90	94
Longs Opened	1	0
Longs Closed	1	2
Shorts Opened	4	3
Shorts Closed	8	4

Sector	Gross%	Net%
Communication Services	6.6	-1.0
Consumer Discretionary	28.3	8.6
Consumer Staples	9.6	-7.1
Energy	0.0	0.0
Financials	10.6	10.4
Health Care	4.1	-1.7
Industrials	33.8	11.9
Information Technology	27.9	1.3
Materials	14.5	7.3
Real Estate	5.8	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.

LSL Property Services Plc– UK residential property services company (1.0% NAV)

LSL is a GBP 280m market capitalized company we have owned in the past and wrote about back in December 2010. The business looks quite different now due to the passing of time and recent strategic changes driven by management, so we felt it merited another write up. The Estate Agency segment is now the lowest profit driver of the company having been franchised, and there is now a substantial structurally growing Financial Services segment. Overall, we believe that LSL is now a higher margin and higher quality business than in the past which should have a higher base of profits through the housing market cycle. In our view these long-term improvements have not been priced in by the market even at this low point in the cycle.

LSL is still intrinsically linked to the housing market however it is now more correlated to mortgage volumes including remortgages - as opposed to housing transactions per se. One reason for this is the significant Financial Services division, a pure business to business division mainly consisting of a network offering services to mortgage advisor firms within its network (Primis) e.g. tech infrastructure and keeping up with regulatory changes and training therein. We expect the seemingly ever-increasing governance oversight requirements to continue to drive the structural growth of appointed representatives within networks as opposed to being directly authorised. We really like the characteristics of this unit, as with all networks, financial network's barriers to entry are high. You need to have scale to be economic, but it is hard to gain scale without offering a good reason for firms to switch which typically needs financial investment hence a virtuous circle. LSL's revenue model is to be paid on a per transaction basis by its members so does have exposure to overall new mortgage lending. With circa 2,700 members, the Financial Services Network has a market share of circa 6.5% of the mortgage market. This unit also owns TMA, a mortgage club which gives its mortgage advisor members access to a range of financial products which they are able to offer to their clients. The network overall has a circa 30% operating margin on a GBP 40m revenue base. This segment is driven by overall mortgage volumes but also by trends within this, for example some lending has higher commission such as specialist lending e.g. buy to let, and moving to a new lender compared to lower margins if changing products within the same lender. In 2023 both these parts of the market have been held back by higher interest rates but we expect these to revert to close to pre-COVID levels in 2025 and operating margins to then exceed 35%. This division is likely to be assisted by acquiring other networks in the future, so blocks of firms can be added to the existing network with a healthy margin drop through of over 50%. An example of this is TenetLime which was recently completed for an initial cost of circa GBP 6m, and based on the multiple paid we expect low double digit post tax returns. These bolt-ons do also help increase the scale of the network giving further financial investment to stay ahead of other networks and encourage directly regulated firms to join. There is also a joint venture sat in this division which was set up with Pollen Capital to consolidate the consumer facing advisory sector. Since its launch in April 2021 this venture has not really had much traction which has been a disappointment and currently runs with a small ongoing loss of less than GBP 1m.

LSL still has the Surveying & Valuations business as its largest unit. They sit with around a 40% market share, the number two player in a highly consolidated market. Most of their business is via agreements with banks often with long term contracts, paid by the borrower, to support mortgage lending – either for a new transaction or switching providers, with the remainder coming directly from the consumer. The income per job is around GBP 170 although we would expect this to pick up as specialist lending increases as interest rates fall. Due to the reduction in housing transactions and lack of people moving between lenders or remortgaging, down over 20% in the first half, there has been a big fall in demand for surveys in 2023. This has a high drop through impact on profits due to a relatively fixed cost base. In the first half of 2023 revenues fell 30%, leading profits to fall by 74% to around GBP 3m. However, the 9% margin in these fairly extreme circumstances are testament to the quality of this division. Due to the need to be able to act if and when the market turns up, LSL are very hesitant to cut surveyors for short term profit improvement. The security of being with a firm that can look through these cycles due to financial strength plus a stronger base of work is a major reason for surveyors working for LSL rather than working independently. We expect margins will get back over 25% as the market normalises.

The other major change enacted by the current CEO, David Stewart, who has been in position since May 2020, has been the decision to convert Estate Agency to become a franchisor of its brands such as YourMove and Reed Rains. Estate agents act as intermediaries to assist consumers to sell residential properties typically for around a 1% fee. Inherently this has been quite a structurally tough industry with fairly low barriers to entry and some pressure from low touch, online only competition pushing down commission rates. We believe the need for entrepreneurial drive suits the switch to a franchisee model. As is standard with this model LSL will receive a fee for use of its brands plus payment for certain central services. This will leave a leaner, higher operating margin (over 30% as of the second half of 2023) service provider to franchisees of its previously own branches with significantly less profit volatility and lease exposure. We expect this unit to generate over GBP 5m of profits per annum going forward.

The company has a strong balance sheet with around GBP 35m net cash as of the end of 2023. They are therefore well placed for any inorganic opportunities in Financial Services alongside paying a sustainable dividend of over 4% at the current share price. LSL is also structurally an asset light business with negative working capital and limited recurring capital expenditure so cash conversion should normally be very satisfactory, and we would expect a post-tax return on invested capital of over 30% in mid-cycle conditions.

We view 2023 to be a trough year with operating profits of less than GBP 10m, we expect 2024 to be a step up but still not at the normalised levels we expect in our valuation base year of 2025. For 2025 we forecast GBP 30m of operating profits and a margin of around 20%. We value the company on a sum of the parts basis ranging from 13 times operating profits for the Financial Services business to 9 times for the Surveying segment. This leads to a fair multiple overall of 15 times post tax which we see as prudent given the impressive expected future operating margins, good cash conversion and growth opportunities going forward. This justifies a share price of 380p and upside of over 40% to the end of 2025.

Historical Monthly Percentage Return for the GBP A Shares

Year	Jan (%)	Feb (%)	Mar (%)	Apr (%)	May (%)	Jun (%)	Jul (%)	Aug (%)	Sep (%)	Oct (%)	Nov (%)	Dec (%)	Annual
2024	1.9												**1.9**
2023	-2.8	-0.1	-0.4	2.9	-3.0	-2.6	-1.6	3.1	3.0	1.1	1.1	1.7	**2.1**
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.

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