Ennismore European Smaller Companies Fund

Investor Newsletter for the month of March 2024

Issued on 5 April 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 294m as at 28th March. Total assets under management by Ennismore Fund Management were GBP 484m. 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 28 March 2024

	Share Class[1]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share[2]	166.96	195.29	28.22	27.90	28.05
	% Change				
March 24	1.2	1.2	1.2	1.2	1.2
2024 to date	0.7	2.1	0.7	1.8	1.8
Annualised return[3]	11.9	11.0	8.2	8.1	8.2
Since launch[3]	1601.1	1286.7	182.2	179.0	180.5
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 1.2% in March. The long book contributed 3.1% while the short book cost 1.6% of NAV.

Our long position in Spirent Communications Plc contributed 88bps in March as the company was initially approached by US peer Viavi at the beginning of the month, followed by a second, higher recommended cash acquisition proposal by US peer Keysight three weeks later, for a combined premium to the undisturbed share price of 86%. As we mentioned in our July 2023 newsletter, we think that Spirent could be an appealing acquisition target for some market players; as a consequence, we added to our position after the initial approach from Viavi, and we still believe there is a good chance that we could potentially see higher bids for the company in the near future.

It was another busy month for the portfolio news wise.

Costain Group Plc announced another good set of results which led to a 90bp benefit to the fund's performance. Sitting, on our metrics, on circa 3 times cash adjusted earnings we still see further upside of circa 80%. We expect margins to continue to improve and its pension deficit payments to get closer to not being needed, further helping the cashflow profile. SThree Plc gave a first quarter update that continued to show net fee income resilience driven by its non-permanent, contract focus. IG Group Plc gave a third quarter revenue update which gave a pleasing sign of stabilising trading income, belying the low multiple the company continues to trade on.

There were also solid results for Morgan Advanced Materials Plc and a bullish view on their future potential in the semiconductor space, both points still not being fairly rated by the market in our opinion. Essentra Plc did a good job of executing on its cost saving plan, helping it to hold profits stable in 2023 with -8% organic growth, due to customers destocking which we would expect to finish by the second half of this year.

[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.

In their 2023 results Mobilezone Holding AG continued to show solid growth in subscriptions to their mobile virtual networks in both Germany and Switzerland which should give them a good tailwind for profits going forward. TX Group AG showed improving momentum in their SMG venture with margins moving to levels more commensurate with high market share, classified companies. It's also pleasing that it seems like the management are now looking to optimise capital allocation better by realising the value locked up in their real estate assets. Also, Just Group Plc reported strong numbers for 2023 in both the retail annuity and pension buy out parts of their business, which we would expect to continue into 2024.

Top Five Contributors and Detractors for March 2024

Contributors	bps
Costain Group Plc	90
Spirent Communications Plc	88
Vossloh AG	33
Gruppo Mutuionline SpA	24
STO SE & Co KGaA	23

Detractors	bps
UK software company	-31
Swiss online retailer	-26
Italian industrial company	-25
German online retailer	-23
Cegedim SA	-22

Top Five Long Holdings as at 28 March 2024

Company	Country	Sector	% of NAV
EVS Broadcast Equipment SA	Belgium	Information Technology	5.2
Costain Group Plc	United Kingdom	Industrials	4.8
STO SE & Co KGaA	Germany	Materials	4.4
SThree Plc	United Kingdom	Industrials	3.9
IG Group Holdings Plc	United Kingdom	Financials	3.6
			21.8

Exposures as at 28 March 2024

Longs%	Shorts%	Gross Exposure%	Net Exposure%
94.6 (90.0)	52.7 (53.3)	147.3 (143.4)	41.8 (36.7)

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 28 March 2024

Country	Gross%	Net%
United Kingdom	50.5	34.7
Germany	30.0	17.4
Switzerland	11.5	-4.0
United States	11.4	-5.3
Sweden	10.8	-0.7
Italy	5.8	0.0
France	5.4	1.3
Belgium	5.3	5.3
Norway	2.7	-0.3
Canada	2.7	-2.5
Poland	2.5	-2.5
Austria	2.4	1.2
Jersey	1.9	-1.9
Finland	1.2	-1.2
Portugal	1.0	1.0
Other	2.1	-0.6

Market Cap	Gross%	Net%
>£2bn	32.6	-2.6
£700m-£2bn	41.2	12.1
£200m-£700m	54.2	15.3
<£200m	19.3	17.0

Positions	Mar	Feb
Long	85	85
Short	80	90
Longs Opened	2	9
Longs Closed	2	1
Shorts Opened	3	5
Shorts Closed	13	5

Sector	Gross%	Net%
Communication Services	7.4	-1.0
Consumer Discretionary	26.7	7.5
Consumer Staples	9.2	-6.3
Energy	0.0	0.0
Financials	11.5	11.5
Health Care	4.9	-0.5
Industrials	39.4	14.7
Information Technology	30.2	1.3
Materials	13.0	9.9
Real Estate	5.0	4.6
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.

Verallia SA – French glass manufacturer (1.0% of NAV)

With a market capitalisation of EUR 4bn, French-listed Verallia is the European leader and the world's third largest producer of glass packaging for beverages and food products. The company used to be part of the Saint-Gobain group, was then acquired by Apollo and Bpifrance in 2015, and went public in Autumn 2019. There are many aspects of the business to like, including predictable growth, relatively high barriers to entry, strong market positioning, healthy returns on capital and good cash generation. We believe the current weak European glass market combined with a low market valuation of the stock represent a good opportunity to get exposure to the name, and we are prepared to navigate some potential short-term volatility in an otherwise resilient business in order to benefit from the long-term potential we see in the shares.

The European glass manufacturing industry presents what we believe are attractive characteristics. First of all, the industry has gone through significant consolidation and is today very concentrated, so much so that we consider it oligopolistic. In fact, in 2019 the top five players in Europe accounted for 71% of the market, which compares with a combined market share of below 50% in the early 2000s. Secondly, barriers to entry in the form of capital requirements are relatively high, with a full furnace and associated plant costing circa EUR 100m to build, having a mid-teen year lifespan, and are required to be run 24/7 at 1500-1600°C with circa 10 days to cool down in an orderly fashion. Geographical proximity to clients also represents a strong barrier to entry, providing local players with some pricing power and competitive edge given glass "doesn't travel well" due to high transport costs. Moreover, the industry has historically been a very resilient one, with organic annual growth in volumes averaging in the low single digits in the past decade, with a decline of only 1.5% for 2020 and, we understand, by circa 5% overall in 2008/9. From this perspective, 2023 was a very special year, with volumes estimated to have declined more than 10%. We believe this weakness in an otherwise very stable industry comes from both weak consumption and from industry destocking, with each, we estimate, accounting for about half of the decline. We are convinced both these factors are temporary in nature: weak consumption is driven by the current poor economic outlook, while destocking follows two years with strong demand, and we expect it to gradually recede as the year progresses. This has led glass producers to postpone new capacity additions that were planned for the next few years, and we have also seen furnaces across Europe being closed in response to the weak short term market outlook. We take this as a strong sign that glass manufacturers are remaining rational, which we believe is very important to keep capacity utilisation at good levels in an industry characterised by high fixed costs.

In this context, Verallia is the European market leader with a circa 20% share, producing around 16 billion jars and bottles every year and operating 34 glass plants with 63 furnaces. Of its EUR 3.9bn sales, 90% come from Europe and 10% from Latin America. From an end market perspective, wine accounts for 43% of total revenues, followed by spirits at 16%, beer at 12%, soft drinks at 11% and food at 17%. We appreciate the company's market positioning and balanced end market exposure, and we believe they represent a good competitive advantage. In particular, Verallia has a relatively high exposure to wine which is a premium product with a high unit price compared to beer, soft drinks or food and is mainly sold in glass bottles, while the relatively high exposure to spirits is also attractive given they are almost entirely glass-packaged and, together with wine, benefit from interesting premiumisation trends. On top of this, the relatively new CEO Patrice Lucas has made ESG one of his strategic pillars, which we believe may prove a long-term competitive advantage as clients pay more and more attention to environmental aspects in an energy-intense industry such as glass manufacturing.

The company has a vast client base of more than 10,000 customers, with the top 10 accounting for about 18% of revenues and the biggest one about 5%. The vast majority of contracts with clients are negotiated annually, with only circa 10% to 15% having automatic adjustment clauses to account for cost inflation. The company has been very successful in the past few years at significantly increasing prices to compensate for higher costs, particularly in energy, raw materials and transportation/packaging. This has been facilitated by an industry that in 2021/2022 was running at full capacity given strong demand, limited availability and longer lead times. As the situation started improving and energy and material costs started normalising in the past few months, industry players including Verallia have faced weaker demand, with the company having to reduce prices to clients. As mentioned before, we are convinced these trends are temporary: we believe customer destocking should end over the next 3-6 months and now that costs have started normalising on a lower level, we are convinced Verallia should be largely successful with its strategy of only reducing pricing in line with costs for the 2024 fiscal year. On the other hand, visibility on the exact timing of this stabilisation and recovery remains relatively low, and we are prepared to see through some short-term volatility in order to take part in the long-term upside potential.

We are impressed with the margin progression at Verallia since 2016, with a gradual increase in operating profitability from around 8% back then to more than 21% in 2023, which equates to an attractive factoring-adjusted 22% return on capital after tax. Given the business's strong cash generation profile and overall long-term stability, we are comfortable with Verallia's 2023 net debt position excluding leases and factoring of around EUR 1.3bn, which leaves ample room for an expected healthy dividend yield of around 5%.

At the current share price of around EUR 34, we believe the market is undervaluing this market leading, resilient, cash generative and high return business. We don't seem to be the only ones thinking this: at the end of February CEO Lucas bought circa EUR 100k in Verallia shares, while the company's main shareholder, private holding company Brasil Warrant Administração de Bens e Empresas with circa 28% of the share capital, has purchased more than EUR 15m worth of shares year to date, and we believe the company has room for opportunistic share-buybacks, like the EUR 50m that was launched in December 2022, should the valuation remain low. We are convinced a business like Verallia should trade on a fair enterprise value to operating profits after tax multiple of at least 14 times, which would imply an upside of circa 40% to the current share price 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	-2.4	1.2										**0.7**
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.

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