Ennismore Global Equity 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 137m as at 31st January. Total assets under management by Ennismore Fund Management were GBP 490m. 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 January 2024

	Share Class[1]					
	GBP	**GBP A**	**EUR**	**CHF**	**EUR I**	**USD I**
NAV per Share[2]	14.38	14.30	14.66	12.67	10.97	11.31
						% Change
January 2024	3.3	3.2	4.7	6.0	4.0	3.3
2024 to date	3.3	3.2	4.7	6.0	4.0	3.3
Annualised return[3]	5.1	5.0	5.4	3.3	1.7	2.5
Since launch[3]	43.8	43.0	46.6	26.7	9.7	13.1
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 3.2% in January, with the long book costing 0.4% and the short book adding 4.5%. After a hostile market environment for our portfolio in November and particularly December, January was much more favourable. The market themes that worked in late 2023 reversed sharply as 2024 began with high quality outperforming low, and attractive valuations outperforming expensive companies. In addition, large companies did better than small ones, and low beta outperformed high beta. With a large US short book skewed to low quality, high valuations, and high beta, our short book performed very well.

Buzzi added 57bps, we believe driven by European peer Holcim revealing plans to spin-off its US subsidiary. The Newco is expected to trade on an EBITDA multiple similar to the US listed competitors at over 10x. Even after the recent strong share price performance, Buzzi's shares are still trading around 5x 2023 EBITDA, with the US accounting for over half of group profits. Putting Buzzi's US unit on similar multiples would imply zero value to the rest of the business, which highlights how undervalued the stock is.

The short book had a good month with 4.5% added on 48.7% average exposure for 9.2% implied return on capital. The top performer was a HK listed short which sold off during the month together with poor year-to-date performance of Chinese equities. Management has aggressively recognised revenues in the past and continues to guide for very strong growth, despite being unable to generate cash profits with the balance sheet now plagued with looming debt maturities. We stay short as the shares remain richly valued at around twice inflated revenues. The Fund also had significant contribution from shorts in crypto miners, which suffered following the SEC's approval of spot bitcoin ETFs as market participants no longer need to use proxies to easily and cheaply gain exposure to the cryptocurrency.

[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 Contributors and Detractors for January 2024

Contributors	bps
Hong Kong software company	68
Buzzi Unicem SpA	57
US financial services company	53
Schibsted ASA	44
US healthcare company	32

Detractors	bps
Admiral Group Plc	-32
Moneysupermarket.Com Group Plc	-30
Tucows Inc	-26
TGS ASA	-24
US medical devices company	-23

Top Five Long Holdings as at 31 January 2024

Company	Country	Sector	% of NAV
Schibsted ASA	Norway	Communication Services	6.7
Buzzi Unicem SpA	Italy	Materials	4.9
Admiral Group Plc	United Kingdom	Financials	4.7
D'Ieteren Group SA	Belgium	Consumer Discretionary	4.6
International Distributions Services Plc	United Kingdom	Industrials	3.2
			24.0

Exposures as at 31 January 2024

Longs%	Shorts%	Gross Exposure%	Net Exposure%
82.9 (87.4)	47.1 (51.3)	130.0 (138.7)	35.8 (36.1)

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 January 2024

Country	Gross%	Net%
United States	42.5	-22.4
United Kingdom	29.9	27.6
Japan	10.5	7.8
Norway	8.1	7.4
Germany	7.0	4.6
Italy	5.9	3.9
Sweden	5.0	-1.7
Belgium	4.6	4.6
Canada	1.8	0.1
Spain	1.7	1.3
Mexico	1.7	1.7
Israel	1.7	-0.5
Switzerland	1.4	-0.2
Bermuda	1.2	1.2
South Korea	1.2	1.2
Hong Kong	1.1	-0.9
Austria	1.1	0.2
Other	3.5	0.0

Market Cap	Gross%	Net%
>$10bn	21.6	4.0
$5bn - $10bn	32.7	22.7
$1bn - $5bn	46.6	11.2
<$1bn	29.3	-2.2

Positions	Jan	Dec
Long	64	66
Short	106	100
Longs Opened	1	7
Longs Closed	3	3
Shorts Opened	9	10
Shorts Closed	3	6

Sector	Gross%	Net%
Communication Services	15.3	13.3
Consumer Discretionary	19.2	4.8
Consumer Staples	8.3	-0.7
Energy	0.7	0.7
Financials	17.2	11.6
Health Care	8.2	-3.9
Industrials	18.2	1.2
Information Technology	23.4	1.7
Materials	14.2	7.6
Real Estate	4.0	0.9
Utilities	0.0	0.0
Other	1.4	-1.4

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

BML Inc – Japanese clinical laboratory testing provider (2.1% NAV)

BML is one of Japan's largest clinical laboratory testing service providers. We expect revenues to be around JPY 135bn for the fiscal year ending March 2024, while after-tax net income should be in the range of JPY 7-8bn. After years of consistent growth, profitability, and a characteristically Japanese approach to managing the balance sheet, net cash at the end of September 2023 stands at around JPY 85bn. At a current market capitalisation of JPY 111bn BML trades on a price-to-earnings ratio of about 15x and an enterprise value to net operating income after-tax (EV/NOPAT) of less than 4x.

The business was founded in the 1960s and the founder's son continues to run the business conservatively since taking over in 2014, with the family still retaining an ownership stake of over a third. Outsourced clinical testing accounts for over 90% of group revenues; the rest of the business comprises of food hygiene testing, sales of BML's electronic patient chart software, and a small pharmacy operation.

BML now has a fifth of the Japanese outsourced clinical testing market, and whilst there are similar-sized peers such as SRL Group and LSI Medience, the larger players in aggregate only account for around half of the current addressable market. There remains a long tail of much smaller competitors. Industry share of the top players has steadily grown over time but clearly there is still room for further consolidation, and BML's partnership agreement with the number four player FALCO Holdings in May last year is just an example of this. Further, roughly half of Japan's clinical testing market continues to be done in-house for example by the larger hospitals, although the trend is towards more outsourcing over time. We expect BML to gain share of an outsourcing market which is increasing its share of overall testing volumes.

The company has historically grown at a much faster pace than its larger peers. For example, at the turn of the century BML's sales were less than 60% of then market leader SRL Group; today the two are similar in scale. We believe this is driven by a better strategy focused on serving small to mid-sized clinics. These clients usually conduct a limited number of tests and so are unable to run these economically in-house. Peers have tended more towards larger institutions that could offer substantial volumes and better margins right at the start of a relationship, offset by a weaker bargaining position later during contract renewals.

The drawback of BML's approach is that it had to invest more initially in developing its own service network and logistics, centralised testing operations for better productivity, turnaround times, and scale, as well as developing proprietary software now embedded in their clients' workflow for digitally reporting patient test results. All these lead to much reduced costs over time however, which has allowed the business to generate a respectable average post-tax return on net operating assets (RONOA) of 18% in the decade prior to the pandemic. BML is also in a good position now to serve the larger hospitals with the scale of its operations, on which it made some inroads during COVID. As Oscar Wilde said, "imitation is the sincerest form of flattery that mediocrity can pay to greatness", and SRL Group is now trying to replicate BML's centralised approach with smaller clinics, so far with limited success due to delays and cost overruns.

The industry faces some headwinds. The COVID-19 testing boom is now over, giving way to concerns of potential industry over-capacity. Longer term, clinical test pricing is heavily regulated in Japan, with downward revisions of c. 0.5-1.0% every couple of years being the norm since 2006. Meanwhile, the cost of reagents and containers has increased in price in recent years. This tougher environment has exposed diverging performance between the industry participants. Whilst BML has so far stayed within its historic range of 6-9% pre-tax margins, larger peers have begun reporting losses in recent periods.

Excluding COVID-19 tests, BML's revenue has continued to grow from pre-pandemic levels at a rate in excess of 2% per year, which isn't far off the company's historic growth rates of 3-4% prior to 2020. Moreover, peers have recently confirmed a pickup in testing volumes with smaller clinics, which likely have been depressed when COVID-19 was still prevalent with patients less likely to go to clinics unless really needed. An increasing margin gap vs. peers puts the company in an enviable position to be more aggressive in increasing its market share, while recent industry-wide cost inflation lessens the likelihood of further downward pricing revisions by the regulator. The group is also in the midst of an expansion program which should result in more efficient operations and higher processing output. All these improve the odds of BML's revenue and profit growth accelerating from this point onwards.

Whilst we believe BML is a good business and well managed, capital allocation is a concern as management has historically hoarded cash. However, there are positive signs here, albeit baby steps so far. BML increased the dividend payout ratio to around 40% for the fiscal year ending March 2024 compared to less than 30% prior to the pandemic, on top of special dividends of around JPY 2.8bn paid out in the prior two fiscal years. Share buybacks have likewise been initiated in late 2019, with roughly 8% of shares outstanding repurchased since. BML is also spending additional capital expenditures of around JPY 4-5bn per annum for the next few years, investing in additional capacity, upgrading testing equipment and software, enhancing their lead on scale and efficiency. One could be sceptical about such an expansion program amidst industry over-capacity concerns; however, this is well covered by the cash profits generated and peers have so far struggled in ramping up their processing volumes, putting these concerns to rest for the moment.

BML's shares today are trading near 25-year lows relative to net tangible book value, whilst the balance sheet is the strongest it's ever been. Coupled with a proven management team, that has over time delivered good revenue growth and profits driven by a sensible corporate strategy, there is a good margin of safety on the investment in our view. Valuing the existing business on a more reasonable 15x 2024 net operating profit and adding the cash on the balance sheet gives an upside of over 70% to the current share price.

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
2024	3.2												**3.2**
2023	0.7	0.8	0.1	3.4	-1.7	-0.9	0.8	2.5	4.9	0.9	-0.4	-0.1	**11.4**
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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