Ennismore European Smaller Companies Fund

Investor Newsletter for the month of May 2024

Issued on 7 June 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 31st May. Total assets under management by Ennismore Fund Management were GBP 491m. 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 May 2024

	Share Class[1]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share[2]	169.29	198.54	28.61	28.35	28.50
	% Change				
May 24	-0.7	-0.5	-0.7	-0.6	-0.6
2024 to date	2.1	3.8	2.1	3.4	3.4
Annualised return[3]	11.9	11.0	8.2	8.1	8.2
Since launch[3]	1624.9	1309.8	186.1	183.5	185.0
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 decreased by 0.7% in May. The long book contributed 3.1% while the short book cost 3.8%.

The largest positive contribution in May came from our long position in Secure Trust Bank which contributed 40bps after reporting a solid first quarter update with continued loan book growth as well as the change of chairman to Jim Brown, the ex-CEO of Sainsbury's Bank. In our first contact with the new chairman we were very happy with our first impression and believe he'll be a strong addition to the board. A short position in a Norwegian energy machinery supplier cost the fund 80bps after rallying 53% in the month with no obvious explanation. Our short position in a German online retailer also cost the fund 53bps after the shares reacting strongly to a better margin outcome on a weakening topline in their first quarter results. We still hold high conviction that both stocks are hugely overvalued.

Ultimate Products, announced a reduction in profit expectations, disappointingly given its proximity to their recently announced interim results, costing the fund 63bps. Trading hasn't picked up as they expected going further into the second half of their financial year, although they are still seeing positive indications on order intake going into the next financial year. EVS Broadcast also reported a first quarter trading update which we believe gave a conservative base for expectations and we wouldn't be surprised if these were increased as the year progresses. However the market was clearly hoping for more and the stock fell 9% in the month costing the fund 53bps. We still feel EVS's valuation is unfairly low, with a strengthening track record of delivering top and bottom line growth.

[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 Contributors and Detractors for May 2024

Contributors	Bps
Secure Trust Bank Plc	40
IG Group Holdings Plc	35
STO SE & Co KGaA	27
Vossloh AG	24
Costain Group Plc	24

Detractors	bps
Norwegian energy machinery supplier	-80
Ultimate Products Plc	-63
German online retailer	-53
EVS Broadcast Equipment SA	-53
US footwear company	-48

Top Five Long Holdings as at 31 May 2024

Company	Country	Sector	% of NAV
Costain Group Plc	United Kingdom	Industrials	5.5
STO SE & Co KGaA	Germany	Materials	4.7
EVS Broadcast Equipment SA	Belgium	Information Technology	4.7
IG Group Holdings Plc	United Kingdom	Financials	4.6
SThree Plc	United Kingdom	Industrials	3.9
			23.4

Exposures as at 31 May 2024

Longs%	Shorts%	Gross Exposure%	Net Exposure%
92.0 (94.3)	51.5 (48.4)	143.5 (142.8)	40.4 (45.9)

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 May 2024

Country	Gross%	Net%
United Kingdom	51.8	35.1
Germany	29.7	16.2
Sweden	13.5	-3.0
Switzerland	8.4	-0.8
United States	7.6	-3.7
Italy	5.7	0.2
France	5.5	1.5
Belgium	4.8	4.8
Norway	3.6	-2.2
Poland	2.9	-2.9
Canada	2.3	-2.2
Jersey	1.9	-1.9
Finland	1.5	-0.8
Portugal	1.0	1.0
Austria	1.0	-0.3
Other	2.3	-0.6

Market Cap	Gross%	Net%
>£2bn	29.3	-3.5
£700m-£2bn	45.3	5.6
£200m-£700m	50.4	21.9
<£200m	18.5	16.5

Positions	May	Apr
Long	87	85
Short	77	80
Longs Opened	5	0
Longs Closed	3	1
Shorts Opened	4	4
Shorts Closed	7	4

Sector	Gross%	Net%
Communication Services	7.9	-2.2
Consumer Discretionary	27.5	4.0
Consumer Staples	6.2	-3.0
Energy	0.0	0.0
Financials	12.8	12.8
Health Care	2.3	-0.1
Industrials	43.9	13.8
Information Technology	25.7	1.5
Materials	11.7	8.8
Real Estate	5.4	4.9
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.

CEWE Stiftung & Co. KGaA - German photo finishing and online printing service provider (1.0% NAV)

CEWE is the largest photo finishing company in Europe and a household brand name for photobooks in Germany. We have previously written about the company in February 2021 and think it is a good time to give an update as the business continues its profitable growth path achieving new record results with revenues of EUR 780m and operating profit of EUR 83.9m, beating its previous record in 2020 which was strongly helped by COVID related tailwinds. Although the business model continues to benefit from its strong position as the largest fish in its pond, its strong brand, premium pricing and its sticky customer base, Mr. Market is not recognizing it as such and values the stock cheaply with a market capitalization of just EUR 750m, smaller than when we last wrote about it. With some very unnecessary internal power plays in the rearview mirror and the new CEO having been in charge for one year, we are confident that the shares will return to their historical valuation metrics. With the first quarter kicking off strongly and targeting the upper range of its guidance it is likely that we see an inflection point for the shares. This is also well supported by a strong underlying free cash flow yield of 10%, a well-covered dividend yield of 2.5% representing the 15th annual increase in a row, and further share buybacks.

Back in 2021, we estimated that CEWE would not be able to repeat its record 2020 results given the special pandemic related circumstances when strong cost discipline coincided with staying at home effects that triggered customers to work on photobooks that they always wanted to finish but had no time to do so. After operating profits surged 40% to EUR 79.7m they were only moderately down 9.6% with revenues reaching EUR 693m down 4.7% in 2021. The following year saw a normalization of its business and a return of its steady growth with revenues and profits increasing mid-single digits and 2023 growing more strongly, partly driven by adjusting prices to cope with inflationary pressures. With that operational development in mind, one would have expected a steady positive share price performance but, after it reached an all-time high in May 2021, the shares plummeted nearly 50% by September 2022. We were lucky as we took profits when the shares were close to our short-term price target and could redeploy this cash very profitably at an even lower entry point compared to our initial investment. We think besides being treated as a COVID beneficiary the unpleasant fight between the then acting CEO and the chairman of the Trustees, the former CEO, put additional pressure on its shares in 2022. In a nutshell the former CEO was not satisfied with the performance of the then acting CEO and wanted to replace him but not all stakeholders agreed. Both have now left the company permanently and we believe the new CEO Yvonne Rostock, who arrived in March 2023, has settled in well with a continuation of the core business strategy emphasising customer centricity, product innovation and further strengthening its brands.

CEWE continues to profit from its leading position in Europe, still twice the size of its closest peer, and its very strong position in the German speaking countries. This can be seen by its very steady operational development over the last two decades with operating profit margins trending positively. This is largely due to its very profitable core photofinishing business representing 84% of total revenues but 95% of profits and more recently its other main business, commercial online-print, turning profitable again after COVID related headwinds. In the long run we could imagine an exit of the commercial business segment which would benefit return on capital strongly, pushing pre-tax returns structurally above 20%. Growth in the number of developed photos and photobooks has been rather pedestrian in the past and sales growth has benefitted from higher average value per photo given more sophisticated end products. When we wrote three years ago, we were too optimistic about the launch of its first artificial intelligence (AI) enabled app but we are encouraged by the recent developments of AI in one of its apps and think that this could reignite the number of developed photos if the time to create a photobook can be reduced significantly and made easier for the consumer.

The first quarter started well with revenues increasing 6.6% to EUR 165.7m and operating profit up 55.2% to EUR 8.1m, which gives us confidence that CEWE will achieve the upper end of its guidance range towards EUR 87m operating profit and revenues above EUR 800m. As a reminder the business has a very strong seasonality due to the holiday period with more than 90% of profits generated in the last quarter. With no interest-bearing liabilities and negligible leasing liabilities CEWE boasts a very strong balance sheet. Therefore, with an estimated net cash position of EUR 120m by year end and underlying net operating profit after tax (NOPAT) of close to EUR 60m the shares trade just slightly above ten times. Given the strong business model and a reacceleration of growth we think the shares should trade at a fair EV/NOPAT multiple of 14 times, in line with the historical average of the last 15 years, and see upside of 30% over the next 12 months.

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	2.1	-0.7								**2.1**
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**

Risk Warning

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A copy of the English version of the Prospectus of the Fund and the Key Investor Information Document (KIID) relating to the Fund may be obtained online from www.ennismorefunds.com or alternatively received via email upon request by contacting clients@ennismorefunds.com. Where required under national rules, the KIID will also be available in the local language of the relevant EEA Member State.

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.

Under normal circumstances, as defined within the Prospectus, the Fund may charge up to 3% of the net asset value of any redemption to cover the costs associated with managing the redemption process, including the sale of assets within the Fund to generate the required cash. Currently this redemption charge is set at 2%.

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We hereby disclose that as at the date of first issue of the report to which this is an Appendix, we held positions in the companies discussed in that report and we are thus subject to conflicts of interest in respect of these companies. The analysis presented on these companies has not been prepared in accordance with legal requirements regarding the independence of investment research and as such is considered non-independent research, as defined by COBS 12.3.2R of the FCA Handbook and as a marketing communication.

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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.

Additional Information for Recipients in Switzerland

The Fund has not been approved for distribution in or from Switzerland by the Swiss Financial Market Supervisory Authority. As a result, the Fund's shares may only be offered or distributed to qualified investors within the meaning of Swiss law. The Representative of the Fund in Switzerland is Bastions Partners Office SA with registered office at Route de Chêne 61A, 1208 Geneva, Switzerland. The Paying Agent in Switzerland is Banque Heritage, with registered office at Route de Chêne 61, 1208 Geneva, Switzerland. The place of performance and jurisdiction for Shares of the Fund distributed in or from Switzerland are at the registered office of the Representative.

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