Ennismore Global Equity Fund

Investor Newsletter for the month of April 2024

Issued on 7 May 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 30th April. Total assets under management by Ennismore Fund Management were GBP 491m. 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 30 April 2024

	Share Class[1]					
	GBP	**GBP A**	**EUR**	**CHF**	**EUR I**	**USD I**
NAV per Share[2]	14.37	14.29	14.63	13.30	10.91	11.29
	% Change					
April 2024	1.1	1.1	1.2	2.3	1.2	1.1
2024 to date	3.2	3.2	4.5	11.3	3.4	3.1
Annualised return[3]	4.9	4.8	5.2	3.8	1.5	2.3
Since launch[3]	43.7	42.9	46.3	33.0	9.1	12.9
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 returned +1.1% in April. Our long book cost 1.1% while the short book contributed 2.5%.

The biggest contributor was International Distributions Services ("IDS") which rose by 18% during the month after receiving a preliminary take-private offer from its largest shareholder. The company's board considered the bid opportunistic and subsequently rejected the proposal, as the offer price of 320p a share (IDS shares closed at 271p at the end of April) fails to reflect the ongoing restructuring efforts in UK-based Royal Mail as well as steady growth in the international parcel delivery business GLS. Petershill Partners, which we wrote on last month, added another 36bps after announcing a tender offer for up to 3.4% of its shares outstanding, subject to approval at the group's AGM. Funds managed or advised by Goldman Sachs, which collectively owns 76.8% of the entity, intend to vote in favour but will not participate in the tender offer.

The short book had a good month overall with no significant detractors, following weaker earnings results and profit warnings in several of our holdings as well as renewed concerns over "higher-for-longer" rates hurting the more speculative names in the Fund.

Top Five Contributors and Detractors for April 2024

Contributors	bps
International Distributions Services Plc	49
Petershill Partners Plc	36
Deliveroo Plc	30
US healthcare company	29
US data centre business	22

Detractors	bps
Becle S.A.B. de C.V	-30
Schibsted ASA	-29
French technology company	-22
Buzzi Unicem SpA	-21
JINS Holdings Inc	-20

[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 Long Holdings as at 30 April 2024

Company	Country	Sector	% of NAV
Schibsted ASA	Norway	Communication Services	5.5
Admiral Group Plc	United Kingdom	Financials	4.6
D'Ieteren Group SA/NV	Belgium	Consumer Discretionary	4.6
Petershill Partners Plc	United Kingdom	Financials	4.3
Auto Trader Group Plc	United Kingdom	Information Technology	4.1
			23.2

Exposures as at 30 April 2024

Longs%	Shorts%	Gross Exposure%	Net Exposure%
98.9 (91.5)	41.9 (42.5)	140.9 (134.0)	57.0 (49.1)

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 30 April 2024

Country	Gross%	Net%
United States	40.0	-7.9
United Kingdom	38.5	35.2
Japan	11.5	7.6
Norway	6.8	6.1
Belgium	6.6	5.7
Germany	6.3	4.9
Canada	6.1	3.9
Italy	3.8	1.6
Sweden	3.7	-3.2
France	3.0	-3.0
Mexico	1.9	1.9
Bermuda	1.8	1.8
Spain	1.5	1.1
Switzerland	1.4	-0.2
Israel	1.4	-0.3
Hong Kong	1.2	-0.7
South Korea	1.2	1.2
Austria	1.0	0.2
Other	3.3	1.2

Market Cap	Gross%	Net%
>$10bn	35.5	16.9
$5bn - $10bn	28.7	18.1
$1bn - $5bn	52.4	20.7
<$1bn	24.2	1.3

Positions	Apr	Mar
Long	75	72
Short	94	85
Longs Opened	7	3
Longs Closed	4	1
Shorts Opened	17	11
Shorts Closed	8	23

Sector	Gross%	Net%
Communication Services	17.6	15.1
Consumer Discretionary	23.8	7.1
Consumer Staples	9.7	-1.2
Energy	0.7	0.7
Financials	22.8	18.9
Health Care	7.1	-1.1
Industrials	16.9	3.7
Information Technology	26.3	8.8
Materials	11.9	5.0
Real Estate	4.1	0.0
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.

LT Group Inc – Philippine investment holding company (0.6% NAV)

We have made the Fund's first investment into the Philippines. The country has seen solid economic progress since the turn of the century driven in part by steady growth in remittances by its overseas workers and a competitive business process outsourcing industry. One of the Global Fund's Portfolio Managers – who has been with Ennismore since 2007 – is Filipino as well. Acknowledging the risks involved in a society whose 114m population generates an annual median income of just over USD 2,000, we've kept our exposure small.

There are a lot of untapped opportunities, however, in this young and well-educated developing economy. For example, its outdated infrastructure leaves little to be desired with British band Coldplay singing about the capital's "insane traffic" earlier in the year[1]. A new president was elected in 2022 with a majority mandate, the largest margin in over 30 years. So far, he's continued the economic reforms initiated by his predecessors that should lead to more investment in key industries. The government is considering easing foreign ownership limits in sectors such as telecoms, airlines, shipping and railways, which if implemented could lead to multi-year capital inflows for the country. To be clear, we don't make investment decisions based on macro-related factors; that said, these tailwinds are most likely to be beneficial to the more established and well-positioned businesses such as those owned by LT Group.

[1] https://www.rappler.com/newsbreak/inside-track/coldplay-concert-unmissable-for-chopper-riding-music-lover-marcos/

LT Group ("LTG") is a holding company in which Filipino tycoon Lucio Tan and family own around 74%. The family merged its various interests in 2012-13, creating a conglomerate including banking operations, beverage and distilled spirits production, property development, and most importantly a 49.6%-owned Filipino tobacco joint venture ("JV") with Philip Morris International ("PMI"). LTG's current market capitalisation of PHP 109bn (GBP 1.5bn) is just 40% of what we think the underlying business segments are worth; even with a 10-20% holding company discount, one could still see an upside to fair value of 100% or more. LTG has a net cash balance of around PHP 1.8bn at year-end 2023 and currently pays a dividend yield of nearly 12%.

We have followed the company for many years. What prompted us to make an investment recently was the increase in the group's dividend payout ratio post-covid to 50-60% from less than 20%, along with steady growth in the underlying businesses not reflected in a share price that has gone nowhere over the past decade.

The company's JV with PMI was formed in 2010, with LTG contributing value-oriented brands such as Fortune and PMI adding premium brands such as Marlboro. The entity has the perpetual exclusive rights to sell such brands in the country alongside PMI's heat-not-burn products IQOS and BONDS as well as the more recently acquired Swedish Match's nicotine pouch franchise. In the fiscal year ending December 2023, LTG's share of after-tax net income from the JV amounted to PHP 11bn, most of which was paid out as dividends.

Cigarette volumes have declined sharply in the Philippines over the past decade. On top of this the JV has suffered market share losses in its value-oriented brands driven by affordability issues due to rapid tax hikes and a rise in illicit trade. Despite this, revenues and profits doubled over the same period through a combination of price hikes and disciplined cost rationalisation. Post-tax return on capital employed ("ROCE") has averaged around 35% since inception. Going forward, the rate of increase in excise taxes is reducing to a level more in line with historic wage growth, providing less of a headwind. Further, the mix of the JV's brands has shifted with premium products like Marlboro now accounting for approximately two-thirds of group volumes, and a significantly higher percentage of revenues and profits. These higher-end brands have proven to be more resilient to downtrading and illicit activities over time.

LTG also owns a 56.5% stake in Philippine National Bank ("PNB"), which is quoted and one of the largest banks in the country. At its current extremely depressed market value, this is worth PHP 18.5bn with its shares trading at the low-end of its historic valuation range at less than 2x earnings and 0.19x tangible book – multiples that imply significant impairments near term. Just over a decade ago the shares traded around twice book value and the bank was bid for by a larger competitor – a proposal eventually rejected by management who argued it failed to reflect the bank's underlying value.

With the bank's corporate-heavy loan book, financial results are likely to be more economically sensitive than a predominantly consumer-facing institution for example. Whilst it remained profitable – fiscal 2020 net income was PHP 2.6bn – PNB took significant provisions for losses during covid, resulting in the lowest annual profits achieved in a decade. Fortunately, business conditions have improved since and management expects the percentage of non-performing loans ("NPL") to decline further in 2024, continuing trends seen in the past couple of years. The NPL cover ratio – or the proportion of NPLs already accounted for with provisions – is around 89% at year-end 2023. The balance sheet appears well capitalised with shareholders equity accounting for 15% of total assets, of which 30% are held in cash equivalents and government securities. Deposits are mostly in stable and low-cost current and savings accounts, which are less likely to be sensitive to rate changes compared to less sticky yield seeking term deposits.

In the year 2023 PNB generated net income of PHP 18bn, a healthy increase against PHP 11.6bn in 2022 and PHP 9.7bn in 2019, prior to covid. All this indicates the reported tangible book value of PHP 176bn as at year-end December 2023 is a reasonable estimate of fair value, and LTG's stake is probably worth around PHP 100bn.

The remaining operations are mainly in alcoholic and non-alcoholic beverages. LTG owns 100% of Tanduay, the Philippines' largest rum brand, which has a 30% share of distilled spirits by volume, dominating the southern regions of Visayas and Mindanao with a 70-80% market share. It also sells Cobra energy drink – which has a 60% volume share locally – and bottled water brands Absolute and Summit, which in aggregate account for 19% of the market by volume. The group also distributes other beverage brands such as Vitamilk, Sunkist, Nestea, C-vitt, Pascual yogurt, and operates a corrugated carton packaging business. Brands like Tanduay and Cobra tend towards value-oriented customers, which limits pricing power and margins. This is reflected in an average ROCE for both distilled spirits and beverage segments of less than 10%. Together all these businesses generated PHP 46bn in revenues and PHP 2.1bn in net profits during 2023 – on 10x earnings they're probably worth another PHP 21bn to the group.

Finally, LT Group also owns a property development business which generates rental income of PHP 1bn on a leasing portfolio of almost 300k square metres. It is held on the balance sheet at PHP 20bn, a fair estimate of its intrinsic net worth in our view. Management sees synergies between this segment and PNB, where foreclosed properties could be re-developed and sold at the highest possible market price.

An obvious risk in emerging market investments is currency depreciation. We are fairly sanguine about this risk with LTG. The economic position is not bulletproof: the Philippines runs a significant budget deficit of around 6% of GDP, whilst the current account deficit was still 2.5% of GDP in 2023 even after declining from the post-covid peak. The country also has a modest net international investment deficit. However, the government is mindful of keeping both the Philippine peso and external debt in check – through a combination of interest rate hikes and fiscal discipline – and has maintained its credit ratings whilst generating solid growth after the pandemic. More important, cigarette manufacturers have very strong pricing power, particularly amongst premium brands. A significant devaluation would likely be compensated pretty rapidly through pricing. On the balance sheet, LTG's subsidiaries – primarily PNB – have a relatively modest amount of foreign currency liabilities well covered by existing assets.

As with any investment, the risk of capital misallocation is real. Historically a significant proportion of LTG's undistributed profits have gone into lower returning assets and business ventures. We therefore welcome the recent increase in the dividend payout ratio, which reflects a more sensible and disciplined approach in the absence of better investment opportunities.

The company has also seen dwindling analyst coverage in recent years, most likely due to management engaging in fewer roadshows and conferences since covid. While we're not depending on it, this aspect of investor communications is something that may change for the better based on our most recent call with the group's Finance Director, which was conducted in English.

Allowing for some further loss of market share in the PMI JV's value-oriented brands, we conservatively estimate LT Group's share of net income to stabilise eventually at around PHP 8bn, growing thereafter at a low to mid-single digit rate per year through a combination of price hikes as well as increasing sales of PMI's heat-not-burn and nicotine pouch products. Valuing this on 15x earnings, the JV stake alone is worth PHP 120bn. Together with LTG's stake in PNB (which we estimate to be worth around PHP 100bn), as well as the distilled spirits, beverage, and the property development segments (worth another PHP 40bn or so in aggregate), one could easily see an upside of over 100% from today's share price levels.

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	3.3	-3.1	1.9	1.1									**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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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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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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