Ennismore European Smaller Companies Fund

Investor Newsletter for the month of August 2024

Issued on 5th September 2024

Fund Details

Daily dealing UCITS and Irish Central Bank regulated open-ended investment company with Financial Conduct Authority recognition and registered in Ireland, Germany, Italy, Spain, Sweden and Austria. The Fund size was GBP 293m as at 30th August. Total assets under management by Ennismore Fund Management were GBP 489m. 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 30th August 2024

	Share Class[1]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share[2]	172.26	204.52	29.12	29.14	29.29
	% Change				
August 24	0.7	0.7	0.7	0.7	0.7
2024 to date	3.9	6.9	3.9	6.3	6.3
Annualised return[3]	11.8	11.0	8.2	8.2	8.2
Since launch[3]	1655.1	1352.3	191.2	191.4	192.9
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 0.7% in August. The long and short books contributed 0.8% and 0.1% respectively.

On the long book Costain added 108bps to performance in the month after reporting another solid set of results, continuing its rehabilitation. The announcement of a GBP 10m share buyback was also well received. We still believe the stock has significant upside with a very strong balance sheet, alongside operating margins which we expect to be impressive for the sector at over 4% next year.

Just Group reported strong momentum for the first half in both the individual annuity and their pension buy out areas. We believe that current demand levels will be resilient due to regulatory change supporting demand for the annuity market, alongside the increasing proportion of the pension market that is now in a position to offload pensions to life insurers. Secure Trust Bank's half-year report showed continued improvement in their cost ratios, increasing our confidence in their medium-term mid-teen return on equity target. It should be noted that the company currently trades on a discount to tangible book of over 50%.

Morgan Advanced Materials also reported numbers and slightly reduced expectations for an improvement in the rest of the year. Novem Group reported disappointing figures for its first quarter with sales down 20%, as auto suppliers continue to be hurt by the impact of stalling demand momentum for electric cars, alongside pressure to reduce production of traditional combustion engine cars. In this environment the fact operating margins were still over 10% does give some confidence in the structural profitability of the business.

[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 August 2024

Contributors	bps
Costain Group Plc	108
AcadeMedia AB	37
US footwear company	30
Just Group Plc	23
Deutsche Wohnen SE	23

Detractors	bps
Polish software developer	-43
German online retailer	-41
Morgan Advanced Materials Plc	-29
Novem Group SA	-26
Swedish intellectual property licensor	-26

Top Five Long Holdings as at 30th August 2024

Company	Country	Sector	% of NAV
Costain Group Plc	United Kingdom	Industrials	6.6
IG Group Holdings Plc	United Kingdom	Financials	4.9
EVS Broadcast Equipment SA	Belgium	Information Technology	4.7
SThree Plc	United Kingdom	Industrials	3.9
STO SE & Co KGaA	Germany	Materials	3.3
			23.3

Exposures as at 30th August 2024

Longs%	Shorts%	Gross Exposure%	Net Exposure%
93.2 (91.6)	48.9 (48.4)	142.1 (140.0)	44.2 (43.1)

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 30th August 2024

Country	Gross%	Net%
United Kingdom	54.2	37.9
Germany	28.6	14.5
Sweden	12.0	-1.1
United States	7.8	-4.5
Switzerland	6.7	-0.2
France	6.2	1.7
Italy	5.6	0.8
Belgium	4.8	4.8
Poland	3.9	-3.9
Norway	3.0	-1.5
Canada	2.2	-2.0
Jersey	1.6	-1.6
Portugal	0.9	0.9
Finland	0.9	-0.3
Austria	0.8	-0.3
Other	2.9	-1.0

Market Cap	Gross%	Net%
>£2bn	27.2	-0.9
£700m-£2bn	38.6	4.4
£200m-£700m	54.8	23.6
<£200m	21.4	17.1

Positions	Aug	Jul
Long	92	91
Short	77	83
Longs Opened	2	3
Longs Closed	1	1
Shorts Opened	6	8
Shorts Closed	12	6

Sector	Gross%	Net%
Communication Services	6.5	-0.8
Consumer Discretionary	29.5	5.8
Consumer Staples	7.1	-3.8
Energy	0.0	0.0
Financials	13.9	13.9
Health Care	1.8	0.1
Industrials	40.1	18.6
Information Technology	26.8	-1.0
Materials	9.9	7.6
Real Estate	5.4	5.1
Utilities	1.1	-1.1
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.

4imprint Group Plc – UK promotional merchandise supplier (1.6% NAV)

4imprint Plc is a UK listed, USA based, USD 2bn market capitalised business which supplies custom printed promotional merchandise to companies in the USA to help them with brand exposure. Over the last 10 years to 2023 the company has had an excellent track record with revenue and operating profits growing at an annualised rate of 15% and 24%, respectively. In the USA, 4imprint is still the number one player in a large (circa USD 26bn) but highly fragmented market, with over 26k competitors of which only 1k have sales over USD 2.5m versus 4imprint's USD 1.4bn. This market structure continues to help them gain share. The business is extremely capital light as most production of goods is outsourced, with no working capital requirement as products are made to order, leading to a stellar post-tax return on invested capital of around 200% and enabling a very shareholder friendly capital allocation policy, helped by a balance sheet holding around USD 120m of net cash.

The company sells a vast range of products with the largest segments being apparel, bags, drinkware and stationery. The company acquires its customers via various sources including brand advertising e.g. TV, online search, printed marketing (such as catalogues), samples sent to existing customers and emails. Standard products are then typically customised by 4imprint's suppliers to meet the customer's specifications which will often include assistance from 4imprint staff to help with the design process. Customers are mostly smaller businesses, with none accounting for a significant share of revenues, while the supplier base is well diversified.

We last wrote about 4imprint in April 2014 when the share price was 700p although we have not held on to the shares continuously since then. We have taken positions in the company at various times since then, most recently following the large market sell off in 2020 where we made a 50% gain in a month prompting us to exit the position. Unfortunately, that was at a price of 2100p, 60% lower than current levels! What has surprised us, and perhaps the management team, has been such strong success of more brand advertising, via TV, radio and streaming advertisements, as opposed to direct marketing to companies. This seems to have led to a more loyal customer base as 4imprint's brand stays front of mind when companies decide to invest in promotional goods. This has helped the business gain over 300 basis points of market share versus pre-Covid levels in 2019. Although it should be said, one of the positives of this company has been its regular ability to come out of economic downturns in a stronger position compared to entry as it continues to invest through the cycle due to its scale, enabling it to stay profitable allied with a strong balance sheet. The other benefit of the increased loyalty has obviously been group profitability, with the increasing lifetime value of their customers pushing operating margins up to over 10% versus 6% in 2019.

As in the past, 4imprint's sales and marketing cost efficiencies are key, as they account for 76% of operating costs. The company continues to grow its customer base leading to total orders growing circa 9% per annum over the last 5 years to 2023 to over 2 million orders while also gaining from increasing average order values (USD 635 in 2023). As mentioned, the increasing loyalty of the customer base now means 37% of new customers re-order over the following 12 months. The increased scale continues to lead to a virtuous circle of being able to invest more in marketing, leading to more scale as they gain more customers.

This year the company expects to grow sales by 5%, as was the case in the first half. The presidential election in November will probably not be helpful in our view although the second half of last year grew much less than the first half (11% vs 23%), providing an easier comparison. The current interest rate level is clearly dampening overall economic confidence in the USA, as it is globally, although historically a tough environment has been a blessing for 4imprint longer term. The best indicator of harsher market conditions was the fact that new customer additions were down in the first half to 250k, the last time this occurred on a full year basis was in 2009. We believe that marketing efficiency may decrease a little versus the last few years in a tougher economic environment, but we believe this will be compensated by gross margin returning to pre-Covid levels, as suggested in the first half, due to increased buying power leading to operating profits of around USD 145m.

Given the very strong cash conversion the company has a fairly high payout ratio of around 60%, alongside special dividends when management feels appropriate. We expect a dividend yield of around 3.4% for 2024 and would expect the dividend to grow along with earnings going forward. The last special dividend was when the cash balance sat at USD 87m so we would be surprised if there was not another over the next 18 months.

Management-wise, the CEO Kevin Lyons-Tarr and CFO David Seekings have both been with the company over 20 years and have done a fantastic job in executing over that time. The CFO has announced he will be leaving the company before the end of next year, but we have confidence that the time period will allow a good succession plan.

We still view 4imprint as a rare business, a cash cow with little capital needs, but one that can still grow at double digit rates over the medium to long-term in a huge market. We now see the business as being a tougher competitor to beat due to its much larger scale. This gives us stronger confidence longer term, however, as in the past, we continue to conservatively value the business based on a multiple of 20 times operating profits after tax for the core direct marketing business which, after taking out central costs, leaves upside of 35% to the end of next year.

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	0.9	0.2	0.7					**3.9**
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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