# Ennismore European Smaller Companies Fund

## Investor Newsletter for the month of September 2024

Issued on 8th October 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 278m as at 30th September. Total assets under management by Ennismore Fund Management were GBP 472m. 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 September 2024

| | Share Class[1] | | | | |
|---|---|---|---|---|---|
| | **GBP A £** | **GBP A €** | **GBP B** | **EUR A** | **EUR B** |
| NAV per Share[2] | 166.06 | 199.58 | 28.06 | 28.35 | 28.50 |
| | % Change | | | | |
| September 24 | -3.6 | -2.4 | -3.6 | -2.7 | -2.7 |
| 2024 to date | 0.2 | 4.3 | 0.1 | 3.4 | 3.4 |
| Annualised return[3] | 11.6 | 10.9 | 7.8 | 7.9 | 8.0 |
| Since launch[3] | 1592.0 | 1317.2 | 180.6 | 183.5 | 185.0 |
| Note: All performance figures net of fees. **Past performance is not a guide to future returns.** | | | | | |

Comments below on performance attribution refer to GBP NAV per share unless otherwise stated, exclude cash returns and are prior to expenses.

The Fund's NAV decreased by 3.6% in September. The long and short books cost 3.6% and 0.7% respectively on a gross basis.

Overall the Fund had a tough month with both sides of the book detracting from performance. The worries of a harder landing for the US economy, and therefore the wider global economy, seemed to impact the long side of our book while the interest rate cut by the Federal Reserve that followed didn't benefit as much. As always, we consider the macroeconomic environment in our analysis but our principal focus is on the fundamentals at the micro level of our individual investments and trying to derive a fair valuation from that.

The largest detractor from performance in the month was Videndum Plc, which cost the Fund 49bps after it reduced guidance for the full year as their products sold into TV and film production have not ramped up to the extent expected, while weakening consumer demand is clearly hurting other parts of their business. We decided to reduce the size of our position in this post the news as we are less confident in the speed of recovery going forward.

With respect to other newsflow: IG Group Plc reported 15% growth in their third quarter trading income and the relatively new CEO bought over GBP 900k of shares in the stock, all good news in our view. SThree Plc reported a continuing weak net fee income trend in their third quarter but didn't change guidance for the year. We think, given the fairly long term nature of their contracting orderbook, it is unlikely to show growth next year but this is very much baked into the price and we continue to see the company as highly undervalued.

[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 September 2024

| Contributors | bps |
|---|---|
| UK building products distributor | 26 |
| UK footwear company | 24 |
| Vib Vermoegen AG | 23 |
| Deutsche Wohnen SE | 22 |
| Swedish intellectual property licensor | 20 |

| Detractors | bps |
|---|---|
| Videndum Plc | -49 |
| SThree Plc | -34 |
| EVS Broadcast Equipment SA | -33 |
| Costain Group Plc | -32 |
| Gruppo Mutuionline SpA | -32 |

## Top Five Long Holdings as at 30th September 2024

| Company | Country | Sector | % of NAV |
|---|---|---|---|
| Costain Group Plc | United Kingdom | Industrials | 6.6 |
| EVS Broadcast Equipment SA | Belgium | Information Technology | 4.6 |
| IG Group Holdings Plc | United Kingdom | Financials | 4.4 |
| SThree Plc | United Kingdom | Industrials | 3.7 |
| STO SE & Co KGaA | Germany | Materials | 3.5 |
| | | | 22.8 |

## Exposures as at 30th September 2024

| Longs% | Shorts% | Gross Exposure% | Net Exposure% |
|---|---|---|---|
| 91.6 (93.2) | 52.7 (48.9) | 144.3 (142.1) | 39.0 (44.2) |

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 September 2024

| Country | Gross% | Net% |
|---|---|---|
| United Kingdom | 51.0 | 33.9 |
| Germany | 31.2 | 15.4 |
| Sweden | 12.2 | -0.8 |
| United States | 8.8 | -5.4 |
| Switzerland | 6.9 | -0.3 |
| France | 6.7 | 1.4 |
| Italy | 5.6 | 0.5 |
| Belgium | 4.7 | 4.7 |
| Poland | 3.8 | -3.8 |
| Norway | 3.1 | -1.6 |
| Canada | 2.4 | -2.3 |
| Jersey | 1.6 | -1.6 |
| Hong Kong | 1.1 | -0.6 |
| Austria | 1.0 | -0.3 |
| Portugal | 1.0 | 1.0 |
| Other | 3.2 | -1.1 |

| Market Cap | Gross% | Net% |
|---|---|---|
| >£2bn | 30.0 | -3.8 |
| £700m-£2bn | 37.8 | 5.2 |
| £200m-£700m | 54.0 | 19.6 |
| <£200m | 22.4 | 18.0 |

| Positions | Sept | Aug |
|---|---|---|
| Long | 91 | 92 |
| Short | 81 | 77 |
| Longs Opened | 1 | 2 |
| Longs Closed | 2 | 1 |
| Shorts Opened | 6 | 6 |
| Shorts Closed | 2 | 12 |

| Sector | Gross% | Net% |
|---|---|---|
| Communication Services | 7.1 | -1.5 |
| Consumer Discretionary | 27.2 | 4.5 |
| Consumer Staples | 7.7 | -4.3 |
| Energy | 0.0 | 0.0 |
| Financials | 13.3 | 13.3 |
| Health Care | 1.8 | 0.0 |
| Industrials | 41.2 | 18.4 |
| Information Technology | 28.9 | -3.6 |
| Materials | 10.1 | 7.6 |
| Real Estate | 5.9 | 5.7 |
| 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.

## Deutsche Wohnen SE – German real estate company (1.8% NAV)

Founded in 1998, Deutsche Wohnen is the dominant residential landlord in Berlin with around 100,000 apartments and an additional 40,000 units located across Frankfurt, Leipzig, Dresden and Hannover with a current market capitalisation of circa EUR 10bn. We last wrote about the company in the August 2022 Newsletter. The company currently trades on around a 40% discount to Net Asset Value with a lowly leveraged (30% loan to value) balance sheet and a high-quality residential investment portfolio. Vonovia SE - capitalised at EUR 27bn currently - bought out most of the company (87%) in 2021 but have now agreed to discuss a domination agreement. Under the agreement minority shareholders will be able to either accept new Vonovia shares at a to-be defined ratio or keep Deutsche Wohnen shares and receive an ongoing annual compensation payment instead. This news gives us more confidence that there will be a final buyout of all shares in the next few years at a price significantly higher than current levels.

Since we last wrote on the business the share price has increased by 12%, recently buoyed by the domination agreement announcement. However, the share price has been held back by bond yields increasing in this period leading to the net asset value falling 20%, although we believe that these are now on a downward trajectory and may also explain the timing of the recent news.

Fundamentally we still really like the shape of its investment portfolio with its strong exposure to the tight residential market in Berlin. Back in 2021, Vonovia was willing to give large concessions to make the takeover a success. Therefore, they agreed to increase rents by only 1% for three years followed by another two years by a maximum of inflation, but this has been changed by a new agreement with the city of Berlin. This enables Deutsche Wohnen and Vonovia to increase rents by a maximum of 11% or rather 15% within 3 years. The 11% was initially offered given the outlook that a federal rent cap limit will become even tighter, but this has not happened and therefore Vonovia is committed to the existing cap limit. Deutsche Wohnen's average rent sits at around half of market rents, continuing to be very affordable. We calculate that rents at current levels equate to only 30% of an individual's post tax income if only being paid the minimum wage i.e. a pretty conservative assumption. Due to the price of land and build costs we do not see the risk of increasing supply impacting the tightness of the market either. Additionally, we are less concerned about the political risk with the conservative CDU party being elected in Berlin last year.

Deutsche Wohnen are currently generating net rental income of around EUR 720m, a 3% yield on its investment portfolio balance sheet valuation of EUR 24.1bn. Reported funds from operations of EUR 522m translates into a current yield of 5.2% based on its market capitalisation. Vonovia recently announced further progress to divest Deutsche Wohnen's nursing home business which will provide further liquidity to a very de-risked balance sheet and focus on its core residential business. When we initially invested in July 2022, we argued that Vonovia may find a way to avoid paying real estate transfer taxes and referred to recent tax law changes. Apparently Vonovia has found a solution that minimises the potential of additional taxes by setting up a new holding company which will hold 20% of Deutsche Wohnen's share capital and will sell 51% for EUR 1bn to third party investors. Having spoken to Vonovia recently we believe it is better to judge them by what they do rather than what they say. We expect further details, including the exchange ratio and the amount of fixed annual compensation payment by the end of this year. Given that the reported NAV has come down due to the increased interest yield environment, Vonovia could make a fair offer reflecting the current NAV of EUR 42 offering a premium of 70% and still paying 20% less than in 2021. We would prefer an attractive offer now but are prepared to get paid waiting as we still think that eventually Vonovia will need to pay a fair value for a trophy asset like Deutsche Wohnen.

## 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 | -3.6 | | | | **0.2** |
| 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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| For further information please contact: | Adam Sullivan, Ennismore Fund Management | +44 (0) 20 7368 4224 | subs@ennismorefunds.com |
| For dealing please contact: | Northern Trust International Fund Administration Services (Ireland) Ltd | +353 (0) 1 434 5103 | Ennismore_TA_Queries@ntrs.com |


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