Ennismore European Smaller Companies Fund

Investor Newsletter for the month of October 2024

Issued on 6th November 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 271m as at 31st October. Total assets under management by Ennismore Fund Management were GBP 458m. 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 31st October 2024

	Share Class[1]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share[2]	163.48	193.60	27.62	27.66	27.81
	% Change				
October 24	-1.6	-3.0	-1.6	-2.4	-2.4
2024 to date	-1.4	1.2	-1.4	0.9	0.9
Annualised return[3]	11.5	10.7	7.6	7.7	7.7
Since launch[3]	1565.7	1274.7	176.2	176.6	178.1
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 1.6% in October. The long book cost 3.0% while the short book contributed 1.4%.

Our long position in SoftwareOne Holding AG cost the fund 82bps as the company disappointed the market with a weak trading update and a downgraded guidance, driven by some internal and external factors, including a more cautious corporate spending environment and a reduction in vendor incentives. While we are clearly surprised and disappointed by the magnitude of the downgrades in estimates, the company has only released limited details in the trading update and related analyst call, and management will elaborate more with the full earnings announcement on November 13th.

Secure Trust Bank Plc cost the fund 80bps after a legal judgement against two other lenders with regards to the intransparency of commissions paid to car dealers for vehicle finance. This went over and above the regulator's actual recommended lending procedures and these lenders are looking to get the decision appealed to the Supreme Court. Given the strain it puts on the industry we would hope for an expedited appeal and a decision that is fair on the basis that a regulated lender should not expect to be punished for following the regulator's rules. If this stands then the implications for many other intermediary businesses selling to consumers would be profound.

A Hong Kong listed software company cost us 50bps as it rallied aggressively alongside the wider Chinese stock market, also being assisted by it raising a convertible bond which gave it more breathing space with respect to liquidity. This didn't change our fundamental view on the long term quality of the business and we still stay short as it continues to burn cash.

Our short position in an Italian IT solutions company contributed 25bps as the shares declined by almost 80% in the month following press reports that its chairman and CEO is being investigated over alleged corruption in public procurement contracts.

[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 October 2024

Contributors	bps
Costain Group Plc	40
Novem Group SA	36
Norwegian energy machinery supplier	27
Italian IT solutions company	25
Polish software developer	25

Detractors	bps
SoftwareOne Holding AG	-82
Secure Trust Bank Plc	-80
Hong Kong software company	-50
GRENKE AG	-34
Amadeus Fire AG	-30

Top Five Long Holdings as at 31st October 2024

Company	Country	Sector	% of NAV
Costain Group Plc	United Kingdom	Industrials	7.2
EVS Broadcast Equipment SA	Belgium	Information Technology	4.8
IG Group Holdings Plc	United Kingdom	Financials	4.4
SThree Plc	United Kingdom	Industrials	3.6
STO SE & Co KGaA	Germany	Materials	3.4
			23.4

Exposures as at 31st October 2024

Longs%	Shorts%	Gross Exposure%	Net Exposure%
92.7 (91.6)	54.4 (52.7)	147.2 (144.3)	38.3 (39.0)

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 31st October 2024

Country	Gross%	Net%
United Kingdom	52.5	31.5
Germany	31.1	14.8
Sweden	11.6	-0.8
United States	9.4	-6.0
France	7.8	2.6
Belgium	6.1	6.1
Switzerland	5.6	0.3
Italy	5.3	0.8
Poland	3.7	-3.7
Norway	2.8	-1.4
Canada	2.7	-2.5
Jersey	1.6	-1.6
Hong Kong	1.5	-1.0
Finland	1.2	-0.6
Other	4.3	-0.1

Market Cap	Gross%	Net%
>£2bn	28.8	-2.1
£700m-£2bn	39.7	0.8
£200m-£700m	58.7	24.6
<£200m	19.9	14.9

Positions	Oct	Sep
Long	92	91
Short	86	81
Longs Opened	3	1
Longs Closed	2	2
Shorts Opened	9	6
Shorts Closed	4	2

Sector	Gross%	Net%
Communication Services	7.0	-1.4
Consumer Discretionary	30.9	5.4
Consumer Staples	7.8	-4.1
Energy	0.0	0.0
Financials	11.7	11.7
Health Care	2.6	0.7
Industrials	42.0	17.7
Information Technology	28.6	-3.7
Materials	10.0	7.8
Real Estate	5.3	5.2
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.

D'Ieteren Group – Belgian holding company (1.4% NAV)

D'Ieteren is a family controlled Belgian holding company currently sitting with a market capitalisation of EUR 10.8bn. The company now has one star asset, Belron, a developed market windscreen repair business, generating 60% of its revenue in the US. They own 50.2% of Belron and it accounts for around 70% of our future fair value of D'Ieteren. Belron has done a fantastic job of improving its profits since 2018 when private equity took a 40% stake in the entity. Post this transaction the business became a lot more focussed on shareholder returns, increasing margins from less than 5% to 20% and operating profits increasing 8 times to EUR 1.2bn and generating a post-tax return on capital of circa 80%. We value this really high-quality asset on 23 times operating profit after tax which leads to a fair enterprise value of around EUR 24bn next year.

Belron has the benefit of their paying customers being more focussed on quality and performance than price, obviously within limits, as well as having a virtuous circle as they increase in scale. Their paying customer isn't the actual vehicle driver but rather the insurer, who wants to deliver a good customer experience but also doesn't want to bear the cost of a courtesy car due to the car being undriveable, so speed is of the essence. Due to its scale benefit it can have a stronger network to fulfil demand while still being highly profitable. The requirement to have a huge range of windscreens in stock also is helped by having scale especially for rarer models, crucial for quick turnaround of repairs. The size of Belron also gives them procurement advantages versus competitors for windscreens, again helping their profitability and/or pricing. For the insurers themselves they much prefer to have contracts with a few suppliers and importantly want suppliers who can integrate into their IT systems. Again, this is a competitive edge. These traits all make Belron a hard company to compete with on price, and importantly quality, leading to this virtuous cycle.

Going forward, as in the past, they should gain from increasing prices but will also gain from the increasing volume of cars that are sold with advanced driver assistance systems (ADAS). If a car has ADAS the windscreen needs to be recalibrated when they are replaced, or the system may not be accurate. This recalibration can cost the same as the actual windscreen replacement and is still only done on around 30% of windscreen replacements currently.

We believe Belron has over 30% market share in the US and is easily the leader given the fragmented nature of competition there. In Europe they have an even stronger position sometimes with over 60% market share. Belron is not the brand they trade from, rather strong brands such as Autoglass, Speedy Glass and Lebeau amongst others.

It should be noted that last week there was a transaction announced whereby one private equity owner of Belron sold a stake to another shareholder, at an enterprise value of EUR 32bn, which gives some comfort to our valuation. Going forward, and discussed in more detail later on, post the large dividend which is to be paid to their shareholders of EUR 4.3bn Belron's total net debt will increase to over EUR 8.5bn. Due to their solidity we are comfortable the company will be able to handle this level of leverage.

With regard to the rest of D'Ieteren, its three other main assets are D'Ieteren Automotive, PHE and TVH (40% ownership). D'Ieteren Automotive is the historical heart of the company and is the official distributor for all Volkswagen brands in Belgium, with a 24% share of the total new car market. It is very biased to new car sales with respect to its total revenue of over EUR 5bn and generated operating profit of around EUR 195m in 2023 with a post-tax return on capital of circa 20%. We value this segment on 10 times operating profit after tax, leading to a fair equity value of circa EUR 1.4bn.

PHE is a Western European omni-channel distributor of aftermarket spare parts for vehicles. This was an acquisition completed in August 2022 for EUR 1.7bn, with the price agreed six months earlier. PHE has grown its topline by over 25% to EUR 2.5bn with profits growing similarly since this time to over EUR 220m and we would expect this to grow mid-single digits organically going forward with post-tax return on capital staying over 20%. This is another business that benefits from scale, enabling better availability of spare parts and therefore better service, as well as selling to a fragmented customer base. Including money owed for minority shares as well as incentivisation shares we calculate around EUR 1.4bn of debt and putting this business on 13 times operating profit after tax leads to an equity value of around EUR 1.1bn.

TVH is also a distributor of aftermarket parts but focuses on the heavy and off-road vehicle segment. It is a global business operating across 180 countries and 40% of the company was acquired for an enterprise value of EUR 1.5bn in July 2021. The business is expected to grow by mid-single digit margins to around EUR 1.7bn of sales this year with operating profit of around EUR 240m and a post-tax return on capital of around 15%. We find margins in the off-road industry often to be higher than light vehicles due to the more niche, specialised nature of the products and TVH is no exception. Overall, we see this as a solid business and value it at 15 times operating profit after tax. Taking off net debt it leads to a fair equity value for 40% of the business of around EUR 900m.

The company is due to pay a special dividend in mid-December of EUR 74 per share which equates to around 37% of the current market capitalization. The reason for this unusually large special dividend is to help one of the families (Nayarit) to buy 16.7% of D'Ieteren shares off another family (SPDG) at a price 13% percent above current levels. This will be funded by the re-leveraging of the Belron entity as mentioned above alongside leveraging up the parent balance sheet from circa EUR 800m of cash to over EUR 1bn of debt. Clearly this does add leverage to the entity however we have confidence this will mean they have to continue to run their businesses efficiently and focus on cash generation to allow them to continue to grow organically and acquisitively. D'Ieteren has a strong record on capital allocation overall with a high teens post-tax return on total capital invested which gives us optimism going forward.

We see total return of close to 40%, adjusted for the dividend, by the end of 2025 based on the sum of the parts discussed.

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	-1.6			**-1.4**
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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