Ennismore European Smaller Companies Fund

Investor Newsletter for the month of November 2024

Issued on 5th December 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 251m as at 29th November. Total assets under management by Ennismore Fund Management were GBP 438m. 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 Margaret Webb on +44 (0) 20 7368 4250 or email clients@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 29th November 2024

	Share Class[1]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share[2]	157.32	189.32	26.58	27.12	27.26
	% Change				
November 24	-3.8	-2.2	-3.8	-2.0	-2.0
2024 to date	-5.1	-1.0	-5.1	-1.1	-1.1
Annualised return[3]	11.3	10.6	7.3	7.5	7.5
Since launch[3]	1502.9	1244.3	165.8	171.2	172.6

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.

November was a disappointing month. The Fund's NAV decreased by 3.8% with the long and short books detracting 2.2% and 1.4% respectively.

The biggest hit was a 110bp impact from a short position in a German online retailer. The company reported higher numbers than expected although small in absolute terms. We view their current gross profit margins as unsustainable when the car market normalises. However, the share price seems to be moving in tandem with a much larger US comparable, increasing around 40% in the month. The Fund was also impacted by 63bps as Secure Trust Bank Plc fell 34% in the month. They did reduce guidance, however, given the share price is on an earnings multiple of around 2 times, it is the continued uncertainty over vehicle finance commissions that seems to be weighing on the shares.

With regards to newsflow, Severfield Plc, a UK steel fabricator, reported a downgrade to future estimates as some large projects have been deferred or cancelled alongside a toughening pricing environment generally. This was disappointing albeit not wholly unexpected. Less expected was the significant provision taken on work done on 12 bridges with further provisions likely for another 8 bridges. Nothing similar has happened in the past and we are confident this is a very isolated case which should be strongly mitigated by insurance protection, however it is clearly unhelpful for sentiment towards the company. On a more positive note EVS Broadcast Equipment SA confirmed trading to be at the high end of their expected profit range in their Q3 update, while Jet2 Plc's first half results led to earnings upgrades and a gain of 10% over the month.

[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 November 2024

Contributors	bps
Norwegian energy machinery supplier	46
IG Group Holdings Plc	31
UK building products distributor	23
Moltiply Group SpA	19
Swedish intellectual property licensor	18

Detractors	bps
German online retailer	-110
Secure Trust Bank Plc	-63
US beverage manufacturer	-49
Ultimate Products Plc	-43
Severfield Plc	-40

Top Five Long Holdings as at 29th November 2024

Company	Country	Sector	% of NAV
Costain Group Plc	United Kingdom	Industrials	7.7
IG Group Holdings Plc	United Kingdom	Financials	5.1
EVS Broadcast Equipment SA	Belgium	Information Technology	5.1
SThree Plc	United Kingdom	Industrials	4.0
STO SE & Co KGaA	Germany	Materials	3.3
			25.2

Exposures as at 29th November 2024

Longs%	Shorts%	Gross Exposure%	Net Exposure%
94.3 (92.7)	59.6 (54.4)	153.8 (147.2)	34.7 (38.3)

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 29th November 2024

Country	Gross%	Net%
United Kingdom	53.8	29.1
Germany	34.3	11.1
Sweden	11.4	-0.7
France	8.6	3.9
United States	7.9	-5.0
Belgium	6.9	6.9
Switzerland	6.3	-0.7
Italy	5.8	1.2
Canada	3.4	-3.3
Poland	2.6	-2.6
Norway	2.6	-0.9
Jersey	2.0	-2.0
Hong Kong	1.5	-1.0
Finland	1.2	-0.6
Portugal	1.0	1.0
Other	4.5	-1.9

Market Cap	Gross%	Net%
>£5bn	11.8	-2.5
£1bn-£5bn	44.1	1.0
£250m-£1bn	68.4	14.9
<£250m	29.5	21.4

Positions	Nov	Oct
Long	88	92
Short	84	86
Longs Opened	0	3
Longs Closed	4	2
Shorts Opened	7	9
Shorts Closed	9	4

Sector	Gross%	Net%
Communication Services	7.6	-1.8
Consumer Discretionary	33.3	4.2
Consumer Staples	8.6	-4.4
Energy	0.0	0.0
Financials	11.5	11.4
Health Care	2.2	1.2
Industrials	43.6	14.8
Information Technology	29.5	-2.8
Materials	10.2	8.0
Real Estate	5.8	5.7
Utilities	1.5	-1.5
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.

SAF-Holland SA – German component manufacturer (1.6% NAV)

SAF Holland (SAF) is a, EUR 635m market capitalised, component manufacturer and supplier into the trucking industry. Although it clearly sells into a cyclical sector, we believe the market is not paying attention to the fact that 70% of operating profits are currently from a resilient and still growing aftermarket segment. They have also strengthened their market positioning by sensible synergistic acquisitions which should help them over the medium term. We believe that the stock is currently being unfairly valued around its trough earnings alongside depressed multiples and we see considerable upside in the shares.

SAF, for 2023, had revenue of EUR 2.1bn of which 55% was sold into the Original Equipment (OE) Trailer segment, 14% into OE Truck and 31% into the aftermarket segment. Geographically, 45% of sales were into the EMEA region, 42%

Americas with the final 13% into the Asia Pacific region. The company generated an operating margin of circa 9.2%, within its 9-10% target range.

The company now has very strong positions in many areas such as fifth wheels (coupling used to attach trailers to trucks), axles, brake systems, king pins and landing gears. They mainly sell directly into OE manufacturers. SAF sits in a duopolistic position in fifth wheels (No. 1 in America, No. 2 in EMEA) with Jost Werke, as well as having a No. 1 global position in trailer axles, No. 2 in landing gears, as well as No. 1 or 2 in many areas of suspension and braking systems. In terms of customer concentration, they are also fairly diversified with the top 10 customers being less than 30% of sales, based on our calculations.

Aftermarket is a significantly less cyclical segment driven by the population of axles in the market, which has tripled over the last 20 years. A notable example of its structural growth has been year to date to September, when, in a tough market for OE volumes with sales in the OE areas for SAF being down 18%, aftermarket is up 12%. As is often the case with aftermarket revenue streams, this is also a much more profitable segment with, we believe, percentage margins in the mid to high teens versus OE margins at low-single digits. This is illustrated by overall sales being down 9%, yet operating profits are slightly up. Their channel to market is via a large global network of over 12,000 service stations, dealers and workshops helping to service fleets which works as a strong barrier to entry for competition.

Historically, we calculate that the business has grown over the last 10 years by mid-single digit percentages organically, however an important aspect of SAF's strategy is also to make selective acquisitions to strengthen their offering. They made a larger than normal acquisition of Haldex AB in February of 2023, a fellow supplier of components which they had also looked to acquire in 2016. They paid an enterprise value of circa EUR 370m, around 10 times operating profit. This gave some vertical integration, increasing access to some important components for their own products such as air disc brakes as well as offering cost and revenue synergies. This also increased SAF's exposure to the higher quality earnings of the aftermarket segment as this accounted for around half of Haldex's sales. Post acquisition they have taken out around EUR 12m of cost synergies which they hope to increase to around EUR 30m as they upgrade their SAP platform across the company, benefiting 2026 onwards. They also hope to get revenue synergies of EUR 200m by 2027 i.e. around EUR 20m of extra profit. We believe so far, they have achieved around a quarter of this by cross selling components into geographies where SAF Holland was weak but where Haldex is strong and vice-versa such as South Korea. Overall, we think this should turn out to be both a strong strategic and financial investment.

Fully loading the invested capital for amortised acquired intangibles, we believe they generate a 16% pre-tax return which implies they have paid reasonable multiples overall. Excluding acquired intangibles implies a circa 30% pre-tax return on capital employed as it has fairly low capital intensity as a business, with capex targeted to be below 3% of sales and therefore should produce solid cash generation as it grows. Working capital currently sits at around 17% of sales adjusted for factoring, elevated from target levels partly due to aftermarket having a higher inventory requirement relative to the more depressed OE segment.

Adjusting for factoring, SAF does have higher leverage than is common for a long position, at almost EUR 460m net debt compared to around EUR 190m of operating profit this year. However, we feel comfortable as we expect them to generate EUR 90m of cash per annum going forward and we see profits being at a good base now. Due to the cash generation, we also believe their expected dividend yield of over 5% is sustainable.

With regard to tariff risk for the US market, from the incoming Trump presidency, they have a fairly high proportion of US sales produced in the US and often mirror many of their competitors. It should also be noted that more than 50% of trucks for the US market are made in Mexico and we are therefore dubious about the application of tariffs into this segment given the likely inflationary impact.

The company is led by Alexander Geis who has been at SAF for over 15 years, becoming CEO in 2020. We like his background within the higher quality aftermarket segment and his experience heading up Europe. We are also encouraged by his total shareholding of around EUR 6m in SAF shares, as well as his recent EUR 500k purchase at current prices, giving strong alignment.

Overall SAF is being treated by the market as a much more cyclical business with respect to its profitability than is the reality and we see this resilient business, with strong niche positions as difficult to compete with. This leads us to view the company as being valued on around bottom of the cycle earnings with a trough rating. We see a fair value of 13 times enterprise value to operating profit after tax as appropriate, which leads to upside of 140% to the end of 2026.

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	-1.5	-3.8		**-5.1**
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**

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