# Ennismore Global Equity 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 and Sweden. The Fund size was GBP 134m as at 31st October. Total assets under management by Ennismore Fund Management were GBP 458m. 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 31st October 2024

| | Share Class[1] | | | | | |
|---|---|---|---|---|---|---|
| | **GBP** | **GBP A** | **EUR** | **CHF** | **EUR I** | **USD I** |
| NAV per Share[2] | 14.69 | 14.61 | 15.10 | 13.23 | 11.12 | 11.55 |
| | % Change | | | | | |
| October 2024 | -0.3 | -0.3 | -1.5 | -2.1 | -0.4 | -0.3 |
| 2024 to date | 5.5 | 5.5 | 7.9 | 10.7 | 5.4 | 5.5 |
| Annualised return[3] | 4.9 | 4.8 | 5.2 | 3.5 | 1.7 | 2.5 |
| Since launch[3] | 46.9 | 46.1 | 51.0 | 32.3 | 11.2 | 15.5 |
| 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 GBP A NAV per share decreased by 0.3% in October with the long and short books costing 0.5% and 0.1% respectively.

The main detractors included Admiral Group Plc which cost us 58bps after the UK government – concerned about rising prices – launched a motor insurance review task force. Another negative contributor was Capri Holdings Limited, owner of the Michael Kors, Versace, and Jimmy Choo brands which detracted 39bps after an unfavourable court ruling on its merger with Tapestry. We took a small position earlier in the year based on an attractive risk-reward with the stock trading at a very large discount to the agreed deal price, our scepticism of the government's case, and the relatively undemanding valuation in the event of the deal falling through. Whilst we still see underwriting of the investment as sensible in hindsight, we should have reduced the position as the stock rallied into the court proceeding and eroded the risk-reward profile.

On a more positive note, Philip Morris International Inc added 47bps during the month after reporting strong quarterly results and increasing its full year guidance. D'Ieteren Group SA generated 32bps after the valuation of its main asset, Belron International was marked almost 50% higher than the last reference transaction of late 2021 following a deal for 1.4% of the company between minority shareholders. D'ieteren's ownership interest in Belron remains unchanged following this transaction. The Westaim Corporation contributed a further 31bps after CC Capital agreed to invest $250m in the company at CAD 4.75 per share – an 18% premium to where the shares closed the prior day – whilst partnering with the company to create an integrated insurance and asset management platform.

The short book was broadly flat during the month with losses from a few speculative names offsetting gains from the rest of the book. No individual short cost us more than 40bps in October. From a beta adjusted perspective, we maintain a cautious positioning in the Fund.

[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 Contributors and Detractors for October 2024

| Contributors | bps |
|---|---|
| Phillip Morris International Inc | 47 |
| D’Ieteren Group SA | 32 |
| The Westaim Corporation | 31 |
| US software company | 21 |
| Baltic Classifieds Group Plc | 20 |

| Detractors | bps |
|---|---|
| Admiral Group Plc | -58 |
| Capri Holdings Limited | -39 |
| Hong Kong software company | -37 |
| Secure Trust Bank Plc | -29 |
| US restaurant business | -29 |

## Top Five Long Holdings as at 31st October 2024

| Company | Country | Sector | % of NAV |
|---|---|---|---|
| Admiral Group Plc | United Kingdom | Financials | 6.8 |
| D’Ieteren Group SA | Belgium | Consumer Discretionary | 5.5 |
| Auto Trader Group Plc | United Kingdom | Information Technology | 4.2 |
| Nelnet Inc | United States | Financials | 4.1 |
| Baltic Classifieds Group Plc | United Kingdom | Communication Services | 4.0 |
| | | | 24.7 |

## Exposures as at 31st October 2024

| Longs% | Shorts% | Gross Exposure% | Net Exposure% |
|---|---|---|---|
| 112.0 (109.2) | 39.9 (43.2) | 151.9 (152.4) | 72.1 (66.0) |

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 States | 39.6 | -9.8 |
| United Kingdom | 38.3 | 35.8 |
| Japan | 11.0 | 9.5 |
| Belgium | 8.1 | 7.2 |
| Germany | 7.8 | 4.7 |
| Canada | 7.1 | 5.8 |
| Sweden | 5.3 | 0.7 |
| Ireland | 5.1 | 5.1 |
| Norway | 4.0 | 3.4 |
| Italy | 3.7 | 1.5 |
| Hong Kong | 2.4 | 2.4 |
| France | 2.3 | -2.3 |
| Spain | 2.0 | 1.5 |
| Bermuda | 1.8 | 1.8 |
| Luxembourg | 1.5 | 1.5 |
| Mexico | 1.4 | 1.4 |
| Cayman Islands | 1.3 | 1.3 |
| Israel | 1.3 | 0.1 |
| South Korea | 1.2 | 1.2 |
| Switzerland | 1.2 | -0.5 |
| Philippines | 1.1 | 1.1 |
| Other | 4.4 | -1.1 |

| Market Cap | Gross% | Net% |
|---|---|---|
| >$10bn | 44.5 | 24.4 |
| $5bn - $10bn | 27.7 | 14.4 |
| $1bn - $5bn | 53.0 | 18.1 |
| <$1bn | 26.7 | 15.3 |

| Positions | Oct | Sep |
|---|---|---|
| Long | 85 | 81 |
| Short | 88 | 82 |
| Longs Opened | 10 | 2 |
| Longs Closed | 6 | 5 |
| Shorts Opened | 12 | 12 |
| Shorts Closed | 6 | 9 |

| Sector | Gross% | Net% |
|---|---|---|
| Communication Services | 16.6 | 15.6 |
| Consumer Discretionary | 25.8 | 14.8 |
| Consumer Staples | 13.2 | -0.3 |
| Energy | 1.9 | 1.9 |
| Financials | 27.6 | 20.6 |
| Health Care | 5.5 | 2.9 |
| Industrials | 22.6 | 3.4 |
| Information Technology | 26.1 | 7.9 |
| Materials | 8.9 | 3.5 |
| Real Estate | 3.8 | 1.9 |
| 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.

## Kaname Kogyo – Japanese waste management company (0.6% NAV)

*"One man's trash is another man's treasure."*

- 17th century proverb, origin unknown.

Trash can be an amazing business. "Not-in-my-backyard" attitudes and regulatory constraints restrict supply while incremental volume on existing routes costs very little and therefore generates high incremental margins. Pricing power exists because waste management companies provide an essential service, and the price charged represents a fraction of the total expenses an average business incurs. Leading waste management businesses in North America generate mid-teens operating margins and are valued north of 30x earnings while Kaname Kogyo ("Kaname") trades at around 13x.

When Shuzo Fuji was 27 years old, he created a waste management business and named it after his hometown in Kanamachi, Tokyo. Over the next 53 years, Kaname would grow to become the largest waste management business in Tokyo, collecting c. 10% of Tokyo's office-generated waste.

Kaname's largest segment is its office and industrial waste collection operation, representing 69% of revenues for the fiscal year ending March 31, 2024. This business generates fees from its c. 4,000 customers across c. 8,000 collection sites in exchange for collecting, transporting and disposing of industrial and business-related waste with c. 500 owned trucks, 7 owned recycling facilities and Tokyo's 2 government-owned landfills. Kaname's residential waste collection segment, reflecting 21% of revenues, earns fees from local councils for collecting household waste while its recycling segment, accounting for 9% of revenues, sells treated recycling waste to resource wholesalers.

Business quality can be found at the intersection of organic growth, predictability and profitability. Kaname is a highly predictable business with reasonable organic growth and improving profitability. From fiscal year 2016 to 2024, revenues and operating income grew at a 4.1% and 5.2% compounded annual growth rate, respectively, with only one down year (due to COVID-19). Kaname generated a respectable 13% operating margin in 2024, an increase from 10% in 2017, with an after-tax return on capital employed of 10%. Kaname's growth has been driven by a supportive market structure (stable growth in overall waste volumes and rising private company penetration of total waste collected) and new customer wins. It has multiple competitive advantages, which we describe below.

To build conviction beyond the assessment of financial filings, we interacted with former employees, customers and competitors, analysed government waste management licences, and established a relationship with the management team. When we first spoke with Kaname's management team in February 2024, they told us it was the first time they had ever spoken to an investor outside of Japan!

Feedback from industry participants is that barriers to entry are high as Tokyo's 23 wards no longer issue licences to new waste management companies and it is very difficult to find well-located land and then win approvals to build new recycling and processing centres. This puts Kaname in a privileged position as approval to expand an existing facility is easier to obtain than a licence to build a new one.

We also learned that Kaname provides better service than its over 500 smaller competitors which tend to be family-owned businesses, many of whom are facing succession issues. The industry is consolidating (there were over 600 smaller competitors a few years ago) and Kaname is gaining share organically by competing not on price, but service quality.

An interesting learning was that Kaname's status as a listed company is valued highly by its customers and furthers its trustworthy reputation, which is important, because in Japan, polluters are legally responsible for the actions of their waste management provider.

Beyond regulations, scale, service quality and its public listing, Kaname's founder-led culture - Shuzo Fuji remains engaged with Kaname as Chairman and is the company's second largest shareholder with a 16% stake - is another competitive advantage. There is a shortage of drivers in Japan owing to a change in labour standards that restricts the hours of drivers, causing competitors to delay and sometimes even skip collections. Kaname has outperformed peers in attracting and retaining talent by raising drivers' base salaries for three consecutive years, promoting shorter work hours for drivers even before the new laws were enacted, and favourable contract terms such as counting idle time as overtime. Simple things add up as retaining employees in this industry leads to retaining customers. Kaname's average customer has been with them for multiple years (some for over fifty!) and there is little incentive to switch unless there is a service issue.

At JPY 1,080 per share, Kaname has a market capitalisation of USD 112m. With net cash and securities of USD 35m, its enterprise value is USD 78m. In fiscal year March 2024, Kaname reported USD 88m of revenue and USD 11m of operating profit. Applying a 30.6% tax rate, the business is trading at 9.7x enterprise value (EV) to last year's net operating profit after tax (NOPAT). Management has issued medium-term targets which indicate that revenues and operating profits should compound at 7% and 8%, respectively, over the next couple of years. In the first three months of fiscal 2025, revenues and operating profits increased 11% and 33% from the prior year respectively, suggesting that management's targets are conservative. Based on our conversations with management, an increase in volumes from existing customers drove most of the growth last quarter, in contrast with the historical growth driver of new customer wins. Should growth from volumes per customer (or prices per unit) continue, we think margins could expand further.

Kaname's valuation embeds a substantial margin of safety given its nature as a high-quality business with predictable, organic, high-margin growth as well as the company's asset coverage. Net cash and securities of USD 35m represent almost one-third of its market capitalisation with buildings, structures and land bringing the total to USD 111m (or 98% of its market capitalisation). We wish Kaname could be a larger position, but we maintain a modest weighting given the stock's limited trading volume.

The company's capital allocation priorities could be improved. Given the predictable, cash-flow generative nature of its business, Kaname's dividend payout ratio of 30% of profits is low. Moreover, we struggle to see why it makes sense to hold so much cash and securities. We would like to see the company explore a capital return program.

If Kaname continues to increase its operating profits at a mid-single digit rate per year and its valuation re-rates to a more appropriate 15x EV/NOPAT multiple, the company will generate a mid-teens annualised return (including dividends) over the next five years. There is significant upside optionality should Kaname's operating profit continue to grow above management's targets and the mid-single digit rate we have assumed. Should Kaname's valuation re-rate to local peers (larger peer Daiei Kankyo trades at 25x EV/NOPAT), the potential return would exceed 20% per year. Whilst our analysis assumes no change in capital allocation priorities, if Kaname were to increase its dividend payout ratio instead of holding all excess cash, and/or execute a share buyback or special dividend, the potential returns would likely be even greater.

## 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 | 2.7 | -0.9 | 0.7 | 1.5 | -1.4 | -0.3 | | | **5.5** |
| 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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## Additional Information for Recipients in Switzerland

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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 |