Ennismore Global Equity Fund

Investor Newsletter for the month of November 2024

Issued on 6th 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 and Sweden. The Fund size was GBP 135m as at 29th November. Total assets under management by Ennismore Fund Management were GBP 438m. We currently have capacity available in the Global Equity Fund. If you would like more information or to invest, please contact Margaret Webb on +44 (0) 20 7368 4250 or email clients@ennismorefunds.com.

Performance as at 29th November 2024

	Share Class[1]					
	GBP	**GBP A**	**EUR**	**CHF**	**EUR I**	**USD I**
NAV per Share[2]	14.75	14.67	15.36	13.39	11.15	11.59
	% Change					
November 2024	0.4	0.4	1.7	1.2	0.3	0.3
2024 to date	6.0	5.9	9.7	12.1	5.7	5.8
Annualised return[3]	4.9	4.8	5.4	3.6	1.7	2.5
Since launch[3]	47.5	46.7	53.6	33.9	11.5	15.9
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 increased by 0.4% in November, with the long book contributing 4.1%. Wise Plc reported strong revenue growth and good profit margins in its half year results, in addition to announcing a significant win with Standard Chartered for its platform offering and several extensions to its infrastructure.

The short book detracted 3.5% over the month. Some speculative US-listed shorts performed well and combined with the Fund's net long exposure to higher quality European companies, this proved to be a headwind as equity markets reacted to the US election and continuing economic divergence between the regions.

Top Five Contributors and Detractors for November 2024

Contributors	**bps**
Wise Plc	70
Flutter Entertainment Plc	42
Melrose Industries Plc	35
Baltic Classifieds Group Plc	30
Constellation Software Inc	25

Detractors	**bps**
US subprime lender	-73
Genus Plc	-31
Plus Alpha Consulting Co Ltd	-30
US software company	-30
Secure Trust Bank Plc	-22

Top Five Long Holdings as at 29th November 2024

Company	**Country**	**Sector**	**% of NAV**
D'Ieteren Group SA	Belgium	Consumer Discretionary	7.0
Admiral Group Plc	United Kingdom	Financials	6.8
Auto Trader Group Plc	United Kingdom	Information Technology	4.9
Phillip Morris International Inc	United States	Consumer Staples	4.0
Nippon Television Holdings Inc	Japan	Communication Services	3.4
			26.1

[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.

Exposures as at 29th November 2024

Longs%	Shorts%	Gross Exposure%	Net Exposure%
109.4 (112.0)	44.8 (39.9)	154.2 (151.9)	64.6 (72.1)

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 29th November 2024

Country	Gross%	Net%
United States	38.7	-12.6
United Kingdom	36.6	32.2
Japan	14.1	12.6
Canada	7.3	5.9
Belgium	7.0	7.0
Germany	7.0	2.7
Sweden	6.8	0.2
Italy	6.8	4.2
Ireland	4.4	4.4
Norway	4.1	3.7
France	3.3	-3.3
Hong Kong	2.3	2.3
Spain	2.0	1.5
Bermuda	1.6	1.6
Israel	1.5	0.2
Mexico	1.4	1.4
South Korea	1.3	1.3
Switzerland	1.1	-0.5
Philippines	1.0	1.0
Taiwan	0.9	0.9
Poland	0.8	-0.8
Other	4.2	-1.4

Market Cap	Gross%	Net%
>$50bn	16.5	9.4
$20bn - $50bn	9.2	3.8
$2bn - $20bn	78.4	28.0
$500m -$2bn	39.4	17.9
<$500m	10.7	5.6

Positions	Nov	Oct
Long	78	85
Short	91	88
Longs Opened	4	10
Longs Closed	11	6
Shorts Opened	15	12
Shorts Closed	12	6

Sector	Gross%	Net%
Communication Services	16.1	15.2
Consumer Discretionary	23.6	12.1
Consumer Staples	12.7	-0.6
Energy	3.6	2.6
Financials	26.5	19.8
Health Care	7.2	1.2
Industrials	23.7	4.0
Information Technology	27.5	5.4
Materials	9.3	3.2
Real Estate	3.7	2.1
Utilities	0.3	-0.3
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.

St James's Place – UK wealth manager (1.5% NAV)

St James's Place ("SJP") is the UK's largest wealth management firm, with a market capitalisation of c. £4.6bn and funds under management ("FUM") of £190 billion. Over the last 18 months, the company has faced a period of significant change and some pretty negative news. SJP's share price cratered over 60% from July 2023 to April 2024 and the shares were dropped from the FTSE100 index in June. Fundamentally, however, we do not think all that much has changed. This has provided an opportunity to acquire a high-quality business at a discounted price. We anticipate annualised returns in the high teens to 2030.

In October 2023, management introduced a new fee structure in response to Consumer Duty rules, simplifying and reducing headline fees. Fees for pensions are now an initial fee capped at 4.5% of assets, with a maximum of 1.67% ongoing fees. Over a 20-year client relationship, this averages c. 1.9% annually - a touch below our estimate of the UK wealth management average. The market reacted badly to this change as it will cause earnings to decline for a couple of years. We'll address it in more depth later. Then in February 2024, SJP announced a £426 million provision due to client complaints about service levels and slashed its dividend. The customer service shortcomings are largely explained by non-compliant usage of its CRM system. Although such failures are a concern in a highly regulated business, we note the issue relates to just 2% of clients and a smaller percentage of FUM. Moreover, we are reasonably confident in the provision given the hiring of EY to carry out the review and SJP's liaison with the regulator in establishing the amount, while we also note that the provision is only about one year's cash flow. Additionally, the personal relationship between client and advisor, rather than between a client and a large multi-billion market cap corporation may restrain some clients from pushing for large compensation payments.

St James's Place serves more than 900,000 clients through almost 5,000 exclusive financial advisors, with an average funds per client of GBP 184,000. 20% of the UK's financial advisors work for SJP, offering investment, retirement, tax, and various other services to the "mass affluent" market—clients with £50k to £5m in investable assets. The firm operates through a partnership model, where financial advisors own equity in the partner business and share in the fees. The advisors provide the advice and manage their branches, while SJP supports them with technology, marketing, training, centralised purchasing power, and other back-office functions. Client investments are placed in one of 32 SJP funds, which are all outsourced to external managers (effectively white-labelled funds). SJP also has a nascent arm in Asia, with offices in Hong Kong, Singapore, and Dubai, largely focused on British ex-pats, which we believe could provide an additional source of inflows over the next decade.

St James's Place is fundamentally an attractive business. It enjoys strong brand recognition reinforced by national marketing and a widespread presence across the UK - in fact, most Britons will struggle to name another wealth manager! SJP has a larger number of physical locations across the UK's villages, towns, and cities than the 5 largest UK high street banks combined, providing a powerful network for distribution. Its large advisor base also provides significant economies of scale in purchasing and technology costs, while high client retention rates (over 95% in 2023) highlight the stickiness of its customer base. Switching advisors involves significant costs and effort, including search and setup costs along with high initial fees, deterring clients from leaving. Despite the recent noise regarding SJP's business practices, the client base has largely stayed put, with retention falling by just 1 percentage point year on year in H1 2024. SJP's FUM has grown at a 14% CAGR over the last decade, with an even split between growth in number of advisors and assets per advisor, resulting in market share almost tripling in this time frame. The business is capital light: SJP has paid out c. 80% of cash flow to shareholders over this period alongside its impressive growth. SJP's advisor academy is also a strength, with an estimated 50% of all new financial advisors for the entire industry coming through their system. The industry faces a structural problem attracting new recruits and an ageing existing advisor base, so a strong pipeline of advisors positions SJP favourably for the future.

The wealth management industry is frequently criticized for not providing sufficient value to clients to justify its high fees. However, the breadth of services offered under one roof is significant and the opportunity cost of not being invested should not be underestimated. UK households hold 66% of their non-pension liquid financial assets in cash or premium bonds and only 34% in equities and investment funds, per the ONS. People often have a simplistic or one-sided conception of risk. Many people underestimate the risk of erosion of purchasing power from inflation and overweight the risk of asset price volatility. Cash since 2011 has provided a negative annual real return of -0.3% in the UK, while a portfolio of SJP funds during the same period, even after accounting for all fees, would have yielded an estimated real annual return of 3.8%. Our clients might believe the comparison to cash is not completely fair, but the reality is that without direction, most financially unsophisticated Britons avoid the markets. Furthermore, the personal relationship and hand-holding provided by an advisor helps clients to ignore the volatility of the market. Clients have a positive perception of SJP: 79% of clients are willing to advocate for the company, and 81% are satisfied with SJP.

There is also a question of access to advice. The financial advisory business has economies of scale. A very wealthy client might have more complex affairs and be more demanding than one with a smaller portfolio. But the time required of the advisor is unlikely to scale in line with assets. A personal service business model isn't possible with smaller portfolios without relatively high fees, whilst many older clients are cautious to engage with a self-service or online-only proposition. The average UK advisor across the market looks after only 115 clients, and we estimate £15m in FUM per advisor. With average revenue of c. £285k, these advisors must pay for investment fees, support staff, offices, software, legal fees, accounting services and more, before their own salary. Providing advice to the mass affluent segment is just not economical without high fees. We believe this also explains the trend of consolidation in the industry.

St James's Place faces risks beyond the new Consumer Duty rules. Wealth manager fees have been trending downwards for over a decade, which SJP has offset via using its increasing scale to reduce its back-office cost base and the fees it pays to third-party fund managers. Declining fees will likely be reinforced by the presence of PE-backed consolidator firms in the market, which number over 30, that could pressure SJP's position as larger firms develop greater scale and share of mind. These consolidator firms remain small in scale versus SJP, and often have business models that do not directly compete such as focusing on building a wealth management "platform" akin to a Hargreaves Lansdown for financial advisors. Another competitive threat is the potential growth of robo-advisory services, which allow clients to receive investment advice with lower fees. One would expect the level of service provided by robo-advisors to only become more sophisticated going forwards, with generative AI augmenting and increasing personalisation. We think within our investment horizon the regulatory environment and reluctance to rely on AI for such important decisions are significant barriers to adoption. One should also note that while robo-advisor fees are lower, value for money is arguably lacking. One leading US bank's offering has fees for a fully managed portfolio starting at c. 1% per annum, and all that provides is an asset allocation recommendation, no further advice. We also have concerns over potentially negative actions coming out from the newly instated Labour government, for example, a proposal to levy inheritance tax on pensions could encourage elderly people to pass on assets more quickly to heirs, who will be far more likely to utilise the capital, for example for a house deposit, than have it invested. Finally, given SJP's revenues are tied to the value of its client assets while the cost base is largely fixed, a market correction would have a significant impact on earnings.

St James's Place continues to enjoy net inflows from clients. Additionally, we do not expect the new fee structure, while lowering headline fees, to greatly impair long term earnings power. That said, it does significantly affect the phasing of earnings, which we think is one of the drivers of the mispricing of the shares. The change in fees will be implemented in the second half of 2025, causing a dip in earnings for almost two years. This is compensated for by eliminating the 6-year feeless "gestation" period for pension assets, allowing fees to be earned immediately. Over the next 6 years, c. £60bn of gestation FUM (c. 30% of total FUM) will gradually start paying fees, while new assets will immediately pay fees. As a result, all else equal, revenues will grow at over a 13% CAGR from 2026 through 2030.

When we factor in SJP's cost-saving programme which aims to save £100 million annually by 2027, we believe that earnings should almost mechanically grow in the high teens for several years after a two-year dip. This earnings growth will be supplemented via capital returns, with SJP announcing a small share buyback in August and we expect larger dividends starting 2026. Additionally, there is optionality on success in the Asian expansion.

In conclusion, St James's Place is a high-quality business that has been overly penalised due to recent negative news. The intrinsic value of the business remains largely unchanged, offering a compelling opportunity to purchase a once highly rated stock - which used to be priced north of 30x earnings - for a bargain price. A multiple of 13x our estimate of 2026 earnings seems cheap in the short term, and the valuation discrepancy becomes even greater when one accounts for the highly predictable earnings growth post-2026. We model for modest net inflows in future, and modest benefit from market appreciation, yet valuing St James's Place at 14x our estimate of 2030 earnings still indicates an annualised return of above 20%.

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	0.4		**5.9**
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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For further information please contact:	Margaret Webb, Ennismore Fund Management	+44 (0) 20 7368 4250	clients@ennismorefunds.com
For dealing please contact:	Northern Trust International Fund Administration Services (Ireland) Ltd	+353 (0) 1 434 5103	Ennismore_TA_Queries@ntrs.com