Ennismore Global Equity Fund

Investor Newsletter for the month of March 2025

Issued on 10th April 2025

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 137m as at 31st March 2025. Total assets under management by Ennismore Fund Management were GBP 424m. 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 31st March 2025

	Share Class[1]					
	GBP	**GBP A**	**EUR**	**CHF**	**EUR I**	**USD I**
NAV per Share[2]	15.09	15.01	15.63	14.04	11.34	11.84
			% Change			
March 25	-1.5	-1.5	-2.6	-1.1	-1.6	-1.6
2025 to date	1.8	1.8	0.8	2.8	1.3	1.6
Annualised return[3]	5.0	4.9	5.4	4.1	1.9	2.7
Since launch[3]	50.9	50.1	56.3	40.4	13.4	18.4
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 MSCI World Index declined -4.7% in Q1 2025, however the headline performance hides a story of dramatic reversals and variations in regional equity performance. Under the surface, there were unprecedented regional variations; US equities underperformed, with the S&P 500 (-7.2%), Russell 2000 (-12.2%) and Nasdaq 100 (-10.8%) all declining. On the flip side, European equities reversed a long period of relative underperformance, with the MSCI Europe Index gaining (+7.3%) over the quarter, led by German domestic stock (MDAX +8.2%), France (+7.1%) and Spain (+15.4%). This was the largest quarterly outperformance of European equities in over 20 years. UK domestic equities lagged their European neighbours, with the FTSE 250 falling (-4.7%). The MSCI Asia Pacific Index declined -2.2% over the quarter, with China outperforming (MSCI China +11.6%, Hang Seng +12.4%), whilst Japan (Nikkei -8.4%) and Australia (ASX 200 -4.9%) lagged. The US dollar weakened over the quarter, falling -2.8% on a trade weighted basis. The other notable market move was a rise in German bund yields, with the 10yr yield rising from 2.36% to 2.74% at the end of the quarter which contrasted with a modest drop in US treasury yields.

China's DeepSeek shocked investors when it unveiled its high performing and very cost-efficient AI model in January, triggering a significant downturn in the previously outperforming AI beneficiaries. Firms such as Nvidia, the broader semiconductor sector, and beneficiaries of the AI infrastructure build such as power utilities saw sharp stock price declines as investors reassessed the competitive landscape of AI technology and the outlook for compute demand. However, in February, geopolitics and the incoming Trump administration's imposition of tariffs took over as the main source of market volatility and rotations.

Amidst these extreme rotations, we are pleased to report that The Fund delivered a positive return in Q1, with both the GBP (+1.8%) and EUR class (+0.8%) gaining. On a gross basis, the long book contributed +1.3%, whilst the short book contributed +4.2%. On a normalized dollar basis, the long book returned +1.7%, whilst the short book returned –5.8% resulting in a long-short spread of 7.5%, ahead of our longer-term objectives. On a gross country basis, Germany (+1.3%), Italy (+1.0%) and the US (+1.3%) contributed, whilst Norway (-0.7%) detracted. On a gross sector basis, Materials (+2.0%) and Consumer Discretionary (+1.9%) contributed, whilst Energy (-1.1%) detracted. Positive stock selection was the

[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.

primary driver of returns over the quarter, with net long positioning in Europe also providing a tailwind, albeit modest given that the larger part of our European exposure sits in the UK. The continued global underperformance of mid and small caps vs large caps was a mild headwind. The biggest long contributors in the quarter were Thyssenkrupp Ag (+1.4%), Philip Morris International (+1.0%), and Tam Jai International Co Ltd (+1.0%). Thyssenkrupp was a beneficiary of the repricing of European defence assets via its Marine Systems segment, which manufactures naval ships and submarines, and is expected to benefit from the fiscal largesse of the new German government. The stock appreciated a remarkable +149% in the quarter, albeit much of this performance was simply recovering a terrible 2024. Tam Jai International was bid for by its parent Toridoll, as we discussed in our February letter. Philip Morris delivered another strong earnings report and a solid outlook for 2025. The stock has repriced materially: we were initially buying at a low-teens earnings multiple and almost 6% dividend yield. It now trades on a low 20s earnings multiple and a 3.6% dividend yield. Whilst this is a reasonable valuation for a very resilient business with a double-digit earnings growth profile, we have significantly reduced the position.

The only material long detractor in the period was Calumet Inc (-0.9%), the US refinery operator which we discussed in our January letter. Calumet has made progress since then, finalising its Department of Energy loan and completing the disposal of a non-core asset to deleverage. After a regulatory change to subsidies for renewable diesel came into effect in 2025, US renewable diesel output has collapsed, triggering a recovery in the market for D4 RIN credits which are a key part of the economics for biomass-based diesel producers, and increasing the pressure on the administration to put in place regulatory certainty. D4 RINs are now trading at the highest prices in two years, which bodes well for the economics of Calumet's biorefinery operation. We reduced the position during the quarter as we reassessed the balance sheet risk, but continue to see a strong risk-reward, albeit a wide range of outcomes.

On the short side, overall it was a decent period for our portfolio including a number of profit warnings from our positions, but no individual position contributed or detracted more than 50bps in the quarter.

We significantly reduced our positions in Admiral Group, D'Ieteren SA, Philip Morris, and Nippon TV Holding following strong performance. Admiral Group remains the largest holding, however, after it reported extremely strong FY2024 results, despite a couple of one-off headwinds which will almost certainly reverse in 2025. Admiral now trades on about 12x consensus earnings and a 7% dividend yield. We continue to believe that the company will outperform sell-side expectations and continue to find the risk-reward highly attractive.

Schibsted is once more a large position after we added to the position when the stock sold off sharply in response to weak earnings guidance. The issues are driven by short-term factors such as poor display advertising performance after the separation with Schibsted Media and slower than expected delivery on cost reductions. We believe these factors have little bearing on the company's long-term valuation, which is driven by its improved approach to monetising its dominant online classified assets across Scandinavia, albeit they are somewhat disappointing mis-steps early in the tenure of the new management team. We also increased our position in Genus plc after the company reported impressive customer traction in China in its key porcine genetics business, PIC. Given the royalty model under which the business operates, these customer wins offer decent visibility on an acceleration in growth at PIC.

We started mid-sized positions in a Mexican discount retailer and a south American telecoms operator. South and central American equities performed extremely poorly in 2024 and we are finding a number of interesting opportunities in those markets.

We have reduced the Fund's exposures a little during the quarter. Gross long exposure was 102% at the end of March, and gross short exposure was 39%, down from 107% and 44% at the end of December. With almost 4% of the Fund's NAV invested in near cash situations – Tam Jai as we await the closing of the bid, and UK investment trust liquidation Aberdeen European Logistics Income plc (which we discussed in our July 2024 letter) – the effective net exposure is more like 59%. As usual, beta adjusted net exposure is materially lower, at around 0.3-0.4. As of the time of writing, the Fund's exposures are 97% long and 40% short, with beta adjusted net exposure in a similar range.

Tariffs and Geopolitics – Impossible to Ignore

We wrote in our December newsletter how following a long period of underperformance, European equities traded at historically cheap valuation discounts to their US peers, even on a sector normalised basis. We outlined how we were comfortable with our net long exposure to Europe as the reasons not to like Europe were well known (tariff threats, energy costs, politics, lower growth), whilst positive influences and catalysts such as a dovish ECB, historically cheap valuations, the potential for Chinese stimulus, UK stability, a cheap Euro (benefiting exporters) and the potential of a more business-friendly German election outcome did not seem to be acknowledged by equity investors at the end of last year.

The above factors played a significant role in the dramatic outperformance of European equities in Q1, especially the change in the German political and fiscal landscape. While the trend of European outperformance began in January, it was turbo-charged when it became clear that the newly inaugurated Trump administration's intended use of tariffs was far more extensive than most investors had assumed. The erratic nature of tariff threats, announcements and reversals by the Trump administration exacerbated uncertainty, whilst the chaotic early steps of the government efficiency drive and a sharp weakening in consumer sentiment has dulled the US economic outlook. This combination of policy uncertainty, a weaker outlook and erosion of the rule of law in the US, at the same time as the German election delivered a more business friendly regime and fiscally supportive framework, has forced a sharp reassessment of relative regional equity valuations.

In Q1 2025, the Trump administration implemented several tariffs targeting key U.S. trading partners. A 10% tariff on all Chinese imports took effect in February. Tariffs of 25% were announced and then immediately delayed on imports from Canada and Mexico, with a lower 10% rate on Canadian energy exports. A 25% global tariff on steel and aluminium imports was implemented in March whilst a 25% tariff on imports of cars and car parts is scheduled to take effect in Q2 2025.

The wider tariff announcement on 2nd April, took things to a new level. The announced tariffs targeted almost all countries, with rates often surpassing 50%, far exceeding market expectations. Although Trump had long promised "reciprocal tariffs"—matching the rates that other countries impose on U.S. goods—it became clear that the administration simply applied a formula that divided the U.S. bilateral trade deficit in goods with a country into US imports from that country. This is incoherent policymaking, and with only a week's notice before the tariffs go into effect it has created uncertainty, fears of a global trade war and left many investors questioning the economic credibility of the Trump administration, as reflected in a weakening dollar and rising bond yields. A sell off in the US Treasury market is highly unusual in an environment of elevated uncertainty and economic worries. At the time of writing a 90 day delay to the implementation of the 'reciprocal' tariffs on most countries, combined with a hardening of tariffs on China was announced by President Trump via truth social. This triggered huge intra-day volatility, it is unclear where things land, but this approach to policy making can only add to uncertainty.

Several countries have announced retaliatory measures targeting key U.S. exports. For example, Canada imposed tariffs of up to 25% on U.S. agricultural products, consumer goods, and industrial materials, and has levied surcharges on electricity exports to the US. Mexico followed with similar tariffs on U.S. grains, meat, and manufactured goods. The European Union will impose tariffs of 10% to 25% on around EUR 20 bn of U.S. exports, starting on 15th April, including agricultural and industrial commodities and a selection of manufactured goods. Perhaps most significantly, China announced blanket tariffs on US goods imports, and the resulting escalation has led to current rates of 104% on US imports from China, and 84% on Chinese imports from the US. As an illustration of how shocking these rates are, an American company called Rayonier Advanced Materials which exports to China produced a slide on 6 March outlining its potential exposure to tariffs. It regarded the potential range of Chinese retaliatory tariffs as 0-5%. There were some examples of countries threatened with tariffs suggesting reductions in their own trade barriers, for example Indian and Vietnamese officials signaled cuts to their tariff regime with the aim of minimising the tariffs they faced from the US.

Thus far, all of the announced measures relate to bilateral trade between the US and other countries. The obvious risk is that the trade war escalates further: Chinese exports will naturally try to find more accommodating markets elsewhere, with the risk that governments feel compelled to erect broader trade barriers to avoid being overwhelmed by a glut of excess production that would damage domestic manufacturing.

As fundamental bottom-up stock picking investors, we prefer to refrain from geopolitical pontifications and predictions, instead focusing on long term company fundamentals and industry dynamics. However, the potential scale of the tariffs and the extent of the change in the fiscal framework seen in Germany make these two topics impossible to ignore. These policies have significant direct and indirect financial and operational impacts on many companies in our investment universe. Indeed, we have already started to see evidence of this in recent weeks. We also have an eye on the longer term geopolitical strategic context given its potentially major ramifications for economic relations between countries in future. So please allow us this examination of the situation as we see it.

Below we outline some of the impacts and risks we see companies now having to navigate and how our portfolio and investment process might be impacted. In some cases, such impacts are better understood and may already be (in some cases more than) priced in. In others, impacts may be lagged or perhaps second order effects which have yet to manifest and are thus less well understood. Together this new environment of tariffs and greater political intervention elevate risk, but also create new mispricing opportunities.

The first factor to highlight is uncertainty. The heightened policy uncertainty we are now witnessing typically depresses both business and consumer confidence as reflected in recent US economic survey data. Ultimately, this reduces or at best delays business investment and consumption which feeds through to lower growth. Our deliberate and structural long bias towards business quality factors such as strong competitive positions, brand loyalty, high switching costs and stability of revenues provide a good defence against some of the negative headwinds that come with a lower economic growth.

Higher inflation (‘stagflation’ when combined with lower growth) is another likely consequence of high tariffs. Indeed, due to an expected boost in consumer prices, both market and economists’ inflation forecasts have increased in Q1 at the same time as growth forecasts were reduced. Again, our long side focus on business quality factors such as pricing power is beneficial in this environment as such companies are better able to pass through direct or indirect input cost inflation. Historically, high inflation and uncertain environments have often rewarded investors who are more discerning about valuation, again something which should benefit our approach.

Tariffs increase the risks of sunk and written off capital expenditures as plants, premises and equipment built in one region with a view to servicing customers in another region could suddenly become uneconomic. With some exceptions, we generally prefer to invest in companies with lower capital expenditure profiles or asset light business models. Indeed, at the overall portfolio level, the weighted average long portfolio capex to sales ratio (ex-leases) stands at 5% versus 23% for the short portfolio. Overall, this suggests the long book is at lower risk of balance sheet impairments than the short book.

Taking into account the above factors, when we look through our long portfolio in the context of the looming threat of tariffs, it was reassuring to see that it held up well in Q1. We saw few direct tariff impacts within the long portfolio at a time when corporate managements across the globe were starting to flag the potential negative impacts. In fact, given many companies in our long book are robust businesses with market leading positions and strong competitive advantages, disruption and volatility should present opportunities for them to gain share as weaker players falter.

Of course, on the short side, we look for very different characteristics, in some respects the opposite of the longs. It was not surprising to see a number of instances of tariff-related worries driving stock price underperformance. These included Valeo (-7.8%) and Forvia (-13.5%) in the Auto sector, which will be hurt directly on their exports into the US and indirectly as their European OEM customers come under pressure. Xerox Corporation declined -44% as the company finds itself on the wrong side of nearly all the first order negative effects above as well as potentially facing significant second order impacts regarding its supply chain framework.

Second order effects are more uncertain, complex, take longer to manifest and thus require a more long-term thought process but may prove to be just as impactful and consequential for companies over time. We outline below a number of potentially significant second order impacts that companies and investors need to consider carefully in the new environment.

De-globalisation and the fracturing of global supply chains has arguably been underway for a number of years now amidst increased cross-border restrictions and growing non-tariff barriers and is certainly accelerated by the policies of the current US government. It's worth remembering that globalisation has ebbed and flowed materially over the last 150 years. As Keynes wrote in the aftermath of World War 1, *"Very few of us realize with conviction the intensely unusual, unstable, complicated, unreliable, temporary nature of the economic organization by which Western Europe has lived for the last half century. We assume some of the most peculiar and temporary of our late advantages as natural, permanent, and to be depended on, and we lay our plans accordingly.".* The sentiment is perhaps even more true of the world in the 3-4 decades leading up to the late 2010s.

Underlying these shifts is a valid concern that the post-Bretton Woods monetary system is unsustainable due to the imbalances it has created. The US has run trade deficits every year but one for five decades, and the deficits in goods have been growing in recent years. This is linked to the reserve status of the US dollar, which creates investment demand for US assets which in turn arguably prevents currency markets from acting as the natural balancing mechanism one might expect to eliminate trade deficits. The biggest corollary is China, which operates a large and growing surplus in goods, particularly if we include adjacent nations such as Vietnam to where supply chains have broadened in recent years to evade tariffs on China from Trump's first term. The imbalances are becoming more severe as China grows and the US shrinks as a proportion of the world economy. When the US was 40% of global GDP (over 50 years ago) it was more able to accommodate the world's trade surpluses than now, when it is closer to 25% of global GDP.

The intellectual framework behind the Trump administration's policies was most clearly laid out by Stephen Miran, chair of the council of economic advisers, in a paper in November. His argument is essentially that the current global monetary system will eventually undermine itself if the US does not proactively adapt it: *"the paradox of being a reserve currency is that it leads to permanent twin deficits, which in turn lead over time to an unsustainable accumulation of public and foreign debt that eventually undermines the safety and reserve currency status of such a large debtor economy.".* In the context of Miran's paper, much of Trump 2.0's foreign policy so far can be seen as an attempt to reshape the global trade and financial system, alongside security arrangements, to reduce the burden of backing those systems on the US. Miran himself identified the risk of financial market volatility from such policy but concluded that given Trump's "concern for the health of financial markets… is fundamental to his view of economic policy and the success of his presidency. I expect that policy will proceed in a gradual way that attempts to minimize any unwanted market consequences of efforts to improve burden sharing for provision of reserve assets and the defense umbrella". Clearly this expectation of gradual policy implementation was a misjudged conclusion. Similarly, the attempts to reduce the burden of US security support to allies seem likely to be effective in the narrow sense of prompting rearmament by allies, but with huge unintended consequences longer term on the ability of the US to exert its influence on global events.

The importance of acknowledging the philosophy underlying the policies is its ability to help us interpret future developments or attempts to resolve this trade war. As we noted above, several countries have proposed tariff reductions in an attempt to reach a genuinely reciprocal tariff arrangement. But tariffs are clearly not the underlying driver of the world's trade imbalances – after all, China's tariffs on goods imports are relatively modest. So, tariff deals alone are unlikely to resolve the problem that the Trump administration is trying to solve. There is a significant chance that current US policies eventually trigger a significant shift in the system underpinning global trade and financial markets, of similar magnitude to Nixon's ending of the Bretton Woods agreement in 1971.

De-globalisation, assuming it continues, will inevitably lead to reduced efficiency in global businesses as the development of national or regional business units takes shape, leading to duplication of investments and processes, dependency on higher cost sites and higher logistical costs. The direction of travel is perhaps most obvious in semiconductors, but it also applies to many other industries deemed strategically important by governments. The US Chips Act is well known, but the EU, China and India are also incentivising domestic chip production, leading to increased capital expenditures in fabs, chip packaging, and infrastructure. More broadly, so called 'national champions' in strategically important industries could benefit from significant government subsidies and incentives. Companies with strong pricing power are likely to negotiate these dynamics better than average. On the flip side, industries ranging from AI and cloud computing, to steel, defence and pharmaceuticals who have large capex investments may face increased costs and margin compression.

Changing geopolitical alliances and increased defence spending are perhaps the two most high profile effects to consider. The world appears to be trending towards organising into geopolitical blocks or spheres of influence as countries around the world reconsider the wisdom of relying on the security umbrella of the US. We are not well qualified to predict the outcome of this reorientation, but it is reasonable to assume that smaller countries, faced with trade barriers, military threats and uncertainty will seek to join larger blocks in order to ensure access to external markets and in search of reliable military alliances. Of particular relevance to us are Europe, the UK and Japan.

In Germany, after topping the polls in the February elections, Chancellor elect Friedrich Merz announced radical plans to ease Germany's stringent fiscal policies, traditionally characterised by conservative spending. The Bundestag approved a EUR 1 trillion spending package aimed at revitalising the economy and enhancing defence capabilities. Whilst the most obvious beneficiaries are European defence manufacturers, we believe that share prices in the sector largely reflect the impact, whereas second order effects in the German and European cyclical industrial universe are less well priced and we still see compelling valuations in this space. Three such names in our long book are ThyssenKrupp (+149%), Buzzi (+25%) and STO SE (+18%) which all gained sharply in Q1, but which remain on compelling valuations.

In the UK, the Brexit saga triggered a prolonged period of political uncertainty, lowered the UK's economic growth profile and contributed to depressed equity market valuations. The new UK government professes its intent to raise growth and enjoys a large majority but has placed itself under tight fiscal constraints against which it keeps bumping up. The obvious growth-supporting policy change without material fiscal costs would be to realign and reintegrate to some extent with the EU. The Trump administration's stark shift of the US approach to Ukraine and implicit disavowal of NATO article 5 has prompted a tightening of the defence ties between the UK and the EU. Is it crazy to anticipate that between the economic pull and the military push, the Starmer government might change course on its relationship with the EU? If it did, this would likely be a positive catalyst to spur a revaluation of historically cheap UK equities, something which we are well positioned to benefit from.

Capital flows over the last 15 years favoured the US, as the economic policy environment, relative to other regions, was deemed to be investor friendly and returns were higher. Recent events may alter these flows. Foreign investors, driven by fear of trade policy uncertainty, but also by geopolitical reactions to Trump administration foreign policy, may reassess their geographical capital allocations. Furthermore, any company or investor making long term investment decisions may feel less enthusiastic about embarking on large scale investment plans with this degree of uncertainty in the air. Whilst there is plenty to fault about policymaking in Europe, for instance, it may start to look like a relative safe haven in the current economic policy making storm.

The Trump administration's foreign policy has the potential to influence consumer behaviour, trade regulations, and industry standards, creating a complex environment of second order effects for investors and companies. These include;

1. Consumer Preferences and Product Boycotts

There is already evidence that US policies have led to increased anti-American sentiment in various regions, notably Canada and Europe. For example, there have been boycotts of American consumer products and brands in Canada, boycotts of Tesla vehicles in Europe and Canada and there are also signs of reduced tourist arrivals into the US from both Canada and Europe in recent weeks. Whilst it is too early to assess the durability and scale of these changes, paying attention to consumer preferences regarding these issues is likely to become increasingly important.

2. Rise of Non-Tariff Barriers

We believe the risk of non-tariff barriers in industries like media, technology and communication services has the potential to disrupt existing business models. Non-US countries may impose these barriers as an alternative or in conjunction with tariffs with the aim of protecting domestic industries or restricting the market access of US firms. Many social media and communication services firms have thus far enjoyed relatively light regulation across Western economies, compared to financial services for instance, where firms are already set up to deal with high regulatory barriers which segment geographical activities.

3. Domestic Preference Policies and Technical Standards

The adoption of "buy domestic" policies, local incentive schemes, and unique technical standards or aggressive use of product origin rules may favour domestic companies over foreign competitors. Industries such as manufacturing and technology may see shifts in competitive dynamics due to these policies. Investors will need to consider which domestic firms benefit from government incentives and which firms could lose out.

We have outlined a range of impacts and risks associated with the new economic and political environment. Whilst there will be winners and losers, our view is that the new environment serves to raise inflation risk, regulatory and business model risk and lower economic growth. This should create more short-side opportunities which our existing process is well set up to capture. Indeed, we believe that our active stock picking framework lends itself well to incorporating these risks into our investment portfolio to ensure we are on the right side of the impacts. To that effect, we have added an evaluation and risk assessment of tariff impacts, both first and second order, into our company research and analysis framework and we believe this is the best way to ensure alpha generation this new uncertain environment.

We discuss our investment in Lottomatica below. This is characteristic of much of our long portfolio, in the sense that, as a domestic Italian consumer services business, it is entirely insulated from the direct effects of the trade war, albeit clearly exposed to the damage it will likely have on European living standards and consumer confidence.

Top Five Contributors and Detractors for March 2025

Contributors	Bps
Thyssenkrupp AG	41
US medical device manufacturer	26
BML Inc	24
Lottomatica S.p.A	23
US software company	21

Detractors	bps
Nelnet Inc	-40
Flutter Entertainment Plc	-37
Melrose Industries Plc	-37
Baltic Classifieds Group Plc	-30
Meta Platforms Inc	-28

Top Five Long Holdings as at 31st March 2025

Company	Country	Sector	% of NAV
Admiral Group Plc	United Kingdom	Financials	4.8
Auto Trader Group Plc	United Kingdom	Communication Services	4.6
Nelnet Inc	United States	Financials	2.9
BML Inc	Japan	Health Care	2.8
Wise Plc	United Kingdom	Financials	2.4
			17.5

Exposures as at 31st March 2025

Longs%	Shorts%	Gross Exposure%	Net Exposure%
101.7 (106.7)	39.2 (39.6)	140.9 (146.3)	62.6 (67.1)

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 31st March 2025

Country	Gross%	Net%
United States	35.9	-5.3
United Kingdom	29.3	25.0
Japan	11.3	11.1
Sweden	7.3	1.1
Canada	6.9	5.8
Germany	6.0	3.7
Norway	4.6	4.2
France	4.1	-3.6
Hong Kong	3.9	2.1
Belgium	3.3	3.3
Italy	3.1	1.9
Mexico	2.8	2.8
Poland	2.5	0.8
Ireland	2.4	2.4
Australia	1.7	-1.6
Israel	1.4	0.4
Luxembourg	1.3	1.2
Philippines	1.2	1.2
Switzerland	1.2	-0.8
South Korea	1.2	1.2
Singapore	1.2	1.2
Bermuda	1.1	1.1
Austria	1.0	-0.2
China	0.9	0.9
Taiwan	0.9	0.9
Other	4.5	1.5

Market Cap	Gross%	Net%
>$50bn	12.6	8.0
$20bn - $50bn	6.6	1.4
$2bn - $20bn	69.9	22.7
$500m -$2bn	32.6	14.6
<$500m	19.1	15.9

Positions	Mar	Feb
Long	99	96
Short	104	96
Longs Opened	8	10
Longs Closed	5	2
Shorts Opened	15	7
Shorts Closed	7	9

Sector	Gross%	Net%
Communication Services	27.5	21.3
Consumer Discretionary	18.4	8.0
Consumer Staples	9.5	0.8
Energy	2.4	1.1
Financials	22.5	16.2
Health Care	8.7	4.6
Industrials	18.7	3.5
Information Technology	20.5	0.4
Materials	8.8	4.7
Real Estate	3.3	2.7
Utilities	0.6	-0.6

Geographic analysis relates to country of incorporation or listing. This may not represent the underlying economic exposure of the operating business.

Lottomatica Group S.p.A – Italian betting and gaming retailer (2.6% position size)

Lottomatica – the market leader in Italian betting and gaming - is a rare creature: a recent private equity IPO with an unblemished record as a public company.

The company history is more convoluted than the plot of a Verdi opera. Lottomatica was established in 1990 to manage the Italian national lottery, when the Lotto game was computerised and outsourced by the government. It was acquired by Gtech in 2006, which then merged with IGT in 2015, adopting the IGT moniker.

Gamenet Group is the other half of the story. Founded in 2004 as a gaming machine network operator in Italy, it expanded over time into retail betting, online sports betting and casino gaming. It was acquired by Trilantic Capital Partners in 2010, bought the Italian operations of Intralot in 2016 and then went public on the Italian market in 2017. Gamenet acquired Goldbet, one of the larger Italian sports betting operators, in 2018, and then was picked off by another private equity firm, Apollo, in 2020 for an enterprise value of c. EUR 1.1bn.

The two came together in 2021 when Gamenet acquired IGT's Italian consumer gaming business for c. EUR 950m. The group resurrected the Lottomatica name and was relisted in May 2023 at a share price of EUR 9 per share for an enterprise value of c. EUR 4bn.

The deals continued. Since the Gamenet-IGT deal, Lottomatica acquired Betflag in 2022 for c. EUR 310m, picked up StarCasino from Betsson in 2023 for c. EUR 50m, and finally SKS365 in early 2024 for c. EUR 600m. Combined with a solid organic performance, these deals have established Lottomatica as the market leader in the Italian gaming industry with a 42% share of retail betting and a 30% share of online sports betting and online casino gaming.

Given the acquisitive history, you might expect the company to be a Frankenstein's monster with a shambolic mess of legacy IT systems. The reality is quite the contrary. We put this down mainly to the management team. CEO Guglielmo Angelozzi has run the group for over ten years, and most of his senior team is also long tenured. They have made some very smart moves, perhaps most significantly, rebuilding their tech platform from scratch during Covid, and then stitching subsequent acquisitions into it in order to maintain a clean tech stack, allowing Lottomatica to fully benefit from the industry's characteristic economies of scale.

The investment thesis is simple: Lottomatica is a market share gainer from an already very strong position in a consolidated market which should benefit from many years of strong growth given the low level of penetration of online gaming in Italy compared to other developed markets. It owns some of the strongest brands in the market which are structurally hard to compete with given retail betting shops are governed by concessions and advertising of online betting is banned. It is very capital efficient, and benefits from an experienced management team which has demonstrated good operational execution and impressive capital allocation. Despite all this, it trades at a modest valuation.

The Italian gaming market is the largest in continental Europe. Between 2006 and 2009 retail sports betting and all forms of online gaming were regulated. However, digital adoption was slow until Covid prompted more and faster broadband connections and a sharp uptick in digital payments penetration. With this support the online market has grown by 24% annualised since 2019. Italy is also following the pattern of more mature markets: online adoption expands the overall market as the online and mobile product is superior, and punters have more opportunities to bet. Online gambling still only accounted for c. 32% of overall activity in Italy in 2024 compared to 63% in the UK. This trend has a lot further to run.

Meanwhile Lottomatica is outgrowing the market. Piecing together the pro forma group through history we estimate Lottomatica has organically gained around 5% points of online market share in the past two years. Since Flutter Entertainment (which also owns Sisal) acquired Snaitech last year, Lottomatica and Flutter combined account for around 55% of the online market. With this level of concentration, competition is fairly rational. The gaming industry generally benefits from economies of scale, particularly in technology and above the line marketing. This is accentuated in Italy given the structure of the new concession model for online gaming which is happening in 2025. Licencees must pay a fixed EUR 7m fee for a nine-year concession, then a 0.2% fee on gross gaming revenue but with a cap at EUR 1m – again to the benefit of large operators – as well as the c. 25% tax on gross gaming revenue. For smaller operators the fixed concession price will be prohibitive, so we expect a decent chunk of the c. 10-15% of market share held by a long tail of small operators to be won by the big players over the next year.

The combination of strong market growth and share gain has resulted in an attractive organic growth profile for Lottomatica. We estimate it has achieved organic revenue growth of c. 11.5% over the last two years. Given that the online operations generate higher margins than retail betting or fixed odds terminals, the pattern of growth also has a significantly positive mix effect. Group margins have improved by c. 3% points over the last two years, despite being currently depressed by the SKS365 acquisition.

The company enjoys very attractive returns on capital. Free cash flow return on net operating assets in 2024 was c. 250%. Given Lottomatica's acquisitive history most of the balance sheet assets are goodwill and intangibles yet return on invested capital was still a healthy 13%. As the mixed benefit of increasing online share of revenues continues to take effect, we expect these returns to improve further. The group's high capital efficiency and strong cash flows makes us comfortable with the sustainability of its net debt of almost EUR 2bn.

The solid return on invested capital despite a goodwill-filled balance sheet is indicative of a successful M&A programme, but examples bring this out more clearly. We mentioned the acquisition of Betflag for EUR 310m in November 2022. At the time of the deal the business was generating EUR 36m in EBITDA; according to management it has more than doubled since. Whilst Lottomatica has deployed most of its capital into acquisitions, it pays out roughly 20% of free cash flow in dividends, generating a 1.7% yield at the current share price. Management is interested in further M&A, both within and outside Italy, but has clear parameters for what it will consider: no lotteries, markets where the regulatory risk can be priced properly, ideally omnichannel businesses. It also has the right framework for assessing such opportunities – against the alternative of repurchasing its own stock, which at the current price sets a reasonably high bar.

Lottomatica trades at an EV / NOPAT multiple of 13.5x based on our estimate of 2025 earnings. For a market-leading business which is growing double digits, this is an attractive risk-reward. We see the company's competitive position as secure. Our worries are more around the potential for capricious behaviour from the regulator given the single country exposure of the business, and the scope for a substantial acquisition outside Italy – this would be both riskier and almost certainly less value-creating than the in-market consolidation deals that Lottomatica has engaged in to date. Finally, gambling is obviously a discretionary spend, albeit habitual for many people. Growth will certainly suffer if the trade war triggers a European recession. However, we feel the price justifies the risk.

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
2025	1.6	1.8	-1.5										**1.8**
2024	3.3	-3.1	1.9	1.1	2.7	-0.9	0.7	1.5	-1.4	-0.3	0.4	0.5	**6.5**
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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