

# Ennismore European Smaller Companies Fund

Investor Newsletter for the month of August 2023

Issued on 6 September 2023

## Fund Details

Daily dealing UCITS and Irish Central Bank regulated open-ended investment company with Financial Conduct Authority recognition and registered in Ireland. The Fund size was GBP 289m as at 31<sup>st</sup> August. Total assets under management by Ennismore Fund Management were GBP 469m. 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 31 August 2023

	Share Class <sup>1</sup>				
	GBP A £	GBP A €	GBP B	EUR A	EUR B
NAV per Share <sup>2</sup>	154.85	180.79	26.17	25.98	26.10
	% Change				
August 23	3.1	3.1	3.1	3.1	3.2
2023 to date	-4.6	-1.2	-4.6	-1.2	-1.2
Annualised return <sup>3</sup>	11.9	10.9	7.9	7.9	7.9
Since launch <sup>3</sup>	1477.7	1183.8	161.7	159.8	161.0

Note: All performance figures net of fees. Past performance is not a guide to future returns.

Comments below on performance refer to GBP NAV per share unless otherwise stated, exclude cash returns and are prior to expenses.

The Fund's NAV increased by 3.1% in August. The long book cost 1.1% while the short book contributed 4.3% to NAV.

It was another fairly busy reporting month for the fund. Our short position in a US software company contributed 83bps after the company reported a weak set of results which led to a sharp fall in the price. Our short position in a Swedish software company contributed 51bps with the shares giving back some of the gains in July following news that the Indian parliament has adopted a new Digital Personal Data Protection Law.

Costain Group Plc contributed 47bps after it announced another solid set of first half results and continues its rehabilitation from the 'naughty step' of the market. It still sits on an earnings multiple of around 5 times with significant cash backing. EVS Broadcast Equipment contributed 46bps after upgrading its expectations for the year after reporting a strong first half and we still see good upside with positive operational momentum. Secure Trust Bank also reported satisfactory first half results which makes a mockery of our expectations of a 3.5 times 2023 earnings multiple and 65% discount to tangible equity. Morgan Advanced Materials Plc's interim results also gave no reason to change our positive view on the stock. Sto reported lower first half results given the unfavourable weather and reduced their revenue outlook accordingly but keeping its range for operating profit unchanged.

## Top Five Contributors and Detractors for August 2023

Contributors	bp
US Software company	83
Swedish software company	51
Costain Group Plc	47
Evs Broadcast Equipment SA	46
Norwegian energy machinery supplier	33

Detractors	bp
Swiss online retailer	-68
Gruppo Mutuonline SpA	-37
STO SE & Co KGaA	-37
UK building products distributor	-26
Moneysupermarket.Com Group Plc	-24

<sup>1</sup>Source: Administrator, Net Asset Value, net income reinvested.

<sup>2</sup>Source: Administrator, Net Asset Value.

<sup>3</sup>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 Long Holdings as at 31 August 2023

Company	Country	Sector	% of NAV
EVS Broadcast Equipment SA	Belgium	Information Technology	3.9
STO SE & Co KGaA	Germany	Materials	3.8
Costain Group Plc	United Kingdom	Industrials	3.7
Vossloh AG	Germany	Industrials	3.5
IG Group Holdings Plc	United Kingdom	Financials	3.4
			18.3

## Exposures as at 31 August 2023

Longs%	Shorts%	Gross Exposure%	Net Exposure%
85.8 (89.0)	48.7 (53.9)	134.5 (142.9)	37.1 (35.1)

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 31 August 2023

Country	Gross%	Net%	Market Cap	Gross%	Net%	Sector	Gross%	Net%
United Kingdom	44.9	23.1	>£2bn	30.0	-3.0	Communication Services	5.4	-2.8
Germany	33.0	20.0	£700m-£2bn	38.9	4.9	Consumer Discretionary	30.2	10.9
Switzerland	13.4	-2.1	£200m-£700m	43.4	17.8	Consumer Staples	6.6	-4.2
Sweden	12.4	-5.0	<£200m	22.2	17.4	Energy	0.0	0.0
United States	5.7	-3.7				Financials	9.8	9.8
Italy	5.3	-0.3				Health Care	2.9	1.5
France	4.5	3.3				Industrials	34.1	10.2
Belgium	3.9	3.9				Information Technology	27.4	-1.8
Norway	3.1	-1.3				Materials	12.7	8.1
Austria	2.9	1.2				Real Estate	5.3	5.3
Netherlands	1.2	-0.0				Utilities	0.0	0.0
Portugal	1.1	1.1				Other	0.0	0.0
Other	3.0	-3.0						

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

## Amadeus FiRe AG – German personnel services and professional training provider (1.4% NAV)

Amadeus FiRe AG is a EUR 630m market capitalised leading personnel services and professional training company based in Germany specialising in white collar jobs across accounting, finance, office and information technology (IT). Founded in 1986 and listed on the stock market in 1999 with revenues of EUR 25m, the company has been growing profitably ever since, achieving revenues of EUR 407m as of last year. We wrote about Amadeus FiRe in 2012 but have been on the sideline for a long time as we felt the company enjoyed a strong premium in an underlying cyclical staffing market. We looked at the company again when it announced its largest ever acquisition in 2019 which strongly increased its training business. The stock market quickly discovered the benefits of this combination – gaining access to personnel through training that can be deployed in their temporary staffing or permanent placing segment – and priced it to perfection. Nevertheless, we did not lose sight as we think the combination of a much larger training segment with its personnel services make it quite unique with a strong economic moat especially in tight labour markets. Having been patient, we were rewarded when COVID-19 struck. The stock came under massive pressure given the large debt pile from the acquisition and the widespread economic uncertainty. Within less than one year our investment performed very well and we took profits as we thought it was fairly valued. Since then, it made an all-time high above EUR 200 but more than halved as of last year. Adjusting for the acquisition the company consistently achieves strong returns on capital in the high thirties but currently the stock market is only valuing the company below ten times its operating profit. We think an investment in Amadeus FiRe is very compelling now as its valuation is cheap, the quality of the business is even better, and the health of the balance sheet has been fully restored enabling increased dividends yielding currently 4%.

With its focus on its niche – the Commercial and IT professions have only around 14% share within the staffing market - Amadeus FiRe always benefited from better economics and enjoyed good organic growth and healthy margins. None of its clients' industries make up more than 10% and its top ten clients are below 10% of revenues providing broad diversification. The

company is present across all major economic centres, with 22 branches, fortifying its leading position especially for finance and accounting.

The idea to invest into professional training was not a new concept having bought the tax training specialist Dr. Endriss back in 2001. Importantly the training business is less cyclical, in fact rather countercyclical, compared to the personnel services segment. But until 2019 the resilience of the training business had only a small impact given it was around 10% of the business. With the acquisition of Comcave in 2019 and the much smaller acquisition of GFN in 2020 the training segment tripled in size. Comcave is focussed on publicly funded occupational retraining as well as advanced vocational training in commercial and IT professions. It has completely digitalised its training offering in the past and has been able to grow its business strongly by around 10% per annum. The efficient setup, an underlying strong operational profitability above 20%, and access to around 10,000 candidates were the main arguments for the hefty price tag of EUR 200m, paying more than three times revenue and around 14 times operating profit. Luckily thanks to a 10% capital increase back in 2020 in which we participated and the very strong cash generation – we expect to see a free cash flow of more than EUR 50m again - Amadeus FiRe will be debt free by year end excluding leasing liabilities. GFN is also engaged in publicly funded training focussing on IT but with revenues of EUR 25m and trading around breakeven it was badly managed at the time of acquisition and could be purchased for circa EUR 5.5m. It seems GFN learnt from its larger sister Comcave and reported EUR 21m revenues in the first half results and turned profitable with EUR 2.1m operating profit. Last year the training segment was under pressure as the Bundesagentur für Arbeit (BafA), the Federal Employment Agency, had other priorities and changes to the BafA training portal Kursnet negatively impacted the visibility of their offerings. Both issues have largely improved this year and therefore we expect the training segment to achieve revenues of EUR 150m and operating profit of above EUR 17m. For the personnel service segment we expect the headwinds to continue for temporary staffing due to a lack of candidates and the clients desire to look for permanent employees, which is driving the permanent placing business and therefore we expect revenues of slightly below EUR 300m and operating profit of circa EUR 58m. On our estimates Amadeus FiRe should achieve around EUR 440m revenues and an operating profit of circa EUR 75m growing nicely still on last year's revenues of EUR 407m and operating profit of EUR 68m.

We think Amadeus FiRe has developed a strong marketplace within its niche for candidates looking for job opportunities, employees looking for new qualifications and clients looking for their staffing needs. The expanded offering in the training segment is helping to find talent in the increasingly tight labour market. With this unique set up Amadeus FiRe has further improved its business model. Although we think it is still predominately regarded as a pure staffing company Amadeus FiRe should over time profit from its broader scope which should translate into a re-rating. Currently the shares trade on only nine times enterprise value to our estimate of operating profit for this year. The company is guiding for revenues to grow organically to EUR 500m by 2026 with an operating profit of EUR 100m which we see as realistic if the training segment can further improve profitability and permanent placing remains strong. The market is currently pricing in a much more negative development. In the absence of any acquisition and a continuation of the low valuation we would also expect a share buyback which we would highly welcome. Putting the shares on twelve times - the historical average over the last ten years – enterprise value to our estimate of operating profit for 2024 would result in an upside of more than 50% to the end of next year.

## Historical Monthly Percentage Return for the GBP A Shares

Year	Jan (%)	Feb (%)	Mar (%)	Apr (%)	May (%)	Jun (%)	Jul (%)	Aug (%)	Sep (%)	Oct (%)	Nov (%)	Dec (%)	Annual
2023	-2.8	-0.1	-0.4	2.9	-3.0	-2.6	-1.6	3.1					-4.6
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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A summary of investor rights associated with an investment in the Fund is available online in English at [www.ennismorefunds.com](http://www.ennismorefunds.com) or it may be received upon request via email by contacting [clients@ennismorefunds.com](mailto:clients@ennismorefunds.com).

A decision may be taken at any time to terminate the arrangements made for the marketing of the Fund in any EEA Member State in which it is currently marketed. In such circumstances, Shareholders in the affected EEA Member State will be notified of this decision and will be provided with the opportunity to redeem their shareholding in the Fund free of any charges or deductions for at least 30 working days from the date of such notification.

Under normal circumstances, as defined within the Prospectus, the Fund may charge up to 3% of the net asset value of any redemption to cover the costs associated with managing the redemption process, including the sale of assets within the Fund to generate the required cash. Currently this redemption charge is set at 2%.

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We hereby disclose that as at the date of first issue of the report to which this is an Appendix, we held positions in the companies discussed in that report and we are thus subject to conflicts of interest in respect of these companies. The analysis presented on these companies has not been prepared in accordance with legal requirements regarding the independence of investment research and as such is considered non-independent research, as defined by COBS 12.3.2R of the FCA Handbook and as a marketing communication.

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The examples of specific investments included herein are not representative of all of the companies purchased, sold or recommended for the Fund. The Fund’s portfolio contains a much larger number of positions than the examples set forth herein and, accordingly, the examples are not intended to indicate the overall composition of the Fund’s portfolio. It should not be assumed that investments in the companies identified will be profitable, that recommendations made in the future will be profitable or will equal the investment performance of those discussed herein, or are representative of investments that will be made in the future. There is also no guarantee that any of the positions are currently or will remain in the Fund. The information included in this document should not be considered a recommendation to purchase or sell any particular security or other financial instrument. All statements and expressions are the sole opinion of Ennismore and are subject to change without notice.

The list of contributors and detractors presented herein has been calculated by including those positions that contributed most significantly, either positively or negatively, to the performance of the Fund’s portfolio during the period. This is not meant to be indicative of the performance of all positions contained in the portfolio. Past performance is not indicative of future results.

## Additional Information for Recipients in Switzerland

The Fund has not been approved for distribution in or from Switzerland by the Swiss Financial Market Supervisory Authority. As a result, the Fund’s shares may only be offered or distributed to qualified investors within the meaning of Swiss law. The Representative of the Fund in Switzerland is Bastions Partners Office SA with registered office at Route de Chêne 61A, 1208 Geneva, Switzerland. The Paying Agent in Switzerland is Banque Heritage, with registered office at Route de Chêne 61, 1208 Geneva, Switzerland. The place of performance and jurisdiction for Shares of the Fund distributed in or from Switzerland are at the registered office of the Representative.

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