

Ennismore European Smaller Companies Fund

Investor Newsletter for the month of February 2024

Issued on 6 March 2024

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 292m as at 29th February. Total assets under management by Ennismore Fund Management were GBP 481m. 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 29 February 2024

	Share Class ¹				
	GBP A £	GBP A €	GBP B	EUR A	EUR B
NAV per Share ²	165.02	192.89	27.89	27.58	27.73
	% Change				
February 24	-2.4	-2.6	-2.4	-2.5	-2.5
2024 to date	-0.5	0.8	-0.5	0.6	0.7
Annualised return ³	11.9	11.0	8.1	8.1	8.1
Since launch ³	1581.4	1269.7	178.9	175.8	177.3

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 decreased by 2.4% in February. The long book and short book cost 1.8% and 1.0% of NAV respectively.

EVS Broadcast Equipment contributed 47bps after beating market expectations for 2023 and guiding to a further strong year for 2024, we still believe conservatively valuing the business leads to good upside. Ultimate Products reported a trading update for their first half with continued debt paydown and signs of improving momentum moving into the rest of the year. We sold out of our position in XP Power Plc after it hit our price target, increasing almost 70% in the circa 6 months we held the position.

A short in a US technology company cost the fund 50bps after there was an announcement, of already public information, which led it to become part of the Artificial Intelligence euphoria bubble. We have covered most of the position to avoid being overly exposed to 'meme' stocks.

Top Five Contributors and Detractors for February 2024

Contributors	bps
EVS Broadcast Equipment SA	47
US software company	24
Finnish machinery manufacturer	21
Swiss solar company	20
German IT service company	16

Detractors	bps
US technology company	-50
Costain Group Plc	-43
US beverage manufacturer	-41
Sanderson Design Group Plc	-38
Celebrus Technologies Plc	-33

¹Source: Administrator, Net Asset Value, net income reinvested.

²Source: Administrator, Net Asset Value.

³Since 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 29 February 2024

Company	Country	Sector	% of NAV
EVS Broadcast Equipment SA	Belgium	Information Technology	5.3
STO SE & Co KGaA	Germany	Materials	4.2
Costain Group Plc	United Kingdom	Industrials	3.9
SThree Plc	United Kingdom	Industrials	3.8
IG Group Holdings Plc	United Kingdom	Financials	3.5
			20.6

Exposures as at 29 February 2024

Longs%	Shorts%	Gross Exposure%	Net Exposure%
90.0 (88.1)	53.3 (53.0)	143.4 (141.1)	36.7 (35.0)

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 29 February 2024

Country	Gross%	Net%	Market Cap	Gross%	Net%	Sector	Gross%	Net%
United Kingdom	47.9	30.9	>£2bn	34.4	-2.4	Communication Services	7.2	-1.0
Germany	29.1	17.9	£700m-£2bn	33.9	7.3	Consumer Discretionary	28.3	6.5
United States	11.5	-8.0	£200m-£700m	51.2	10.9	Consumer Staples	9.3	-6.5
Switzerland	10.7	-3.0	<£200m	23.8	20.9	Energy	0.0	0.0
Sweden	10.6	-0.8				Financials	11.1	10.9
France	5.5	1.5				Health Care	4.7	-0.7
Belgium	5.4	5.4				Industrials	35.7	12.9
Italy	5.4	0.0				Information Technology	28.8	0.4
Canada	2.8	-2.6				Materials	12.9	9.3
Norway	2.7	0.2				Real Estate	5.4	5.0
Austria	2.5	1.1				Utilities	0.0	0.0
Poland	2.0	-2.0				Other	0.0	0.0
Jersey	2.0	-2.0						
Finland	1.7	-1.6						
Portugal	1.0	1.0						
Other	2.7	-1.2						

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

KSB – German manufacturer of pumps and valves (1.6% of NAV)

KSB is a leading producer of pumps and valves with strong positions in the energy, industrial and water sectors. We have been invested in KSB since 2017 and last wrote on it in [February 2020](#). During this time the valuation of its business went from very cheap - we picked up shares substantially below its tangible book value - to still cheap although the shares have doubled in price and healthy dividends have been paid continuously in the meantime. With a market capitalisation of EUR 1.1bn and with shares trading close to all-time highs we want to update on the company and explain why we still think it offers very good value and attractive upside. Based on preliminary numbers for full year 2023, revenues have grown to EUR 2.8bn, up 18% since 2019, with operating profit expected to be close to EUR 230m, doubling from when we wrote. Based on those results shares remain undervalued, but we want to highlight that external and internal factors have developed very positively too, providing a solid base for further upside in our opinion. Just one example, nuclear power - its ugly duckling business - is now officially certified by the EU as sustainable. Luckily, KSB has kept this expertise despite Germany's exit. Internally the business is primed for higher returns with better cost control and a dedicated focus on aftermarket services. Investor relations have also improved with the company putting on its first capital markets day in years and entering the Prime Standard just recently together with its listing in the German Smallcap Index, SDAX. Still, the company has a large discount but given various improvements, we think it is much more investable today and expect the discount to shrink. KSB continues to boast a very strong balance sheet with no interest-bearing debt and low leasing liabilities, we estimate year-end net cash of EUR 300m. Including pension liabilities of around EUR 450m the enterprise value is below six times our estimate of operating profit. With healthy underlying markets and management outlook for sustained higher profitability we see plenty of upside for the shares.

Apart from 2020 when COVID-19 impacted the business severely – during that year it remained profitable and cash generative – KSB has continued to grow profitably over the last four years. Revenues and operating profits are at an all-time high despite their smaller division in valves continuing to be loss making. From 2021 KSB initiated a new segmentation to highlight its focus on the aftermarket business. The service and spare parts division, KSB SupremeServ, is its second largest division generating EUR 943m revenues in 2023 and while the Pumps division remains the largest division with EUR 1.5bn, the aftermarket business is driving profitability with operating margins in the mid to high teens. In the valves business, representing 13% of revenues, the focus is still on turning it around and has seen further restructuring measures recently enabling it to at least break even this year. We still think there might be a better owner out there given the lack of scale but for now management's attention is on profitability. With its capital markets day last year KSB provided an update on its long-term strategy until 2030 and beyond. Having reached its goals from the Climb21 program with a strong focus on the aftermarket, prioritizing growth markets and lowering costs through streamlining the product portfolio, the company's financial targets for 2025 of improving operating margins towards 8% have been reached two years in advance. The new long-term outlook is a continuation of its strategy to further improve profitability, targeting double digit operating margins. We do not deem KSB's profit targets too ambitious given peers have managed to sustain similar and higher margin levels. Furthermore, besides management's successful focus on profitability, some of KSB's underlying markets have changed substantially since our initial investment in 2017. In two markets where KSB has very strong positions, Energy and Mining, demand is coming back and the revival of nuclear in Europe is also a clear positive sign. New applications like hydrogen or carbon capture projects also open future growth markets for KSB. Besides Building Services, which is impacted by a weak construction market, demand in all other verticals is healthy, supporting management's outlook for 2024 expecting a continuation of the positive trend seen last year.

Looking back at when we initially invested, we continue to see good upside as we expect the high quality of the underlying business is playing out as we initially discussed in our first letter. Its business model is profiting from what is still a very fragmented market, with less competition in some parts of its core business. KSB profits from a very diversified customer base with little dependency on single customers and a focus on reliability and product quality. Barriers to entry are very high within Energy and lower for other parts like standard pumps, still its global service network and product availability is hard to replicate for new entrants. Bargaining powers of suppliers are limited and mostly driven by raw material price fluctuations. Financially KSB has also made good progress and we expect management's focus on profitability will enable the company to reach mid-cycle post tax returns on capital in the low to mid-teens. 2023 should show good progress into that direction as we estimate returns towards double digits. As we mentioned in our first letter, KSB has the potential to achieve even higher returns, but due to its shareholder structure and involvement of the founding family the company is very happy to invest ahead looking to the long term which we think holds back shorter-term returns. This longer-term focus perhaps gives them an edge over time and protects their market position.

Still, we think KSB is a better company today given the initiatives taken and is profiting from improved underlying markets. Therefore, as the company continues on its path of set targets, we expect the shares to mirror that development and its discount to peers to gradually erode. In the meantime, we are rewarded by a healthy dividend above 4% covered by three times earnings. We estimate net operating profit to grow in the mid-single digits and see net cash further increasing. Therefore, KSB is valued on a very modest nine times net operating profit after tax excluding minorities. Further proof of its very attractive valuation can be seen by looking more closely at KSB's minorities, especially its Indian listed subsidiary. KSB Limited although growing strongly represents only 10% of KSB's total business but its current market capitalisation of EUR 1.4bn surpasses the parent company's significantly. We must mention that KSB's direct shareholding is only worth around 570m, but nevertheless it clearly shows how cheaply valued the parent company is. Besides the positive developments described, another trigger to reduce its large discount would be a merger of its common and preference shares which would increase liquidity only slightly but would give a very positive signal. We think this could become a topic in the future. Anticipating a more gradual reduction of its discount and based on our estimate of good results for the current year – valuing KSB at 12 times net operating profit after tax excluding minorities - we see upside of 35% over the next 12 months.

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											-0.5
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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A copy of the English version of the Prospectus of the Fund and the Key Investor Information Document (KIID) relating to the Fund may be obtained online from www.ennismorefunds.com or alternatively received via email upon request by contacting clients@ennismorefunds.com. Where required under national rules, the KIID will also be available in the local language of the relevant EEA Member State.

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.

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.

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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

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