

Ennismore European Smaller Companies Fund

Investor Newsletter for the month of April 2024

Issued on 8 May 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 298m as at 30th April. Total assets under management by Ennismore Fund Management were GBP 491m. 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 30 April 2024

	Share Class ¹				
	GBP A £	GBP A €	GBP B	EUR A	EUR B
NAV per Share ²	170.42	199.57	28.81	28.52	28.66
	% Change				
April 24	2.1	2.2	2.1	2.2	2.2
2024 to date	2.8	4.3	2.8	4.0	4.0
Annualised return ³	12.0	11.1	8.3	8.2	8.3
Since launch ³	1636.4	1317.1	188.1	185.2	186.6

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 2.1% in April. The long and short book contributed 1.3% and 1.5% respectively.

Ultimate Products contributed 69bps post reporting first half results and reiterating market expectations for the full year. Costain continued to move higher in April adding 57bps on no noticeable news. On the negative side, disappointingly our short in a UK software company cost the fund 64bps after the shares increased through the month and late in April was approached by a private equity buyer at a premium of 20%. We doubted the quality of the business and regular insider selling at much lower prices gave us more confidence in that respect, however clearly this has ended up being a mistake.

Top Five Contributors and Detractors for April 2024

Contributors	bps	Detractors	bps
Ultimate Products Plc	69	UK software company	-64
Costain Group Plc	57	Grenke AG	-17
German battery producer	40	Gruppo MutuiOnline SpA	-16
Morgan Advanced Materials Plc	32	Norwegian energy machinery supplier	-14
Swedish software company	27	Swedish intellectual property licensor	-12

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 30 April 2024

Company	Country	Sector	% of NAV
EVS Broadcast Equipment SA	Belgium	Information Technology	5.2
Costain Group Plc	United Kingdom	Industrials	5.2
STO SE & Co KGaA	Germany	Materials	4.4
IG Group Holdings Plc	United Kingdom	Financials	4.2
Ultimate Products Plc	United Kingdom	Consumer Discretionary	3.9
			22.9

Exposures as at 30 April 2024

Longs%	Shorts%	Gross Exposure%	Net Exposure%
94.3 (94.6)	48.4 (52.7)	142.8 (147.3)	45.9 (41.8)

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 30 April 2024

Country	Gross%	Net%	Market Cap	Gross%	Net%	Sector	Gross%	Net%
United Kingdom	53.3	35.1	>£2bn	32.9	-2.1	Communication Services	7.2	-1.0
Germany	29.0	17.5	£700m-£2bn	38.2	11.5	Consumer Discretionary	28.8	6.4
Sweden	10.3	-1.1	£200m-£700m	50.9	19.5	Consumer Staples	6.1	-3.6
United States	9.7	-4.0	<£200m	20.8	17.0	Energy	0.0	0.0
Switzerland	7.9	-1.0				Financials	11.7	11.7
France	5.8	0.9				Health Care	4.3	0.2
Italy	5.6	-0.2				Industrials	38.3	15.4
Belgium	5.3	5.3				Information Technology	28.7	2.3
Norway	3.1	-0.8				Materials	12.7	9.9
Poland	2.5	-2.5				Real Estate	5.0	4.6
Canada	2.5	-2.4				Utilities	0.0	0.0
Austria	2.3	1.1				Other	0.0	0.0
Jersey	1.8	-1.8						
Portugal	1.0	1.0						
Other	2.5	-1.1						

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

Jet2 Plc – UK tour operator (1.5% NAV)

Jet2 is the largest tour operator in the UK with more than 20% of the market. It also offers seats-only tickets on their flights, typically to European short haul holiday destinations, given their package holidays focus. This GBP 3bn market capitalised business has taken substantial market share as many competitors have got into financial difficulties and we believe it now has a very solid base to further strengthen its position organically due to its leading, customer service proposition.

Jet2 has been flying since 2003 and began offering package holidays with its Jet2holidays brand from 2007. Starting from Leeds Bradford airport, it now flies out of 11 UK bases with Liverpool the most recent one to go live. Its pivot to increasingly move into package holidays allows the firm to make a much higher profit per seat sold and to achieve an acceptable return on capital to us as an investment. This strategy has led to the percentage of customers being part of a package holiday moving from 48% to 65% of the total for the 5 years to March 2023 and revenues increasing to over 80% linked to package holidays. This strategy has been well executed by Steve Heapy, the Chief Executive Officer of Jet2 since 2013.

Jet2's key edge in our eyes is their genuine focus on customer service. This is helped by Jet2 being an integrated tour operator, whereby they operate branded flights as part of the holiday, so it has the ability to have more control on the overall experience and pricing of the holiday unlike most competition. This clearly needs substantial capital which works as a barrier to entry for most tour operators. We would argue, however, that even the other obvious integrated operator competitors don't have the customer service DNA of Jet2 or the high focus on package holidays whereby higher levels of customer service are expected by customers. This is highlighted by industry leading Net Promoter Scores from customers

for Jet2. A nice side effect of a highly satisfied customer base is higher repeat business and therefore reduced marketing costs. This focus on customer service does however hold back operational leverage due to investing in staff numbers and training ahead of revenue to ensure there is no let-up in their customer service proposition while growing the business. On the positive side we view this as leading to a more sustainable profit base to continue to add to as Jet2 works through its growth plans.

With respect to the growth opportunities for the business, we expect three sources of volume growth. Firstly, by increasing the number of bases in the UK. Secondly, by increasing aircrafts in some existing airports. Finally, Jet2 may potentially base more planes abroad to allow one further flight per plane each day. With regards to new bases, we view their entrance into Bournemouth Airport in 2025 as a strong opportunity in a large catchment area that often has to use Gatwick as a suboptimal airport due to weak transport connections.

As Jet2 has grown overall through the covid-19 period it has strengthened its relationship with hotel operators, opening up a larger range of potential hotels as well as adding more higher end offerings to their customer base. Also, by proving to be a stronger covenant it has allowed them to reduce pre-payments to hotel operators to guarantee rooms. In any case only around 30% of hotel rooms are "secured". Fuel is circa 10% of the cost base and is 75% hedged for the current financial year.

Jet2 has a solid balance sheet with approximately zero net debt at year end (excluding customer prepayments and leases) but on average it has a net cash balance through the year due to the timing of working capital payments. We expect much of the cash generation to be used for fleet capacity growth at good buying terms. They do pay a nominal dividend giving a circa 1% yield currently, but we wouldn't expect a step up in the payout ratio in the short term. The business has a GBP 387m convertible bond, maturing June 2026, which has a conversion price around 30% higher than where we sit but given our view on the fair value of the shares, we would prefer they used any free cash generated for share buybacks to cover any dilution risk. Overall, we expect the business to generate circa GBP 300m of free cash flow over the next two fiscal years to enable this. With respect to return on invested capital if we conservatively include all leases then the business still has a good pre-tax return on capital of around 25% although we expect this to reduce over time as the fleet becomes newer and more fully owned by Jet2.

Jet2 has 110 Airbus A321neo aircrafts (which can be upscaled further) on order by Summer 2031 of which half are for replacement of retiring older, less efficient fleets. This compares to the 119 planes flown in the first half of this financial year implying mid-single digit per annum fleet growth plan over the medium term as a base. These aircraft are expected to have up to 20% better fuel efficiency on a per seat basis and 50% less noise which is good to see from an environmental perspective.

As mentioned, the investments the company has made historically has led to only small operating margin improvements over the last 5 years to, we expect, around 7% to March 2024 while we forecast revenue has more than doubled to over GBP 6bn in this time. We expect operating profit growth of circa 12% to GBP 415m (adjusted for lease interest) in the year to March 2024. As the recent very high growth normalises then we expect margins will begin to improve.

In the coming fiscal year, we would expect further growth in operating profits, although we are mindful of the tough consumer environment in the UK as high interest rates continue to hit many people's pockets. We believe that the importance of an enjoyable holiday to a family is a key annual highlight and Jet2 will benefit from their reputation for consistency in delivering that.

We think Jet2 is substantially undervalued by the stock market, possibly due to the patchy track record of tour operators in the UK. However, we think the crucial difference of Jet2's laser focus on customer service aligned to its capital strength to help facilitate that is not being recognised in its rating. We value the business on 11 times operating profits plus a lower multiple of 6 times interest earned on customer prepayments, all taxed, looking two years out. Adjusting for our cash generation expectation gives a fair value of circa GBP 4.5bn and upside of over 50% to March 2025.

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	1.2	2.1									2.8
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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