# Ennismore Global Equity Fund

Investor Newsletter for the month of July 2024

Issued on 7 August 2024

## Fund Details

Daily dealing UCITS and Irish Central Bank regulated open-ended investment company with Financial Conduct Authority recognition and registered in Ireland, Germany, Italy, Spain and Sweden. The Fund size was GBP 138m as at 31st July. Total assets under management by Ennismore Fund Management were GBP 489m. The number of shares issued by our funds is capped in order to limit the level of assets under management in each strategy. We currently have capacity available in the Global Equity Fund. If you would like more information or to invest, please contact Adam Sullivan on +44 (0) 20 7368 4224 or email subs@ennismorefunds.com.

## Performance as at 31 July 2024

| | Share Class[1] | | | | | |
|---|---|---|---|---|---|---|
| | **GBP** | **GBP A** | **EUR** | **CHF** | **EUR I** | **USD I** |
| NAV per Share[2] | 14.72 | 14.64 | 15.16 | 13.49 | 11.18 | 11.57 |
| | % Change | | | | | |
| July 2024 | 0.7 | 0.6 | 1.2 | 0.3 | 0.5 | 0.7 |
| 2024 to date | 5.7 | 5.7 | 8.3 | 12.9 | 6.0 | 5.7 |
| Annualised return[3] | 5.1 | 5.0 | 5.5 | 3.9 | 1.9 | 2.6 |
| Since launch[3] | 47.2 | 46.4 | 51.6 | 34.9 | 11.8 | 15.7 |
| 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 Fund's NAV increased by 0.6% in July with the long book contributing 4.4% and the short book costing 3.3%.

The largest contributor during the month was Ascential Plc, which saw its share price increase by 67%. The group got a formal cash offer from Informa Plc for 568p per share in the middle of July, with the buyer also having agreed to further dividend distributions should an ongoing subsidiary disposal be completed prior to the merger sanction hearing date. Shareholders have now roughly doubled their money over the last year, despite the company being in an announced strategic review process at the time. This highlights again the inefficiencies that currently exist in the UK market. Philip Morris International Inc added another 42bps after reporting good quarterly results driven by continued growth in its smoke-free products as well as a recovery in the combustibles business.

On detractors, Sto SE & Co KGaA lowered its revenue and profit guidance for the year driven by weaker end-market demand. Ryanair also surprised to the downside with fares expected to be lower in the near term.

It was a difficult month for our short book with a sharp rotation out of megacap tech into smaller, more cyclical companies taking place in the US in particular. In July the Russell 2000 index was up over 10%, whilst the NASDAQ-100 index declined by almost 2%. With our short book biased to smaller US companies, this was a challenging environment. The US small cap rally has largely reversed in August. No individual short position cost us more than 50bps.

## Top Five Contributors and Detractors for July 2024

| Contributors | bps |
|---|---|
| Ascential Plc | 80 |
| Nelnet Inc | 42 |
| Philip Morris International Inc | 42 |
| Nippon Television Holdings Inc | 32 |
| US medical devices company | 31 |

| Detractors | bps |
|---|---|
| STO SE & Co KGaA | -47 |
| US telecommunications company | -47 |
| US automotive manufacturer | -33 |
| US subprime lender | -29 |
| US travel services business | -25 |

[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.

## Top Five Long Holdings as at 31 July 2024

| Company | Country | Sector | % of NAV |
|---|---|---|---|
| Admiral Group Plc | United Kingdom | Financials | 4.8 |
| Auto Trader Group Plc | United Kingdom | Information Technology | 4.2 |
| Nelnet Inc | United States | Financials | 4.1 |
| Nippon Television Holdings Inc | Japan | Communication Services | 3.5 |
| Philip Morris International Inc | United States | Consumer Staples | 3.2 |
| | | | 19.9 |

## Exposures as at 31 July 2024

| Longs% | Shorts% | Gross Exposure% | Net Exposure% |
|---|---|---|---|
| 110.3 (105.2) | 46.5 (41.0) | 156.7 (146.3) | 63.8 (64.2) |

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 July 2024

| Country | Gross% | Net% |
|---|---|---|
| United States | 49.5 | -10.6 |
| United Kingdom | 39.4 | 37.0 |
| Japan | 10.7 | 8.7 |
| Canada | 8.5 | 6.4 |
| Ireland | 5.3 | 5.3 |
| Germany | 5.3 | 3.7 |
| Belgium | 5.1 | 4.3 |
| Norway | 4.6 | 3.8 |
| Italy | 3.3 | 0.8 |
| Sweden | 3.2 | -2.7 |
| France | 2.6 | -1.2 |
| Hong Kong | 2.4 | 0.7 |
| Spain | 2.0 | 1.5 |
| Bermuda | 1.8 | 1.8 |
| Mexico | 1.8 | 1.8 |
| Israel | 1.6 | -0.6 |
| Switzerland | 1.5 | -0.2 |
| Luxembourg | 1.5 | 1.5 |
| Poland | 1.4 | -1.4 |
| Philippines | 1.2 | 1.2 |
| South Korea | 1.1 | 1.1 |
| Other | 2.5 | 0.8 |

| Market Cap | Gross% | Net% |
|---|---|---|
| >$10bn | 42.6 | 26.2 |
| $5bn - $10bn | 30.0 | 13.3 |
| $1bn - $5bn | 56.6 | 14.1 |
| <$1bn | 27.5 | 10.2 |

| Positions | Jul | Jun |
|---|---|---|
| Long | 87 | 86 |
| Short | 80 | 85 |
| Longs Opened | 5 | 9 |
| Longs Closed | 4 | 2 |
| Shorts Opened | 10 | 9 |
| Shorts Closed | 15 | 10 |

| Sector | Gross% | Net% |
|---|---|---|
| Communication Services | 16.4 | 12.9 |
| Consumer Discretionary | 25.4 | 8.0 |
| Consumer Staples | 12.3 | -0.2 |
| Energy | 2.3 | 2.3 |
| Financials | 28.3 | 21.2 |
| Health Care | 7.4 | 2.2 |
| Industrials | 19.1 | 3.3 |
| Information Technology | 27.5 | 5.8 |
| Materials | 8.9 | 3.4 |
| Real Estate | 5.3 | 0.9 |
| Utilities | 0.0 | 0.0 |
| Other | 4.0 | 4.0 |

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

## Tam Jai International – Hong Kong fast casual restaurant operator (0.7% NAV)

Tam Jai International ("TJI") shares are trading at less than a third of its 2021 IPO price with a market capitalisation of HK$1.35bn. After accounting for the net cash balance of HK$1.35bn at fiscal year-end March 2024 however, enterprise value drops to zero. During the same financial year, the group generated HK$2.75bn in revenues and HK$87m in net operating profit after-tax ("NOPAT"). The company ended the period with 229 outlets, of which 189 are in Hong Kong ("HK"). The HK operations generated turnover of HK$2.57bn and HK$101m in NOPAT.

TJI owns and operates two restaurant formats – namely, TamJai Yunnan ("TamJai") and TamJai SamGor ("SamGor") – with 94 and 95 locations in HK respectively. Overseas, there are 26 TamJai outlets in mainland China in addition to 11 SamGor outlets in Singapore and 3 in Japan.

The first TamJai restaurant opened in 1996 and the concept has since gained popularity with locals as well as food critics, offering value-for-money comfort food in the form of Yunnan rice noodle soup. Following disagreements about the company's future direction within the founding family, existing outlets were split with half rebranded as SamGor in 2008 but still run with a similar value-based offering. TamJai restaurants are more conservative with clear savoury noodle soups as best sellers and families as key clientele, while a bolder culture would best describe SamGor with its spicier soups attracting a younger and more adventurous crowd.

The pair have competed against one another over the years and have grown to become a core part of the HK food culture, with both TamJai and SamGor now being a few of the most recognised brands locally. The group's noodle soups are amongst the most ordered items within HK's food delivery apps. The two formats also have a combined 1.3 million registered app users of their own – against a population of 7.4 million in HK – with app downloads ranked top 5 under the Food & Drinks category in the region over the past couple of years. Such brand value is further demonstrated with fans situated overseas seen trying to replicate their in-store food items at home during covid.

The company's waiting staff are also celebrated today for a distinct "Tam Jai accent". As a significant number of the front-line employees are mainland Chinese immigrants, post HK's handover in 1997, most speak Cantonese with a heavy Mandarin accent, occasionally leading to some confusion in the ordering process (and laughs). What started out as a discriminatory joke eventually turned into a recognition for the hard-working ethos of these workers, and has since spawned various online memes, challenges, board games, rap songs, etc. with the term "Tam Jai accent" now reflected in TV shows and topical conversations. This has also accidentally brought the business its best brand ambassador – the Tam Jai Sister – as most of the waiting staff are women.

At the end of January 2018, both TamJai and SamGor formats were acquired by Toridoll – a leading Japanese operator known for its Marugame Udon shops – from their founding families for an aggregate acquisition price of around HK$1.9bn. The combined entity was listed in HK in 2021 with a view for the group to develop separately from its parent company – which still owns 74% of TJI – and for the cash raised at the IPO to fund international expansion.

Woes in the HK dining sector started in 2019 when social unrest deterred tourists and led to a significant reduction in business activity, only to deteriorate even further the following year with the pandemic. Recovery in visitor arrivals only started in late 2022, but to this day volumes have yet to reach the levels achieved in the years prior to 2019. Government subsidies and rent protection helped local eateries stay afloat over this period, although these support measures ended in 2022. To make things worse, the weak economic environment coupled with new transport links connecting the region to mainland China has led to a new trend where locals would travel north for the holidays – instead of staying put, and therefore spending money, in HK – as goods and services are generally cheaper over the border. Recently, the Hong Kong Federation of Restaurants and Related Trades estimates 200 to 300 restaurant closures each month, a trend expected to continue in the near term. This compares to a total figure of around 17,000 licensed restaurants at the end of 2023, which implies 15-20% of eateries are now likely to go bankrupt on an annualised basis.

Facing such a difficult backdrop, we were quite impressed to see the business remain consistently profitable and generate after-tax return on capital employed in excess of 50% since the protests began in 2019. Note this is after taking out one-offs such as government subsidies, rent concessions, as well as interest income and listing expenses, which in aggregate would have flattered reported net income. Payback periods have historically been less than 19 months in HK. Leases are also kept short to retain flexibility, averaging 3 years for its restaurant base. Management would be keen to highlight unique recipes for its soup bases as a competitive advantage; whilst a good product offering is incredibly important, we think there's more at work here.

Having grown to a certain size – TJI currently dominates the Asian noodle specialty category in HK – there's some scale economy benefits from having a more centralised and standardised operation in food procurement and preparation, which keeps menu prices competitive. The company is also able to roll-out and try different new food items more efficiently, spend a bit more on marketing and promotions than peers, and invest in IT systems to improve customer loyalty and retention. As the industry has shifted to a much larger proportion of orders done via food delivery apps, scale also helps TJI in its bargaining position with these aggressively run aggregators. It's good to know that the business is agnostic at this stage between dine-in, takeaway, and orders done via these 3rd party apps, as menu item prices are slightly increased with the latter to offset the higher costs and fees involved.

While management thinks the domestic market could eventually support 220-250 locations – up from today's level of 189 – we conservatively view this geographical segment as a mature but reliable cash cow able to fund new ventures and international expansion. The group still isn't profitable outside of HK, although losses from foreign operations were limited to HK$14m in the latest fiscal year. We were also pleased to see management temper their store expansion target for FY25 to 25-30 new outlets globally – this compares to a quite aggressive opening schedule of 60-80 locations per annum a few years earlier. Such a slower pace of growth allows them to experiment with different store sizes and settings, as well as test a variety of new food and drink items, without tying up too much capital. Average costs involved in opening a new restaurant is around HK$3m – at the pace of their guided FY25 roll-out, the investments involved should be easily covered by a year's worth of net profits.

In addition, TJI entered into a Master Franchise Agreement with its controlling shareholder Toridoll last November. This gives it exclusive rights to operate certain Toridoll restaurant formats such as Marugame Seimen in HK, providing a new avenue for growth. Planned openings of 4-6 Marugame outlets are targeted for the current fiscal year, with unit economics expected to be on par with the self-owned TamJai and SamGor formats. In 2022, the group also entered into a Management Service Agreement with Toridoll to provide assistance with its HK operations – which were mainly 9 existing Marugame Seimen shops – on a cost-plus basis, providing TJI management sufficient time to gain familiarity with the format's operations and lowering the risks involved in this new venture.

The company has also entered into franchising agreements with local partners in Australia and the Philippines for the SamGor brand, enabling further geographic expansion with much lower risk. Details are yet to be finalised and this is likely to be on a small scale initially with the first restaurants expected to be launched by the end of this fiscal year, providing additional franchising royalty income to TJI.

The group has little need for cash and therefore has paid out all of its earnings in the form of dividends to shareholders during the past few years, putting the shares on a dividend yield of almost 9%. This provides us with a decent return while the domestic restaurant sector in HK continues to rationalise further and management works on multiple promising growth avenues, offering shareholders numerous ways to win.

At today's price, we're paying next to nothing for the core business and are getting any future upside on growth for free, while our downside is well protected by the existing cash balance – which is also now earning interest income at over 3% per annum – and the strong underlying unit economics of the core HK formats. A key executive from one of the leading dining operators in the region – who is also a competitor of TJI – mentioned Toridoll's purchase of the group years earlier as one of the better deals in the sector for an M&A buyer. We believe the company should be worth at least HK$1.9bn, which seems reasonable when compared to the historic, and likely future, profits generated by the entity. Together with the net cash on the balance sheet of HK$1.35bn, one could easily see an upside more than 100% from today's levels.

## Monthly percentage return for the GBP A share class of the Global Equity Fund

| Year | Jan (%) | Feb (%) | Mar (%) | Apr (%) | May (%) | Jun (%) | Jul (%) | Aug (%) | Sep (%) | Oct (%) | Nov (%) | Dec (%) | Annual |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2024 | 3.3 | -3.1 | 1.9 | 1.1 | 2.7 | -0.9 | 0.6 | | | | | | **5.7** |
| 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** |

## Risk Warning

This document is issued by Ennismore Fund Management Limited ("Ennismore", "the Company") which is authorised and regulated by the Financial Conduct Authority.

This document is confidential and is intended solely for the information of the recipient. This information should not be reproduced or disseminated in any form without the prior written permission of Ennismore Fund Management Limited.

Please refer to the relevant prospectus, supplement and to the KIID before making any final investment decisions.

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 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.

This document is for information purposes only and is not an offer to sell or an invitation to buy shares in Ennismore Global Fund (the "Fund"). In particular, it does not constitute an offer or solicitation in any jurisdiction where it is unlawful or where the recipient may not lawfully receive any such offer or solicitation. It is the responsibility of any person in possession of this document to inform themselves of, and to observe, all applicable laws and regulations of relevant jurisdictions.

Content in this document is provided for information only and is not intended for trading purposes. Any information and opinion in this document is subject to change by the Company without prior written notice. Nor does it provide any form of advice amounting to investment advice or make any recommendations regarding particular financial instruments or investment products. Use of this document is no substitute for obtaining proper investment advice from an authorised investment professional.

Although the Company considers the content of this document to be accurate at the time it was written, we do not guarantee the accuracy of the information presented or of our opinions. The factual information contained in this document may become inaccurate as a result of the passage of time and should therefore be read for historical information only. All forecasts are subject to risks and uncertainties that may cause actual results to differ materially from those which were expected.

This document is not intended to provide a complete description of the investment, research and due diligence process utilized by Ennismore. Ennismore may modify its investment process and method for evaluating portfolio investments in any manner that it deems appropriate without notice to investors. The information contained herein may be approximate and is used to show the overall investment management process that Ennismore engages in.

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.
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.


| | | | |
|---|---|---|---|
| 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 |