

Ennismore Global Equity Fund

Investor Newsletter for the month of September 2024

Issued on 14th October 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 30th September. Total assets under management by Ennismore Fund Management were GBP 470m. 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 30th September 2024

	Share Class ¹					
	GBP	GBP A	EUR	CHF	EUR I	USD I
NAV per Share ²	14.73	14.66	15.33	13.52	11.17	11.59
	% Change					
September 2024	-1.4	-1.3	-0.3	-0.2	-1.4	-1.3
2024 to date	5.8	5.8	9.5	13.1	5.9	5.8
Annualised return ³	5.0	4.9	5.5	3.8	1.8	2.6
Since launch ³	47.3	46.6	53.3	35.2	11.7	15.9

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 GBP A NAV per share decreased by 1.3% in September with the long book contributing 0.2% and the short book costing 1.4%.

The Fund was up 0.8% in the third quarter. Although the period was rather volatile, markets generally ended higher. Broad small and mid-cap indices were up just over 3% in the quarter in GBP terms. For the year to date, the Fund is marginally ahead of global SMID indices which are up around 5.5% in GBP terms.

Our long book contributed 5.5% during the quarter on average exposure of 108.2%, for an implied return of 5.1%. The largest contributor in the quarter was Ascential Plc, adding 0.8% after a recommended offer from Informa which is set to close in October. We sold our position shortly after the bid as the stock traded above the offer price.

Flutter Entertainment Plc ("Flutter") was another significant contributor adding 0.7%. Flutter shifted its primary listing to New York earlier this year to reflect the US now being substantially its largest market, and in an attempt to achieve a more reasonable valuation relative to its most obvious US peer, Draftkings Inc. ("Draftkings"). The company reported strong first half results in August, announced a couple of acquisitions in Italy and Brazil, and issued bullish medium to long term forecasts for its US operations at a recent capital markets day. We believe Flutter has structurally superior economics to Draftkings, and even more so its other US competition, thanks to its global scale, pricing capabilities, marketing execution, and brand / product positioning to appeal to more casual play as demonstrated by its high accumulator (or parlay in the US) bet mix. We continue to find the risk-reward attractive, particularly after a sell-off in October on concerns that the UK's new government will look to the gambling sector for additional tax revenues to help fund its commitments. So far the idea has just been floated in the media, but from our perspective the market appears to have priced in a fairly extreme scenario. Australia provides the best-case study for the impact of an increasing tax take on gambling operators: Australian gambling taxes have increased significantly over the last few years, but Flutter's market-leading Australian business has largely protected its operating margin as increased scale and lower marketing expenses have offset a lower gross margin. The market leader is more resilient to tax increases and typically can gain market share and advertise more efficiently as more marginal operators retrench.

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.

Admiral Group Plc (“Admiral”) also contributed 0.7% in the quarter after strong first half results prompted a (somewhat modest in our opinion) positive share price reaction. Our position in Admiral remains large, as we believe the market is significantly underestimating the earning power of the business now that it has grown so much in the last year and a half, and that this will become obvious in the next couple of periods. Two other longs also contributed more than 0.5% in the quarter.

There were two material detractors in the long book in the quarter. First, TGS ASA (“TGS”), which cost 0.5%. TGS completed the acquisition of its peer PGS ASA in June leaving the seismic data market essentially a duopoly between TGS and a subsidiary of Schlumberger. Investors were unimpressed by a capital markets day the group held in August despite an increase in the expected synergies from the acquisition, whilst the stock was also dragged down by a weak oil price. The underlying question investors are posing is when will oil companies resume more active exploration activity? In the absence of a material pick-up, the market seems happy to ignore TGS. However, at a mid-single digit multiple of run-rate earnings post-synergies and with such a consolidated industry structure now facilitating price discipline, we suspect TGS’ stock may just do fine even in the absence of such a pick-up. The other detractor was Sto SE & Co KGaA, which also cost 0.5% after lowering its revenue and profit guidance for the year driven by weaker end-market demand.

The short book had a mixed quarter, detracting 3.6% on average exposure of 42.7% for an implied return of 8.6%. Short returns were not helped by our skew to small cap US companies which outperformed their European peers. The only material short contributor during the quarter was a US medical devices company, which contributed 0.5% in the quarter after investors began to pay more attention to the investigations the company is facing from a couple of US government agencies. Meanwhile the company seems set to disappoint the bullish guidance it issued at the beginning of the year. Two short positions cost the fund more than 50bps.

Is the Tiktok generation breaking the stock market?

We depend on efficient equity markets to ensure that stock prices reflect the best estimate of a company’s intrinsic value. In an (hypothetical) efficient market, millions of investors with different perspectives and time horizons are making decisions with the wisdom of crowds ensuring that prices reflect the most accurate and current information. This is important because if markets efficiently value companies, capital is allocated to firms that can use it most productively. Investors are more likely to fund businesses with strong fundamentals and good growth prospects, rather than those whose valuations are artificially inflated and business models flawed. This results in better and more stable long-run economic growth. When market prices do not accurately reflect the intrinsic values of the underlying companies, speculation and bubbles are more likely to arise.

In over 25 years of investing (much more for some of us!), we have seen a marked fall in trading costs along with widespread adoption of new data and information sources and faster information flows, all of which one would expect to make markets more efficient. Clifford Asness of quant firm AQR recently published a provocative pre-print paper⁴, arguing the opposite has occurred. His observations are naturally at the level of the aggregate, or at least at the level of factors in the aggregate, whereas we engage with the market at the company level. Whilst this makes our evidence from experience anecdotal, we firmly agree with his conclusion, which is also increasingly supported by other literature⁵.

One feature of our portfolio which has prompted us to examine the evidence at an aggregate level is our large net long exposure to the UK. Our positioning has come about from bottom-up company analysis as a result of where we have found opportunities, rather than searching the UK, having first identified it as a cheap market. But does the evidence suggest we are on to something? i.e. is the UK mispriced in the aggregate too?

Numerous studies suggest this is the case. The UK is cheaper than other developed markets, particularly the US, even when we adjust for sectoral composition and fundamental metrics (growth, return on equity etc.). The UK is also very

⁴The Less-Efficient Market Hypothesis, Clifford A. Asness, August 2024

⁵ Passive Investing = Broken Markets. Discuss. James Gruber, February 2024 and <https://behaviouralinvestment.com/2024/02/27/has-the-rise-of-passive-funds-really-broken-markets>

cheap relative to its own history, particularly amongst smaller companies. JP Morgan recently highlighted⁶ that UK equities currently trade at a 38% discount to the MSCI World Index, much larger than typical historically, whilst the midcap FTSE 250 index currently trades at a discount to the FTSE 100⁷ which has rarely been the case in the past. The behaviour of management teams and recent acquirers of whole businesses supports the argument. The proportion of UK companies conducting buybacks is at an all-time high (Panmure, 21 Feb 2024). The number of inward acquisitions of UK-listed companies is far higher than in the past (Artemis / GS, Feb 2024). So, whilst it is the companies we have selected that count for you as investors, at least the evidence supports our perception: we are heavily invested in perhaps the cheapest segment of one of the world's cheapest markets.

Below we set out some of the key drivers of our increased inefficiency hypothesis and the implications for us as fundamental, valuation focused stock picking investors.

In 2024, for the first time, passively managed funds in the US controlled more assets than their actively managed competitors⁸. This trend is also firmly in place across other regions.

We believe the rise of passive investing has contributed to distortions in equity markets. As passive or thematic funds allocate capital based on index weights or themes without regard to individual stock fundamentals or valuations, passive investors are less responsive (or sometimes unresponsive) to company-specific news. Studies have shown that the rise of passive funds has dulled the impact of news and events on stock prices, insulating valuations from fundamental factors, driving momentum and concentration, and leading to greater volatility and inefficiency. Perhaps relatedly, there are fewer sell-side analysts covering companies, even at the large end of the market: the number of analysts covering S&P 500 companies has decreased by 15% since 1990. We suspect the decline in coverage of smaller companies is significantly greater. Sources tracking investment fund flows show passive flows heavily weighted to large cap-dominated indices in recent years⁹.

In our view, the growth of various quantitative investing strategies based on non-fundamental or technical factors has also reinforced these trends¹⁰. For example, over the last 15 years, we can observe an increase in the volatility of momentum strategies, (see chart 1 below). Furthermore, we have noticed increased sensitivity to both technical and thematic factors across our universe of companies, which have driven both increased volatility and, in our opinion, increasingly stark and persistent mis-valuations.

⁶ JPM Equity Strategy, June 2024

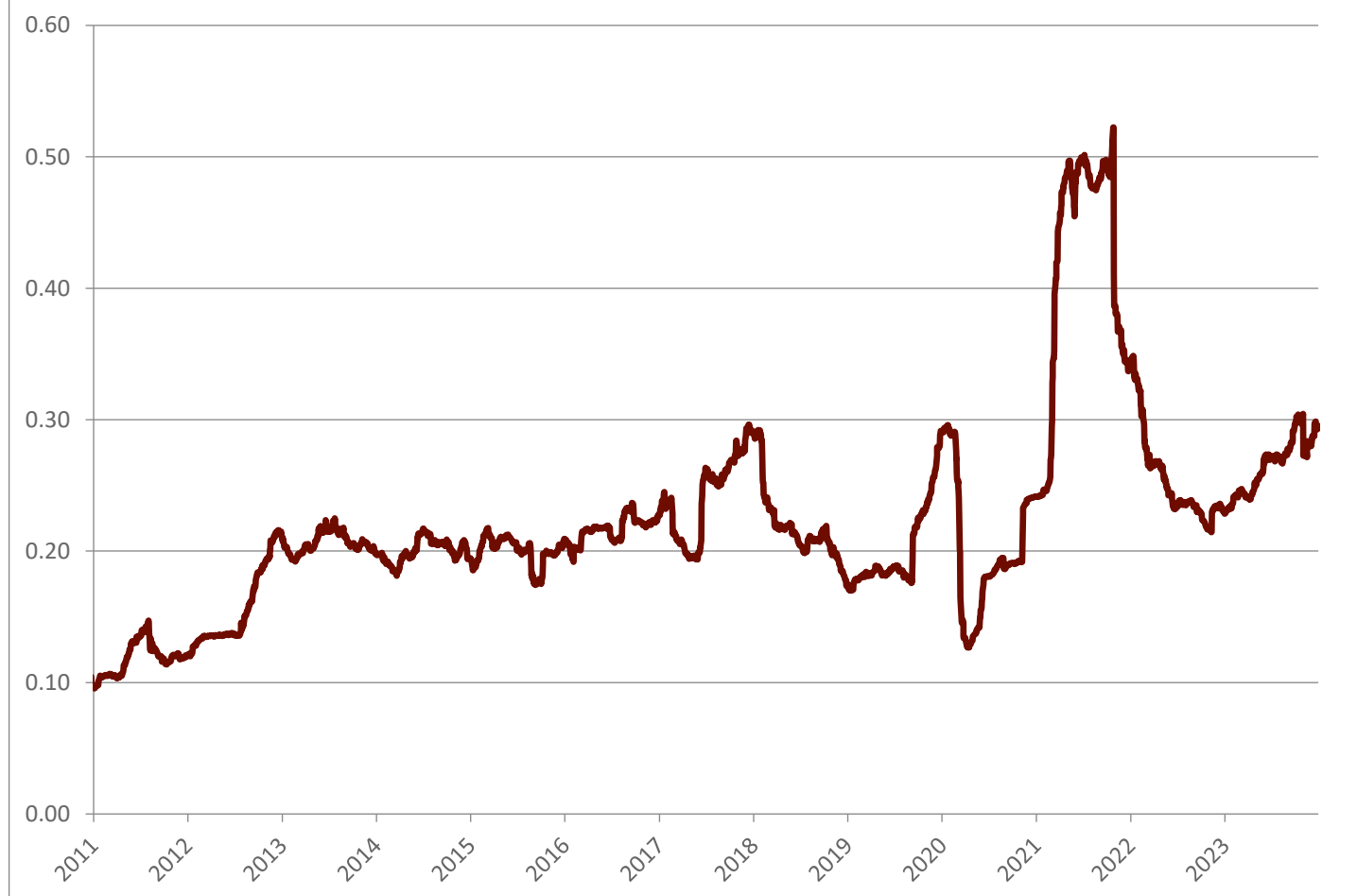
⁷ Ennismore analysis of iShares FTSE 250 and iShares FTSE 100 ETF 10/10/2024

⁸ <https://www.ft.com/content/faf74f66-c4d6-45aa-bb30-0e73d523c547>

⁹ <https://www.reuters.com/markets/us/global-markets-funds-passive-2024-02-01/>

¹⁰ <https://dataintel.com/report/global-quant-fund-market>

Momentum (Factor Vol / Global Equity Vol) Ratio



The above chart shows the rolling 90d volatility of a global momentum factor / the rolling 90d vol a global equity Index from Jan 2011 thru Dec 2023. Source Bloomberg, Ennismore

The well documented rise of retail investing since 2020 was spurred by the pandemic, the emergence of online trading platforms, low cost or optically free trading fees, and the rise of social media platforms where retail investors and influencers exchanged and pushed ideas¹¹. We have previously written about our own experiences with so-called "meme-stocks" and the often irrational moves we see driven by retail investor enthusiasm based on little more than social media emojis and speculation. We would concur with Warren Buffett who observed in 2023 that "...markets now exhibit far more casino-like behavior than they did when I was young. The casino now resides in many homes and daily tempts the occupants". The broader point here is that democratisation of markets should improve efficiency via the wisdom of crowds, but only if participants are expressing opinions they have reached independently. The retail army taking on hedge funds in a coordinated attempt to create the "mother of all short squeezes" is by definition the opposite of this. We struggle to put it better than Asness: "has there ever been a better vehicle for turning a wise, independent crowd into a coordinated, clueless, even dangerous mob than social media?"

What does this mean for us?

It is in our interest to hold this opinion, but in the long run we believe these trends improve the opportunity set for active investors like us who are scouring the less well-trodden parts of the market searching for mispriced fundamentals. This is particularly relevant to us as small and mid-cap focused investors, given that large parts of our universe are typically

¹¹ <https://www.forbes.com/councils/forbesfinancecouncil/2024/03/18/the-power-of-the-retail-investor/>

neglected by passive money and thematic ETFs. However, the danger is the factors that allowed the mispricing to happen in the first place might also enable such mispricing to persist for a long time.

David Einhorn of Greenlight Capital complained recently¹² that public markets are “fundamentally broken” and explained that he has had to adjust his investment approach to adapt to this problem of share prices being unresponsive. His prior approach involved explicitly trying to pre-empt a broader reappraisal of a company’s prospects and anticipating a re-rating to drive a decent chunk of the return. Our approach is different. We underwrite investments over a multi-year horizon, and mostly do not depend on re-rating to get paid. For a high quality, growing and cash generative company with management who thinks sensibly about allocating its capital, a low valuation simply broadens the capital allocation options, making buybacks much more attractive. Such an opportunity almost can’t fail to deliver decent returns for shareholders over time unless management fails in deploying the cash flows. However, we would also point to our own experience over the last twelve months for anecdotal evidence against Einhorn’s argument that cheap small companies might stay cheap forever. During that period we have been the beneficiaries of eight bids for companies in our long book (of which one failed) and have not had any companies in our short book acquired. Our recent M&A experience could be luck, of course. But we suspect that, with trillions in private capital seeking targets, if a high quality, cash generative business becomes significantly undervalued, it will find a willing buyer ready to exploit the inefficiency of public markets.

A couple of examples may help illustrate the types of situation we are observing and participating in that contribute to the views we have outlined here.

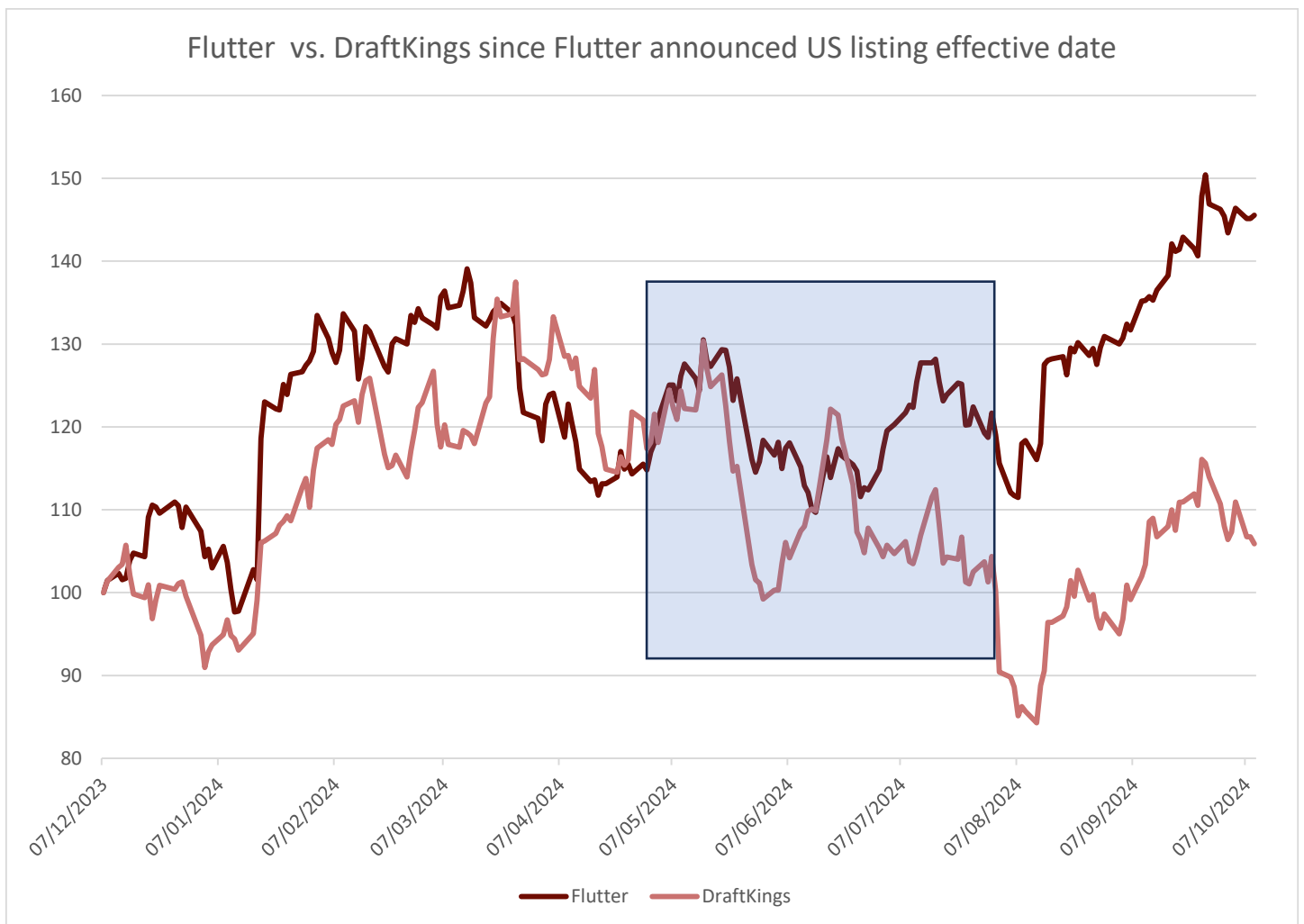
First, in our discussion of Flutter in the performance commentary above, we noted that part of the rationale to adopt a New York primary listing was a belief that Flutter was undervalued relative to its US-listed peers, primarily Draftkings. Since the resolution was passed at Flutter’s AGM on 1 May 2024, the stock has outperformed Draftkings by over 35%, so this objective seems to have been at least partly met.

However, examining the process in a little detail is instructive. Flutter had examined the possibility of spinning off its US business, FanDuel, back in 2021. It first publicly outlined the potential benefits of an additional listing of the Flutter Holdco in the US in November 2022. In early 2023 management announced the company would formally pursue the idea through a shareholder consultation, then confirmed the plan in December 2023. When the US listing took place on 29 January 2024, Flutter announced it would seek to make the US its primary listing venue. The transfer was approved at the AGM on 1 May 2024 and took place on 31 May.

It almost goes without saying that in an efficient market, listing location would have little influence on how a company is valued. But to the extent such a move is expected to prompt a reappraisal, the question arises: when would one expect the change in valuation to happen? After the shift has occurred? When it is legally confirmed? When it is announced? When it is mooted? One would think efficiency dictates arbitrages should be closed as soon as they arise. When the US listing was announced, surely investors would seek to get ahead of the expected re-rating of the stock – i.e. in December 2023? Yet there was little evidence of that – the rerating has all happened since mid-June, a couple of weeks after the transition happened, as shown in the chart below.

Obviously, there are other factors at play, such as competitive dynamics between the two businesses, and the greater breadth of Flutter’s business. But the highlighted section on the chart is a period of heightened volatility between the two companies, without obvious fundamental explanations, and it coincides with the period from Flutter’s 1 May AGM through the first few weeks after the transition. Between the AGM and the US primary listing transition, Flutter outperformed Draftkings by 22%. It underperformed by 22% over the next two and a half weeks through 18 June. Flutter then outperformed Draftkings by 25% between 18 June and the end of July. Our hypothesis is that the oddities of index tracking (and traders trying to place technical bets in advance of such activity), including the asynchronous timings of removals from UK / European indices and additions to US indices, played a big part in this otherwise unexplained volatility.

¹² <https://ritholtz.com/2024/02/transcript-david-einhorn/>



Source: Capital IQ, Ennismore

Another example is the journey that Schibsted has been on over the last 18 months or so. We've discussed the company in previous letters, so here we will just focus on variations in valuation over time and the circumstances surrounding those changes.

In early April 2023, Schibsted traded at an EV of NOK 45bn. Its assets then included a third of Adevinta and a large news media business, both since sold (two thirds of the stake was sold in the case of Adevinta), in addition to its core Nordic online classifieds, a couple of price comparison sites and a smallish Norwegian logistics operation. Given that Adevinta was also listed, and the news media assets were sold eight months later for around NOK 5bn net of liabilities, we can back out the market's implied valuation at the time of Schibsted's current perimeter, as c. NOK 9.6bn.

Schibsted today has an EV of NOK 71bn, which implies a valuation of the operating assets of NOK 50-55bn once we deduct the value of the remaining (unlisted) stake in Adevinta. The core classifieds operations which account for almost all the value have not changed much in the interim – revenues have grown about 15% and operating profits are roughly flat. A new management team has communicated a more aggressive stance on cost management with an ambition to raise margins towards peer levels. But a 5-6x increase in the valuation of a dominant business which has seen no significant change in financial performance, in the space of about a year and a half, is nothing short of astonishing. It's worth noting that we still find the valuation of Schibsted attractive today, as expressed in our 2.0% position in the Fund, albeit that is much smaller than a year ago.

Asness argues that if we are right in our perception of increased inefficiency, whilst the opportunity set for active investors has the potential be more fruitful in future, the journey to realising that value might be more painful and harder to stick with. Patience will be required. We can attest to that in the context of our experience with Schibsted. Its share price

halved between November 2021 and February 2022, at which point we thought it was highly attractive, and made it a large position of 5.4%. However, it then fell by almost another 40% by September 2022. Needless to say, this was a painful experience! When a company trades at a valuation significantly below where you could imagine any rational buyer choosing to sell it, it's tough not to second-guess yourself and question your analysis. As we will discuss below, we believe our current long portfolio makes a persuasive case that there are many inefficiencies to be exploited in the markets today.

Overall positioning summary

How are we positioned? Whilst we always detail our exposures and often our beta adjusted net exposure, and we comment from time to time on particular skews in the portfolio, in this letter we are laying out in more detail the characteristics of the portfolio, how it is different from the broader equity market, and why we think it is currently highly attractive.

Firstly, this will hopefully come as no surprise, but the long book is almost as different from the market as it could be. The "active share" against the Bloomberg World Index is 97%. i.e. the overlap with the market is about 3%. An index fund should be 0% on this metric, and a fund that was entirely invested in a few microcaps would be c. 100%. It's a truism that investing like the crowd will generate average results, and we are not after average results.

Market Cap Exposure	EGF Long book	Bloomberg World
Mega Cap (>\$50,000m)	8.5%	71.9%
Large Cap (\$20,000m - \$50,000m)	7.9%	17.5%
Mid Cap (\$2,000m - \$20,000m)	50.4%	10.6%
Small Cap (\$500m - \$2,000m)	23.7%	0.0%
Micro Cap (<\$500m)	9.5%	0.0%
Total	100.0%	100.0%

Source: Bloomberg, Ennismore

The median market cap of the long book is c. USD 2.5bn and over 80% of the portfolio has a market value of below USD 20bn, with almost a third below USD 2bn. This is a small and mid-cap dominated portfolio, even more so than in the Fund's early days. We don't disregard larger companies. Many of the world's best businesses are very large companies, and sometimes the elephants get mispriced too. But smaller companies will always be the core of the portfolio – there are so many companies to choose from that a selection of them will always be significantly mispriced. And as we discussed above, it seems to us that the harvests of these mispriced opportunities have been growing more bountiful. Of course, it's up to us to identify and capitalise on them.

Again, it shouldn't be a surprise that the long book trades at a modest valuation. Providing aggregated metrics on a portfolio is noisy and can be misrepresentative in some cases but we estimate the weighted average one year forward PE ratio of the long book is 14x at the end of September. This is significantly lower than the Bloomberg World Index, which has a 1yr forward PE of c. 19x, and indeed the global Small Cap Index at 17x. Our long portfolio is also superior in valuation terms compared to the World Index on a free cash flow yield basis (almost 9% vs. just under 4%).

In addition, we believe the Fund's positioning offers a quite distinct and diversified risk profile. Year-to-date performance has been delivered with a negligible beta to the World Index (0.13) and the Fund's current ex-ante beta estimate is similarly low, at 0.24. This reflects our typical pattern that the short book is more volatile than the long book, so the Fund's beta-adjusted net exposure is generally significantly below the simple net exposure. Looking across other portfolio exposures, as well as modest tilts towards more profitable companies and those with low valuations, the Fund continues to have a notable net long position in the UK (as we discussed above, and in some detail in our September 2022 letter) and of course carries the significant small and mid-cap bias one would expect.

We have tried to give you a more detailed flavour of the portfolio by discussing each of our top ten long positions briefly below. We have outlined our thesis on many of them in more depth in letters over the last couple of years. All ten of these businesses are market leaders in their industries in their most important segment, often substantially so. All except one are delivering decent, sometimes excellent, growth and have good prospects. And in fairness, the other one trades for less than the value of its cash and securities. Four of the nine growing businesses are valued at around 10x (sometimes less) our view of their current earnings power. If those metrics sound jarring, we agree. Hopefully you will share our view that this is a collection of excellent businesses trading at compelling valuations.

Top 10, weighted average		2024	2025
Gross margin		60%*	
EBIT margin		31%**	
ROE		34%	
Pretax RONA (return on net operating assets)		90%	
2024-26 est eps CAGR	18%		
EV / sales**		5.4	4.8
EV / EBIT		15	12
PE		20.4	16.4
Price to book value		4.9***	

*Gross margin excludes Admiral Group and Nelnet as this metric is not meaningful for these businesses

**EBIT margin excludes Nelnet as this metric is not meaningful for that business

***Price to book value is as of latest balance sheet and excludes Philip Morris International (PMI) as PMI has negative book value

Admiral Group Plc – UK insurance company (7.6% NAV)

We've discussed Admiral extensively in letters over the last two years after we made it a large position following the UK motor insurer sector panic in response to the jump in inflation. Whilst the share price is up almost two thirds from the trough (and dividends have contributed about another 20%) we continue to find the risk-reward highly attractive. Admiral's market value is only modestly higher than pre-Covid and yet the business is almost twice as large as it was then, whilst it now enjoys improved like-for-like economics after renegotiating its coinsurance arrangements in the interim.

To recap, we believe Admiral has a sustainable cost advantage to its peers, particularly in UK motor insurance, where it is now the market leader with a little under 20% market share. We believe this advantage derives mainly from scale, culture, and competence. It also has "anti-fragile" characteristics, as we discussed in our [June letter](#): industry ructions tend to benefit rather than harm the company.

There has been a lot of change and volatility in this industry in a relatively short time, so perhaps it is not surprising that Admiral is currently poorly analysed in our opinion. People stopped driving during Covid, then miles driven gradually but not steadily recovered, with an uncertain end-point given questions over the sustainability of working from home. Car production was halted for a period, exacerbating the general inflationary surge with a sharp rise in used car prices as demand exceeded supply, which eventually unwound. Repair capacity was constrained. The rules on how whiplash claims are treated were overhauled. The FCA implemented a fairly drastic change in pricing regulation. The accounting rules changed materially, so Admiral's reporting is inconsistent with the past. One of the outcomes was the sharpest pricing cycle in the UK motor insurance industry in at least a decade.

To take a couple of examples: one sell side firm initiated on Admiral in February this year. Since then, its estimate of UK motor premiums written for 2024 has increased by a total of 38.4%. This is partly down to underestimating volume growth, but mostly a gross underestimate of pricing. Given that there are numerous publicly available pricing indices, all of which indicated that pricing essentially peaked in early 2024, and Admiral management has publicly commented that they reduced prices at the start of the year, such a large discrepancy is tough to understand.

Another firm appears to misunderstand the logic of Admiral's quota share reinsurance accounting. Quota share reinsurance is where the direct insurer (Admiral) contracts with a reinsurer (say Munich Re) to absorb any underwriting losses from a year's business in return for an upfront fee (typically about 2% of premium). Because Admiral accounts conservatively, it often books a year's cohort of business as loss-making the first time it reports on it – e.g. when the 2023 numbers were published, the 2023 year was booked at a loss. As claims are submitted and settled, excess reserves are released and the year usually ends up highly profitable. If a year is booked as loss-making, the expectation is that the reinsurer will take the hit. This expectation is accounted for as a credit in the P&L – offsetting the proportion of claims expenses above breakeven – and an asset is recorded in the balance sheet. If the estimate for this same year improves at the next reporting period, the expected reinsurance credit will be smaller or non-existent. This means last year's reinsurance credit has to be reversed – which triggers a P&L expense, and a reduction of the asset balance. The quota share expense in the first half of 2024 was unusually large, because the 2021 and 2022 underwriting years were initially estimated as particularly unprofitable (given the inflation spike) and so there was a particularly large amount of reinsurance credits to reverse. In response, one firm is projecting an annual quota share expense of almost £200m until 2027 – a total of over £550m over the next three and a half years. The problem with this analysis is that as of H1 2024, there was only £138m of quota share reinsurance asset on the balance sheet left to reverse as an expense.

We embarked on this arcane, perhaps boring, detour to help illustrate the inefficiencies that we continue to see in both small and mid-cap companies, even those that are somewhat more prominent. Admiral has a market cap of over USD 10bn and is the UK market leader in its industry. Yet there is plenty of weak analysis of the business, in our opinion. Perhaps this is because management chooses not to hold the hands of the analyst community by shunning the guidance culture of the market. But also because the cyclical nature of the industry, and management's willingness to be aggressive in attractive markets and passive in challenging ones, results in a somewhat unpredictable path of financials.

Over the long term, however, the path is much smoother: Admiral has grown significantly over any extended period of time (12% per year for UK motor premiums written over the last ten years), and massively outperformed its competitors on profitability in all periods, delivering excellent returns on capital and lots of cash flow to its shareholders through dividends.

On our analysis, the UK motor insurance business now has pre-tax earning power of over £1bn per year. UK home insurance looks set to contribute meaningfully for the first time in 2024, and this contribution could be boosted to over £100m in 2025 by the policies renewed under Admiral's acquisition of RSA's home and pet businesses under the More Than brand. Public market comparables and precedent transactions point to the non-UK businesses being worth perhaps £1bn as well. With a market cap of £8.5bn, this implies the UK motor business is valued at perhaps £6.5bn by the market. We see that as roughly 8-9x post-tax earnings including the drag from central costs. We expect a dividend yield of c. 8-9% over the next couple of years, and that the analyst community will have to continue materially revising up its numbers in the coming quarters.

D'Ieteren Group SA – Belgian holding company (5.0% NAV)

D'Ieteren published solid first half results in August, but this was a sideshow compared to the dramatic capital reorganisation the group has embarked on. One side of the D'Ieteren family (Nicolas D'Ieteren) is buying out most of the other's stake to acquire a control position in the listed entity. This requires a pretty big cheque – EUR 2.1bn to be precise at the agreed price of EUR 223.75 per share. Nicolas D'Ieteren lacks the funds to transact, so is sourcing the cash by leveraging up the group and paying a large special dividend. Belron, the windscreen repair and replacement business and the key asset of the group, has increased debt to about 5x EBITDA, whilst the Holdco will borrow about EUR 1bn. This is clearly a material increase in the risk of the balance sheet. It also raises some questions on governance, as both the decision to return cash at this scale and the method of doing so appear designed with Nicolas D'Ieteren's interests in mind, at the cost of other shareholders, given the tax implications many investors will face on the special dividend. The announcement prompted a c. 15% sell off in the stock, in a period where broader indices are up c. 4-5%.

Frankly we would rather the group operate with less leverage than it now will. And we would rather the distribution was via a tax-free alternative such as a tender offer than a dividend. However, the proposal appears to be going ahead as designed, so as always we must respond to the reality rather than handwringing about what we wish would have happened. On the other hand, we had anticipated that D'leteren would have the best part of EUR 2bn of cash sitting on the group balance sheet by year-end, and investors were beginning to get fidgety about management returning that cash, or how it might be used. Getting the cash back removes that worry.

Under the plan we will get a third of our cash back (after withholding taxes) within the next few weeks. And post-dividend, we think the valuation of D'leteren is exceptionally cheap. This cheapness, alongside the diversity of the group given its other significant holdings, and the quality of most of the underlying businesses, offers strong compensation for the increased balance sheet risk.

As we outlined in our [March 2023](#) letter, Belron is very dominant in its market niche, and benefits from a friendly middleman dynamic whereby its service is mostly purchased bundled into a motor insurance contract. The insurance provider wants to deal with a scale player, but crucially is focused on the experience of its end customers (a rare chance to impress) and the efficiency of the process (technology integration, single supplier, speed of turnaround) at least as much as the direct price.

The other assets D'leteren owns are worth perhaps EUR 4bn or so (as we discussed in detail in our previous write-up). With a post-special dividend share price of c. EUR 120, the market cap will be a little over EUR 6bn. EUR 2bn is a derisory price for a 50% stake in Belron, even with the significant leverage it now carries. We expect Belron to generate proportionate post-tax free cash flow of around EUR 400m in 2025, whilst it has grown revenues at a compound rate of 9% over the last four years.

Overall, we think D'leteren Group is trading at under 9x its likely 2025 earnings. In addition, there could be a number of positive events over the next year or so: in particular, CEO Carlos Brito (ex-AB Inbev) is due to lay out his views of the future for Belron in early 2025, and the recapitalisation of Belron is in our view likely a prelude to a forthcoming IPO.

Baltic Classifieds Group Plc – UK listed Baltic classifieds business (4.5% NAV)

Online classifieds have long been part of the fund's portfolio. We've discussed why we're fans of the business model a few times in our letters as well: see [December 2017](#) (Schibsted), [September 2023](#) (Schibsted / Adevinta), and [December 2023](#) (Auto Trader). We currently have positions in seven online classifieds companies in Europe and Asia, which in aggregate account for just under 15% of the fund's NAV. We initially took a position in Baltic Classifieds early in 2024. We increased it to a top five position after visiting the company in Vilnius recently.

Put simply, Baltic is one of the best classifieds businesses in the world. It operates mainly in Lithuania and Estonia, with positions in horizontal classifieds (Gumtree / Craigslist-type sites) as well as vertical portals for cars, property and jobs. It is dominant across the board, with some of the strongest relative market share positions we have seen anywhere in the world – consumers spend between 7x and 20x as much time on Baltic's sites as the nearest competitor across its main portals. It has the highest margins of any publicly listed classifieds operation, with an LTM (last twelve months) operating margin of 77%. It also grows faster than almost every other listed classifieds business, having grown revenue per share at a compound rate of over 19% since 2021. Despite this growth, it is relatively under-monetised compared to many peers. In both property and cars verticals, we estimate that Baltic's revenue is a smaller share of its respective value chains than are achieved by Rightmove or Auto Trader in the UK, and materially less than REA Group generates in Australian property.

The company benefits from an unusually stable team, both at the senior and junior management levels. Three of the four senior managers have been at Baltic for 13+ years. The average employee tenure across the whole company is 8 years, including more transient customer service and moderation roles. Anecdotally, the Vilnius HQ felt youthful, vibrant, and focused.

Perhaps the most important factor in Baltic becoming a large position is our comfort with the management team. This group has exhibited smart and disciplined capital allocation in its M&A activities, and crucially a level of imagination and ambition in improving monetisation of its sites that we don't see in most of its peers.

Baltic Classifieds' growth is supported by the vibrant Baltic economies in which it operates. Lithuania's average incomes have increased at 12.2% per year over the last ten years, which is a major boost to the underlying growth of the markets it operates in and increases the monetisation opportunity.

We expect Baltic's businesses will be able to sustain their high double-digit growth for many years to come. Whilst Baltic trades on the highest multiple of any of our top ten holdings, it is also one of the fastest growing and has the highest return profiles. Given the quality of the business and its growth outlook, we see the current forward FCF yield of around 4% as very attractive.

Nelnet Inc – US financial holding company (4.0% NAV)

Nelnet is a Holdco with wholly owned businesses in software and payment services for private schools and universities and business process outsourcing for large (particularly government) lenders, an early-stage bank, and a large collection of investments including student loans, a portfolio of bonds and other fixed income securities, property, a VC portfolio, and half of a US fibre broadband provider. We outlined our rationale for owning the company in our [December 2022](#) letter. The most important asset is the software and payment services operation which we believe has around 40% share of the US private K-12 schools market and is over 3x the size of its nearest competitor in this niche. This business is extremely attractive: it achieves a 30% operating margin and is very asset light. It has grown its operating profit at a compound rate of 17% over the last ten years to USD 109m in the twelve months to June. This growth has been largely organic. As Nelnet's management noted in its 2023 shareholder letter, if listed independently this business would likely account for a decent majority of Nelnet's USD 4.1bn market cap.

Adjusting for accounting anomalies in the book value of some of its investments (which we discussed in more depth in our previous write-up), we believe that Nelnet is trading at only just above its genuine book value. In addition, it generates about USD 200m of pre-tax profit from its asset light, wholly owned operations, the majority of which is the private school software operation we discussed above.

We continue to think Nelnet is an extremely mispriced stock. We estimate it trades at roughly 10-11x our view of owner earnings. Alternatively, it trades at a little over 1x book value, and we see the historic growth in book value per share of 10% over the last decade as likely to accelerate in the next few years. It is run by its founder who also owns 25% of the company, and who we believe is a safe pair of hands when it comes to capital allocation. If the current valuation persists, we'd expect the company to continue its history of reducing the share count.

Potential catalysts include some kind of structural action to unlock value (after management expressed some frustration at the mis-valuation of the company this year in the strongest language we have seen from them), an IPO of Hudl, the largest VC investment at what would likely be a large premium to book value, and a reversal of some of the accounting anomalies which have depressed GAAP earnings and book value in recent years.

Auto Trader Group Plc – UK automotive classifieds business (3.7% NAV)

We discussed our position in Auto Trader in our [December 2023](#) letter. It has an extremely dominant position in the UK automotive classifieds market, with over 75% share of consumer time, and a proposition that is deeply embedded into its car dealer customers' operations via its data and analytics offerings and numerous software integrations.

We believe that volume growth is likely in the next few years after suppressed new car volumes during Covid has flowed through with a lag into reduced used car supply, and that Auto Trader's maturing "Connect" platform and emerging digital retailing proposition should support an acceleration in revenue growth as the digital stage of the car search journey

becomes a more important part of the decision making journey and it facilitates more precise attribution of car dealers' sales to the leads Auto Trader sends.

Auto Trader's FY results in May illustrated our thesis on accelerated growth beginning to play out, with per dealer revenue up 12% for the year, and guidance for double digit growth or thereabouts in FY25. We have observed the penetration of the digital retailing product picking up in recent months. Meanwhile the company's competitive position is more secure than ever, with consumer time around 10x its nearest competitor. The stock trades on just over 4% forward FCF yield and we anticipate low-mid teens earnings growth over the next couple of years.

Flutter Entertainment Plc – Global retail and online gambling business (3.7% NAV)

Flutter is the world's largest online gambling operator. It is the market leader in all of its significant markets, often by a substantial margin. This is a huge advantage in a business with powerful scale economies (on technology, pricing, and marketing) which operate cross-border in some cases, not just at a single country level.

Online gambling is a structural growth industry as countries around the world recognise that a regulated online market, where operators can be properly regulated and taxed, and data is available to monitor the activity of consumers (for instance to track and address problem gambling), is superior to a ban. The UK has had legalised online gambling for the best part of three decades now, and still the market grows by mid-single digits. More youthful markets have many years of robust growth ahead. Meanwhile, Flutter is pursuing a global presence by acquiring local operators which it can buy at attractive valuations and then lift growth rates and margins by applying its pricing and marketing expertise, and over time, integrating into its technology stack. We believe this is a high return activity that the company will be able to deploy a decent chunk of its cash flows into. Flutter has completed and announced almost USD 6bn of acquisitions since the beginning of 2022, yet at its recent capital markets day announced a new USD 5bn buyback programme to deploy excess cash beyond the acquisitions. This event offered a generally bullish outlook with a material upgrade to management's estimate of the size and structural profitability of the US market.

The stock has almost doubled since we bought it in late 2021. It remains attractive, however. We estimate it is valued at under 20x 2026 earnings. By 2026 the US, its largest market, will be beginning to mature financially, with margins inflecting, but still far from their mature state. The US market is likely to continue to grow at a high rate for many years ahead. We anticipate group earnings will almost triple between 2024 and 2026. Before the end of the decade we would expect Flutter to be trading on a single digit PE multiple at its current share price, and with strong growth prospects still at that time.

Nippon Television Holdings Inc – Japanese television broadcaster (3.3% NAV)

We wrote on Nippon TV in our [August 2022](#) newsletter. The stock has doubled since and now trades slightly above the value of its net cash and investments of JPY568bn. However, this still attributes almost no value to its operating business, which is the leading commercial broadcaster in Japan and has proven resilient generating JPY34bn in net profits in each of the past two years. In late 2023, the company acquired a controlling stake in the iconic animation house Studio Ghibli, enhancing the group's content library.

Management also changed its dividend policy towards non-registered foreign shareholders in February this year – as local broadcasting law restricts non-domestic ownership to 20% – allowing payments towards shares owned beyond the regulatory limit. This in turn enabled the group to announce its first share buyback in 15 years, albeit only 2% of the shares outstanding so far. We are hopeful there is more to come.

Valuing the underlying business at a conservative mid-single digits earnings multiple, the shares still offer an upside of more than 30% from today's levels and with unusually strong downside protection.

Wise Plc – UK foreign exchange and payments business (2.7% NAV)

We discussed Wise in our [June 2022](#) letter. It is the world's largest consumer currency exchange operator and has broadened its business over the years to include a business proposition, a white label platform service, and a multi-featured account offering.

Wise benefits from scale, superior technology and regulatory infrastructure, and customer advocacy in operating a much more efficient business than its peers. It has been profitable for many years, and has grown rapidly, both before and after its IPO. Since going public in summer 2021, Wise has more than doubled its currency exchange volumes and more than tripled its total income thanks to the boost from higher interest rates on customer balances sitting in Wise accounts. Yet the shares are down almost 20% from the IPO price.

Investors seem to struggle with management's commitment to reinvesting the benefits of scale into lower prices – we've seen comments describing Wise management as socialists and similar. This is puzzling given the popularity of economies of scale-shared businesses more broadly – Costco being the paradigmatic example – and Wise's consistent profitability, cash generation, and attractive returns on capital. We believe Wise's strategy makes sense. Its low-cost infrastructure is a competitive advantage, and pushing more volume through the infrastructure helps to deepen that advantage, whilst maintaining price competitiveness helps to maintain customer loyalty. As an equity owner, we would almost always rather that a management protect the durability of its franchise than maximise short term profitability.

The outlook for the business over the next couple of years is admittedly noisy. The sharp jump in interest rates was such a boon to Wise's profitability that the steady erosion of that benefit over the next year or two (both as rates fall and Wise finds ways to return a larger share of the interest income with customers) will largely offset underlying business growth. Growth has also slowed somewhat as Wise has scaled. But it's hardly surprising that activity growth would decelerate from rates in the 40% as the business matures. Finally, management has talked up the longer-term prospects of Wise's platform operation, but provides minimal disclosure on this segment, and the evidence suggests it remains small so far. This is also a business where Wise competes with Visa, which is obviously a different prospect than facing off against Western Union and Moneygram.

We see a highly efficient and cash generative business model, run by a passionate founder who still owns 18% of the company and who has instilled a culture of obsessive focus on customer experience and design details that is reminiscent of the likes of Apple. The market opportunity is large, and Wise has multiple ways to win. We anticipate continued underlying mid-teens growth, which should resurface in the bottom-line figures by FY2027 (year end March) once the erosion of interest income ends. This profile is available for a FCF yield today of almost 8%.

Philip Morris International Inc – Global tobacco and smokefree nicotine business (2.7% NAV)

Philip Morris International ("Philip Morris", or "PMI") is the world's largest tobacco and nicotine company outside of China. It is the international arm of the old Philip Morris group, having spun off Altria in 2008. Whilst cigarettes remain the majority of the business today, it is Philip Morris' position in the smokefree categories that appeals to us. Through a combination of early investments in heated tobacco, and the smart acquisition of Swedish Match to acquire a leading position in snus and nicotine pouches, Philip Morris is far and away the leading player in the next generation nicotine business, with over 40% of revenues now in smokefree categories. The heated tobacco and nicotine pouch categories are both growing rapidly and offer similar economic profiles to cigarettes, but much better health characteristics. Philip Morris has reached the position of being economically aligned with the movement to curb cigarette consumption as it almost mechanically gains market share when consumers switch to smokefree categories, and in most cases it also generates higher unit profits from smokefree products.

Stepping back a little, the tobacco sector is the highest returning subsector of the US stock market over the last 100 years, despite declining prevalence of smoking for over 40 years and a huge legal settlement. Taking Philip Morris / Altria as an example – we estimate an investor 30 years ago, around when the combined group's volumes peaked, would have

achieved a roughly 15% annualised return through today including the effect of the spin-off. This is despite Altria's current valuation of below 10x earnings. Demand is resilient and brand loyalty is strong. The sector has demonstrated remarkable pricing power. In the US, Altria's revenue per cigarette has increased by over 6% p.a. (almost 4% points above US consumer price inflation) for 30 years. Returns on capital are extremely high as price-led growth requires no incremental capital.

Philip Morris is an unusually large company for us to invest in. We think the stigma associated with the sector has created a dearth of interest somewhat akin to the dearth of interest we are accustomed to with smaller companies. Our view is that the stigma is backward-looking. If we imagine Philip Morris in five years' time, it will be a majority smoke-free business, with extremely dominant positions in growing categories. It will look like an unusually fast growing, high return consumer goods company. In almost any other category a business with these financial characteristics would trade at 30x earnings or more. Yet we were buying in March and April at around 13-14x earnings. The stock has re-rated over the last few months, but it remains very attractive relative to its fundamentals.

PMI is far and away the global leader in the heated tobacco category, having been first to market globally with its internally developed IQOS product in 2014 in Japan and Italy, and first to market in most of the larger countries around the world since. We estimate it currently has c. 85% global market share of this category. PMI is also one of the world's largest oral tobacco producers since completing its acquisition of Swedish Match in February 2023, and certainly the fastest growing of the major players. Oral tobacco is only relevant in a handful of markets around the world, but Swedish Match is the leader in Sweden, Norway, and most importantly the US. It finally cracked the US with its Zyn nicotine pouch product in 2017 and Zyn has grown exponentially since. Zyn is currently supply-constrained whilst PMI builds a new factory but has still accounted for almost 75% share of the national market for nicotine pouches in USD terms. In Q2 2024 Zyn unit shipments increased by 50% yoy in the US.

Overall, we expect Philip Morris to grow earnings at a mid-teens rate over the next few years. It currently pays a 4.5% dividend yield, which we would expect to grow in line with earnings. This represents a highly attractive risk-reward.

Ryanair Holdings Plc – Irish low-cost airline (2.3% NAV)

We discussed Ryanair in our [June 2024](#) letter (also in [December 2018](#)). It is Europe's largest short haul airline with the leading market position in most of its significant markets. Market shares range from c. 20% in the UK, Spain, and Austria, to c. 40% in the likes of Poland and Italy, and up to c. 60% in Ireland. We believe Ryanair has a sustainable cost advantage – derived most significantly from its aircraft and airport costs, but with contributions from many other sources. It benefits from a longstanding and capable management team and the sector's most robust balance sheet. Similarly to Admiral, it has anti-fragile characteristics as demonstrated during Covid. Ryanair has gained material market share since before Covid in most of its markets and grown significantly over that period with very modest dilution to shareholders, in sharp contrast to almost all of its peers.

After a relatively weak year in FY2025 (ending March), we expect the company to grow earnings by more than 10% per year over the following few years, and to generate substantial cash flows during FY2026 and FY2027 in particular as it goes through a lull in aircraft deliveries (and therefore capex) before the larger new generation Boeing MAX 10s begin to enter the fleet in calendar 2027. Airlines are inherently unpredictable businesses, at least in the short term. But our best guess is that Ryanair will generate almost a third of its current market cap in free cash flow over the next two and a half years until the end of FY2027 (ending March 2027). We expect this to flow back to shareholders, largely in the form of share buybacks. Ryanair announced a resumption of buybacks at its FY2024 results in May and we estimate it has so far repurchased around EUR 1bn of its stock, or almost 6% of the company. If the share price was to stay where it is, the share count will probably reduce by another 20% by the end of FY2027 based on our cash flow expectations.

We think Ryanair enjoys a durable competitive advantage, at least through the next decade, is trading at c. 8-9x earnings looking just a year forward (i.e. to FY2026) and should continue to grow at a mid-high single digit rate for many years to come.

Top Five Contributors and Detractors for September 2024

Contributors	bps
Flutter Entertainment Plc	31
Baltic Classifieds Group Plc	27
US travel services business	24
Deutsche Wohnen SE	20
US software company	19

Detractors	bps
D'Ieteren Group SA	-58
Hong Kong software company	-47
TGS ASA	-36
US automotive manufacturer	-27
Nippon Television Holdings Inc	-19

Top Five Long Holdings as at 30th September 2024

Company	Country	Sector	% of NAV
Admiral Group Plc	United Kingdom	Financials	7.6
D'Ieteren Group SA	Belgium	Consumer Discretionary	5.0
Baltic Classifieds Group Plc	United Kingdom	Communication Services	4.5
Nelnet Inc	United States	Financials	4.0
Auto Trader Group Plc	United Kingdom	Information Technology	3.7
			24.9

Exposures as at 30th September 2024

Longs%	Shorts%	Gross Exposure%	Net Exposure%
109.2 (107.9)	43.2 (40.0)	152.4 (147.9)	66.0 (67.9)

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 30th September 2024

Country	Gross%	Net%	Market Cap	Gross%	Net%	Sector	Gross%	Net%
United States	39.2	-12.3	>\$10bn	48.3	25.9	Communication Services	16.3	15.3
United Kingdom	38.0	35.5	\$5bn - \$10bn	26.7	13.6	Consumer Discretionary	29.1	11.6
Japan	10.7	8.9	\$1bn - \$5bn	49.6	14.4	Consumer Staples	12.0	-1.2
Canada	8.2	6.6	<\$1bn	27.9	12.2	Energy	1.9	1.9
Germany	7.7	4.7				Financials	28.7	21.9
Belgium	7.5	6.5				Health Care	6.0	2.0
Ireland	6.0	6.0				Industrials	19.4	2.1
Norway	3.9	3.3				Information Technology	26.7	7.4
Italy	3.9	1.2				Materials	8.7	3.3
Hong Kong	3.7	0.9				Real Estate	3.7	1.7
France	3.6	-2.5				Utilities	0.0	0.0
Sweden	2.5	-1.7				Other	0.0	0.0
Spain	2.2	1.8						
Bermuda	1.8	1.8						
Mexico	1.7	1.7						
Switzerland	1.4	-0.3						
Cayman Islands	1.4	1.4						
Luxembourg	1.4	1.4						
South Korea	1.2	1.2						
Israel	1.1	-0.0						
Philippines	1.0	1.0						
Other	4.4	-0.7						

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

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	0.7	1.5	-1.3				5.8
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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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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