Ennismore European Smaller Companies Fund

Investor Newsletter for the month of December 2017

Issued on 11 January 2018

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 395m as at 29th December. Total assets under management by Ennismore Fund Management were GBP 649m. Our funds are hard closed to new investment with the number of shares in issue capped and we have a waiting list of clients that want to invest as and when capacity becomes available through redemptions. If you would like to be included on this please call Eleanor Scott on +44 (0) 20 7368 4219 or email subs@ennismorefunds.com. Redemptions can be made through the Administrator in the usual way.

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. Index data is provided in the following table as a guide to general equity market conditions.

Performance as at 29 December 2017

	Share Class[2]					HSBC Index[3]		MSCI Index[4]
	GBP A £	GBP A €	GBP B	EUR A	EUR B	GBP	EUR	(local)
NAV per Share[1]	**127.69**	**143.85**	**21.57**	**20.73**	**20.79**			
Period			**% Change**				**% Change**	
December 17	**2.6**	**1.8**	**2.6**	**2.0**	**1.9**	**3.1**	**2.1**	**1.0**
November 17	0.4	-0.1	0.3	0.0	0.0	-1.7	-2.1	-1.7
October 17	-1.2	-0.8	-1.2	-0.9	-0.8	1.0	1.6	2.1
September 17	-1.2	3.4	-1.3	2.6	2.5	-0.2	4.3	2.7
August 17	1.5	-1.6	1.5	-1.0	-1.0	2.1	-0.8	0.1
July 17	2.7	0.9	2.7	1.2	1.2	2.8	0.7	0.6
June 17	-0.6	-1.4	-0.5	-1.2	-1.2	-1.8	-2.4	-2.3
May 17	2.2	-1.2	2.2	-0.6	-0.6	5.5	1.9	2.6
April 17	1.0	2.7	1.0	2.4	2.4	3.1	4.5	1.5
March 17	0.9	0.7	0.9	0.8	0.7	2.3	2.5	3.5
February 17	-0.2	0.4	-0.2	0.3	0.3	2.5	3.0	2.8
January 17	1.2	0.6	1.2	0.7	0.7	1.8	1.4	-0.3
2017	**9.6**	**5.4**	**9.5**	**6.1**	**6.1**	**22.4**	**17.7**	**13.1**
Annualised return[5]	**14.5**	**13.1**	**11.7**	**11.1**	**11.2**	**10.4**	**9.0**	**4.4**
Since launch[5]	**1201.0**	**921.5**	**115.7**	**107.3**	**107.9**	**549.7**	**407.9**	**124.8**
			Discrete 12 Month Rolling Performance - % Change					
To 31 December 17	9.6	5.4	9.5	6.1	6.1	22.4	17.7	13.1
To 31 December 16	14.5	-1.2	14.5	1.8	1.7	19.2	2.9	7.2
To 31 December 15	9.7	15.5	9.7	14.3	14.2	15.6	21.7	4.9
To 31 December 14	6.4	14.0	6.4	12.6	12.6	-1.8	5.2	4.7
To 31 December 13	26.6	23.4	26.7	24.4	24.1	35.5	32.2	21.6

[1]Source: Administrator, Net Asset Value. [2]Source: Administrator, Net Asset Value, net income reinvested. [3]Source: Bloomberg, Euromoney (formerly HSBC) Smaller European Total Return Index. [4]Source: Bloomberg, MSCI Europe Index, local currencies, total return. [5]Since inception of GBP A share class on 27/01/99 to date, GBP B share class on 19/01/11 to date, EUR A and EUR B share classes on 31/01/11 to date. 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 2.6% in December. Our long and short books contributed 3.0% and 0.5% respectively. Returns across the long book were broad based. Two of the Fund's larger holdings, Kongsberg Automotive and Oslo Bors were the most notable contributors, adding 0.5% and 0.4% to NAV respectively. Our short positions in a German retail conglomerate and a UK semiconductor company added 1.0% and 0.8% respectively, whilst our short positon in a German software company cost 0.9%.

Cegedim – French healthcare software provider (3.2% NAV)

We initially invested in Cegedim in 2014 when the company announced the transformative disposal of its Customer Relationship Management and Strategic Data division. This had been the core business, but its dependence on a structurally declining base of pharmaceutical sales representatives meant it was struggling. At the time, we were excited by the opportunity to invest in a more focused healthcare IT business, with positive underlying trends and significantly lower debt. Whilst the share price is now approximately 30% above our average purchase price, it has turned out that we were too optimistic. The company had been underinvesting in its software businesses to boost cash flow and correcting this has been a headwind to profitability in recent years. We think Cegedim is worth highlighting now as it remains a large position in the Fund. The company also recently announced the disposal of its last remaining non-core business, Cegelease, improving its free cash flow profile. We believe that past strategic mistakes have been corrected and the return to organic growth and completion of major investments should drive greater profitability over the next two to three years. Cegedim offers a range of software solutions, each targeting specific parts of the healthcare industry. The historic lack of investment has cost Cegedim some market share in recent years. However, given that healthcare customers are typically conservative and rely on the software for their day-to-day operations, this means that the company has experienced moderate customer churn and maintained strong positions in its core markets of France and the UK.

Currently, profits are being held back by a number of initiatives and factors. Additional development costs are being incurred to make all products available as cloud-based solutions and there is upfront investment in large business process outsourcing contracts with insurance companies. The company is also experiencing a migration of revenues from initial licenses to service contracts which spreads revenue over a longer period and therefore adversely impacts near term profits. 2018 should mark the first year of visible improvement with declining research and development expenses expected over the next 3 years, a stable workforce and organic growth of around 6%. We expect that the introduction of new software solutions will help regain lost ground especially for the French pharmacy and the UK business, supporting a sustainable return to profitable growth. This would do much to improve investor sentiment and restore management credibility.

In the first nine months of 2017, revenues increased by 6.3% on an organic basis to EUR 340m. The Health Insurance, HR and e-services division grew by 9.9% to EUR 208m whilst the Healthcare Professionals division remained largely unchanged at EUR 129m. We expect a return to profitable growth in Q4 and for the company to achieve its full year revenue guidance of circa EUR 465m. Furthermore, we expect an operating profit before depreciation and amortisation (EBITDA) of circa EUR 72m, resulting in a 15% EBITDA margin. Based on a current market cap of EUR 500m and an expected net debt of around EUR 130m by year-end 2018, Cegedim trades at an enterprise value to operating profit of around 14 times. Given the strong fundamentals of this business with solid growth prospects, good visibility from a high share of recurring revenues, high retention rates and low customer concentration, we believe it deserves a higher valuation. The reducing levels of investment should also boost cash generation and we expect Cegedim to commence dividend payments in 2018. In the mid-term, the company targets EBITDA margins of 20% in 2020 and based on its historic profitability and that of close peers Compugroup, EMIS and Pharmagest, this should be achievable. If delivered, the current valuation would prove to be very cheap indeed. Based on an enterprise value to net operating profit after tax of 12.5 times for 2019, we see 30% upside for the shares in the next 12 months and materially more if mid-term targets are met.

Top Five Long Holdings as at 29 December 2017

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	5.3
2	Kongsberg Auto	Norway	Consumer Discretionary	3.7
3	Costain	United Kingdom	Industrials	3.4
4	Cegedim	France	Health Care	3.2
5	Oslo Bors	Norway	Financials	3.0
				18.6

Exposures as at 29 December 2017

Longs %	Shorts %	Gross Exposure %	Net Exposure %
77.2 (76.2)	48.5 (51.6)	125.7 (127.8)	28.7 (24.6)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 29 December 2017

Country	Gross%	Net%
Australia	1.7	0.6
Austria	3.8	-0.5
Belgium	1.2	-0.3
France	8.3	6.4
Germany	31.3	5.9
Hong Kong	1.7	-1.7
Italy	3.9	3.7
Netherlands	2.5	-0.2
Norway	7.7	7.7
Spain	1.2	-1.2
Sweden	2.0	0.5
Switzerland	5.7	-5.7
UK	43.7	13.9
US	9.3	-0.4
Other	1.7	0.0

Market Cap	Gross%	Net%
>£2bn	37.4	0.4
£700m - £2bn	32.7	-5.5
£200m - £700m	35.2	20.0
<£200m	20.4	13.8

Positions	Dec	Nov
Long	86	87
Short	75	75
Longs Opened	2	1
Longs Closed	3	3
Shorts Opened	3	3
Shorts Closed	3	7

Sector	Gross%	Net%
Consumer Discretionary	37.1	14.8
Consumer Staples	10.0	-1.4
Energy	0.6	-0.6
Financials	7.7	2.1
Health Care	5.7	3.8
Industrials	19.1	5.3
Information Technology	30.5	-2.9
Materials	4.1	3.1
Real Estate	7.8	3.1
Telecommunication	3.1	1.4
Utilities	0.0	0.0
Other	0.0	0.0

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

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