Ennismore Global Equity Fund

Investor Newsletter for the month of March 2018

Issued on 11 April 2018

Fund Details

Daily dealing UCITS and Irish Central Bank regulated open-ended investment company with Financial Conduct Authority recognition and registration in Ireland. The Fund size was USD 220m as at 29th March. Total assets under management by Ennismore Fund Management were USD 863m. 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.

Top Five Long Holdings as at 29 March 2018

	Company	Country	Sector	% of NAV
1	Etsy Inc	United States	Information Technology	9.7
2	Under Armour Inc	United States	Consumer Discretionary	7.7
3	Schibsted ASA	Norway	Consumer Discretionary	6.3
4	TPG Telecom Ltd	Australia	Telecommunication Services	6.0
5	Auto Trader Group PLC	United Kingdom	Information Technology	4.9
				34.6

Exposures as at 29 March 2018

Longs %	Shorts %	Gross Exposure %	Net Exposure %
86.6 (97.7)	45.6 (46.9)	132.2 (144.6)	41.0 (50.8)

Figures in brackets refer to previous month end. All exposures are calculated on a delta adjusted basis.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 29 March 2018

Country	Gross%	Net%
United States	46.0	15.8
United Kingdom	31.1	13.4
Germany	17.0	1.8
Australia	8.5	4.8
Norway	6.3	6.3
Netherlands	4.8	4.3
Japan	3.1	-3.1
Canada	2.2	0.4
Hong Kong	1.7	-1.7
Switzerland	1.7	-1.7
Italy	1.5	1.0
Other	8.3	-0.3

Market Cap	Gross%	Net%
>$10bn	13.1	-1.8
$5bn-$10bn	6.1	-3.5
$1bn-$5bn	88.3	52.6
<$1bn	24.7	-6.3

Positions	Mar	Feb
Long	40	40
Opened	6	5
Closed	6	0
Short	63	59
Opened	12	12
Closed	8	6

Sector	Gross%	Net%
Consumer Discretionary	40.0	21.8
Consumer Staples	10.2	5.4
Energy	0.6	-0.6
Financials	3.8	-0.6
Health Care	2.8	-1.8
Industrials	20.3	7.3
Information Technology	38.8	6.1
Materials	1.8	-1.8
Real Estate	1.8	-1.8
Telecommunication Servic	11.5	7.6
Utilities	0.6	-0.6
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.

Performance as at 29 March 2018

	Share Class			
	GBP	GBP A	EUR	CHF
NAV per share[1]	**10.77**	**10.75**	**10.73**	**11.42**
Period	**% Change**			
March 18	**-0.9**	**-0.9**	**-0.1**	**1.6**
February 18	5.8	5.9	5.0	4.5
January 18	-4.4	-4.4	-3.1	-4.1
2018 to date	**0.3**	**0.3**	**1.6**	**1.8**
12 month rolling	**4.4**	**4.4**	**2.2**	**10.4**
Annualised return[3]	**5.1**	**5.0**	**4.8**	**9.3**
Since launch[2]	**7.7**	**7.5**	**7.3**	**14.2**

[1]Source: Administrator, Net Asset Value. [2]Since inception on 03/10/16. Note: All performance figures net of fees. **Past performance is not a guide to future returns.**

Attribution %		GBP	EUR	CHF
Long	Q1 18	0.6	1.8	2.3
	Q4 17	6.6	5.8	7.8
	Q3 17	2.4	2.0	6.0
	Q2 17	2.6	0.3	2.2
Short	Q1 18	1.2	1.2	1.2
	Q4 17	0.9	0.9	0.8
	Q3 17	0.0	0.1	0.0
	Q2 17	-4.7	-4.6	-4.7

Attribution figures exclude cash returns and are prior to expenses

The Fund return was in the range of 0.3% to 1.8% in Q1, depending on currency.

For the quarter, long positions added around 0.6% to NAV (in the sterling share class). The largest contributions came from Etsy Inc, adding 2.7% to NAV, Twitter Inc (1.1%), TripAdvisor Inc (0.8%) and Under Armour Inc (0.6%). All four reported better than expected trading for last quarter of 2017. Etsy, in particular, really delivered, with growth in the amount of merchandise traded on the marketplace ("GMS") accelerating for the first time in years. GMS ultimately drives all of the value, not just for the company but for its customers and their customers as well, so this was very positive news.

We reduced some of our larger positions in the quarter, notably MTU Aero Engines GmbH, Twitter and TripAdvisor, but they remain core holdings in the Fund. We added significantly to our position in Auto Trader Group PLC, which we wrote about in our December newsletter.

TPG Telecom Limited, Inmarsat PLC and MTU cost the Fund 1.4%, 1.3% and 0.7% respectively. We have written on TPG later in this letter. Our view on it hasn't changed since we bought the position about a year ago. Inmarsat disappointed again, reporting worse than expected results for another quarter.

The short book added 1.2% to NAV in the quarter. Our positions in GoGo Inc and Syrah Resources Limited contributed 0.7% and 0.5% respectively.

GoGo provides in-flight WiFi. That makes it a direct competitor to Inmarsat in probably the toughest of all Inmarsat's end markets. Most of the planes that GoGo supplies are serviced over its air-to-ground network in the US, which is very capacity constrained and usually delivers a lot less than a real broadband service. It is facing intense competition from several players using new satellite based capacity, notably ViaSat Inc, Thales S.A. and Global Eagle Entertainment Inc. GoGo's largest customers have break clauses in their contracts that allow them to switch if another provider offers a better service and that is exactly what they are doing. American Airlines Group Inc is moving up to 550 planes from GoGo to ViaSat this year, about 20% of GoGo's US commercial airliner customer base. In response, it has started a satellite service of its own over leased capacity but the results for its Rest of the World division, which is only served over satellite, show this is not even profitable at the gross margin level. GoGo is burning a lot of cash as it installs satellite receivers on planes, has hefty commitments to purchase capacity even if it doesn't sign up customers to use it and is heavily in debt. Michael Small, CEO since 2010, was replaced abruptly in March but it's not obvious to us that any management can change GoGo's disastrous competitive position. Given the troubles of competitors like Inmarsat, we don't think it is likely that anyone is going to be interested in paying up to buy it either.

Eros International PLC gave back the return we made on it in Q4 2017, costing 0.9%, after Reliance Industries Limited bought a minority stake. That should mean Eros's short-term funding issues are taken care of. We still believe there is little value in its film library and that reported profitability grossly overstates the real return on capital, which is better reflected in consistently negative cash flow. We may well be short again down the line.

TPG Telecom Limited ("TPG")

TPG is a broadband provider in Australia with nearly 2 million subscribers, about a quarter of the market, making it the number two after incumbent Telstra Corporation Limited ("Telstra"). TPG also has a large corporate customer base and a significant fibre network. In mobile, it is a small virtual network operator ("MVNO") but last year it acquired spectrum that allows it to build its own low-cost network, meaning it will begin to compete aggressively in this market from late 2018. The existing business is modestly valued, reflecting margin pressure in consumer broadband that will be largely offset by growing sales to corporate customers. The future success of TPG's mobile network is harder to predict, with a wide range of outcomes possible given the large fixed investment required, but even if it fails to take a significant share of the market, we think TPG will be able recoup most of what it is spending. More likely though, the new network will be able to win over price sensitive customers because the cost of its buildout is way below that previously invested by incumbents, allowing TPG to undercut on price and still be profitable. If it is reasonably successful, the mobile business could easily increase company profit by a half a few years from now.

Australia is an unusual telecoms market because the fixed network is effectively being nationalised. Broadband providers now buy wholesale from the National Broadband Network ("NBN") and then resell this capacity to the end customer. Unlike some markets where there can be a large difference in performance between older copper networks and more recent fibre cables, providers in Australia won't be able to differentiate much on service quality for consumer broadband. At the margin TPG still hopes to sell some customers higher speed services over its own fibre, but the scope for this is limited by regulation. Broadband retail in Australia is therefore really about the rest of the cost base – essentially marketing and customer management. TPG has an advantage over incumbent Telstra, which has a lot of the inefficiency typical of former national monopolies. We also think TPG will be able to serve customers more efficiently than new entrants given its economies of scale. Telstra has talked about a margin of less than 10% from reselling NBN capacity. A quick back of the envelope calculation for TPG, based on the change in customer mix and profit for recent periods, suggests it is making more like 15%. That's still a big drag on reported profit while the migration to NBN takes place (about 40% of TPG customers are on it so far), implying earnings before depreciation and amortisation ("EBITDA") from the consumer division falls back from c.AUD 520m to something like AUD 445m. TPG hopes to do a bit better than this by taking market share, offering a fibre product where permitted and cutting costs.

TPG also has a large business serving corporate customers, generating over AUD 300m EBITDA. This has grown consistently for several years and we expect that to continue as an increasing proportion of corporate revenue is delivered over its own network. For example, a significant earnings stream turns on this year as TPG begins monetising a 2015 agreement with Vodafone Australia ("VHA"). TPG has invested AUD 300-400m expanding its fibre network to provide backhaul connections to more than 3,000 VHA cell sites; in return it is guaranteed at least AUD 900m revenue over a 15-year contract – about AUD 60m a year - beginning May 2018. This revenue comes with little marginal cost, making a very meaningful contribution to corporate EBITDA. In addition, growth from other business customers should offset most of the profit lost as NBN rolls out to consumers.

The really interesting part of the TPG story though, is mobile. Today it is a small MVNO on VHA's network. It was widely assumed that the two businesses would merge at some stage. That may still happen in future but TPG made sure it will probably be on its terms by announcing last year it had acquired 700 MHz spectrum so that it can build and operate its own network. The spectrum cost AUD 1.3bn. What really raised eyebrows though, was TPG's assertion that it could build a network with viable service quality in Australia's main cities for only AUD 600m. If it can, it will be much more competitive than the incumbents. To be clear, there is no doubt it will have to be a low-end budget service, that it will only reach about 80% of the population or that TPG will need a roaming deal with another network to provide coverage in rural areas (as TPG will be attacking the budget end of the market we expect premium operator Telstra will be happy to offer this, given the incremental revenue it brings them). One question is how is TPG is able to build its network of about 2,500 cell sites and complementary small cells for AUD 600m, around AUD 250,000 a site? Equipment and installation probably account for about half of that (urban sites tend to be cheaper than average as you can put them on top of buildings instead of erecting a tower). The really expensive part of a mobile network though, is usually backhaul - the cables running from cell sites back to the fixed network – as this needs to be dug underground. TPG says it can do this within budget because it already has an extensive cable network in most urban areas. By choosing cell sites close to this, the incremental capex needed to make the backhaul connection can be way under what a completely new network would cost. We think TPG has been planning its mobile network for some years. We also note that the fibre TPG laid to connect VHA's cell sites is owned by the company and available to be used by other customers (including, we assume, TPG itself). We therefore think the initial cost of AUD 600m is credible, although we also expect ongoing capex to be high as the

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network will still need to be built out more once it is up and running. The other question is will the service be good enough to compete, even at the low end, when it is starting with only 2,500 sites? The best comparison is with VHA which has about 4,500 4G sites in total (it also has a few hundred for older 2G and 3G networks but TPG doesn't need to replicate these). To make the comparison like-for-like, we adjust this to look only at the four most populous Australian states, as that accounts for more than 80% of the population (TPG's initial target market), and make an assumption about how many rural sites are included that will instead be covered by a roaming deal. We estimate each takes about 500 out of the total, meaning TPG will launch with about 2,500 sites covering a population that VHA reaches with c.3,500. We also note that TPG has more 700 MHz spectrum, which should mean it needs less sites in urban areas to achieve the same level of indoor coverage as this frequency propagates best through walls. Overall, we assume the service quality at launch will be a bit worse but plenty of customers will be more than happy to take this as the TPG offering is likely to come at less than half the average price point in the market. We would make the comparison with Iliad S.A., which entered the French market as a low-cost operator in 2012. It took 12% of the market within a year and now has nearly one in five mobile customers.

If we value TPG's existing business on a standalone basis – that is, we ignore the debt related to the purchase of mobile spectrum – it is valued at around 12 times free cash flow, with a market cap of c.AUD 5bn. We don't think free cash flow from this business changes much in the next couple of years, as some corporate growth offsets most of the NBN impact. That's a reasonably attractive valuation for a low growth, average quality business - and TPG's competitive cost base and scale probably mean it is better than that. The big unknown is what cashflow the new mobile network in Australia will bring (TPG is also building one in Singapore, but the numbers are much less significant for the company overall). TPG states that its Australian mobile business will be breakeven at the EBITDA level with around 2% market share, about half a million subscribers. It already has over 400,000 MVNO customers so that seems a pretty easy target to achieve. The EBITDA breakeven level implies operating costs of about AUD 90m. We think TPG's existing customer base of 2m broadband homes and its ability to profitably undercut the incumbents on price mean it will be able to take significant market share. If we use the current MVNO average revenue per user of about AUD 15 a month and assume it gets to 8% market share, mobile revenue in Australia would be AUD 360m. We estimate operating profit would be about AUD 80m. At 10% market share, that more or less doubles and at 15% it could be over AUD 300m, increasing overall company profit by nearly half. The high level of fixed investment means the range of outcomes is wide, but the downside is probably limited. If TPG fails to achieve scale in mobile we think selling out to a competitor would recoup a large part of the AUD 2bn spent. As such, the potential reward from a successful entry into the market significantly outweighs the cost of failure. This is only possible because TPG has so much of the infrastructure it needs already in place.

Naspers Limited ("Naspers") / Tencent Holdings Limited ("Tencent")

We have taken a hedged position in Naspers, shorting four listed equities in which it owns stakes (principally Tencent, the others are small). Because Naspers's equity stakes are worth much more than its market cap, hedging the 4.3% long position means we need a Tencent short that is almost 6% of NAV (the other shorts add another 0.2%) in order to reduce our net exposure to Tencent to zero. Naspers also holds nearly 10% of its market cap in cash, having just sold c.USD 10bn of its stake in Tencent. In effect, if Naspers liquidated the rest of its listed equity holdings at current market prices, we would get a return of more than 55% on the long investment without having to take any net exposure to those holdings. It is not a risk-free investment, but it is close.

Of course, it is not quite as simple as that. Naspers did place some of its Tencent stake recently, but it also committed not to sell more for 3 years. This trade therefore has a long-time horizon, and the return we get depends on how long that is. We assume 5 years is reasonable. We also assume the equities are placed at a discount to the market price. Taking those factors into account, our return on the trade looks more like 45%, or 9% a year. We also have to pay for the stock borrowed to hedge out the holdings, taking off another 0.75% p.a., and fund the opportunity cost of the long position by notionally borrowing cash to pay for it (technically we will put a long position onto swap). Our expected return comes down to more like 6.5% a year.

The kicker is that Naspers also owns several unlisted assets, in particular African pay TV business MultiChoice and leading online classified advertising sites in many emerging markets. These could easily add 15% or more to the value of the long holding, taking our total net yield to perhaps 9% p.a. on a position that requires us to take very little risk. Naspers also owns numerous venture capital stakes but we don't assume any value for these, as a proxy for the risk that proceeds from selling down Tencent will be reinvested poorly. This may be conservative – Walmart Inc and Amazon.com Inc are currently rumoured to be bidding for Indian online retailer Flipkarrt.com, with the suggested valuation making Naspers's stake in it worth over USD 2bn.

This trade is not money for nothing, but we think the incremental return is well worth the risk.

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