Ennismore European Smaller Companies Fund

Investor Newsletter for the month of May 2018

Issued on 6 June 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 378m as at 31st May. Total assets under management by Ennismore Fund Management were GBP 631m. 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 31 May 2018

	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]	**126.23**	**143.90**	**21.33**	**20.74**	**20.80**			
Period	% Change					% Change		
May 18	**0.9**	**0.9**	**0.9**	**1.0**	**0.9**	**1.8**	**1.9**	**-0.5**
April 18	0.7	0.6	0.7	0.6	0.6	3.7	3.7	4.9
March 18	0.0	1.0	0.0	1.0	1.0	-2.6	-1.9	-1.9
February 18	-0.8	-1.8	-0.8	-1.8	-1.8	-2.0	-3.2	-3.5
January 18	-2.0	-0.7	-2.0	-0.7	-0.7	0.5	2.0	1.1
December 17	2.6	1.8	2.6	2.0	1.9	3.1	2.1	1.0
2018 to date	**-1.1**	**0.0**	**-1.1**	**0.0**	**0.0**	**1.3**	**2.5**	**-0.2**
Annualised return[5]	**14.1**	**12.8**	**10.8**	**10.5**	**10.5**	**10.2**	**8.9**	**4.3**
Since launch[5]	**1186.1**	**921.8**	**113.3**	**107.4**	**108.0**	**558.1**	**420.5**	**124.4**
	Discrete 12 Month Rolling Performance - % Change							
To 31 May 18	3.0	2.2	3.0	2.6	2.6	6.6	5.9	2.2
To 31 May 17	14.6	0.6	14.6	3.2	3.2	34.5	18.4	20.5
To 31 May 16	14.7	7.7	14.7	9.0	9.0	4.5	-2.1	-8.7
To 31 May 15	2.3	15.8	2.3	13.2	13.1	5.1	19.0	11.5
To 31 May 14	18.1	24.1	18.2	23.2	23.1	22.0	28.2	15.2

[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 0.9% in May. Our long book contributed 2.9% while the Fund's short exposure cost 1.6%. Integrafin contributed 0.5% to NAV after reporting strong interim results. Kongsberg Automotive added 0.4%, issuing good Q1 results which led to earnings upgrades for the full year. U&I also contributed 0.4% as the share price closed some of the large discount to its book value after solid annual results. Our short positions in a UK technology company and a German financial services company detracted 0.8% and 0.5% of NAV respectively.

Uzin Utz – German building products manufacturer (0.9% NAV)

Uzin Utz, which manufactures and distributes products used to install flooring in both commercial and residential buildings, has been a long-term holding for the fund. We last wrote on the company in January 2015 and following a recent pull-back in the share price, see now as a good time to revisit our investment case. Since 2014, the company has successfully grown revenues close to 10% p.a. organically, reaching EUR 296m in 2017. Over the same period, margin improvements have meant operating profit increased by 17% p.a. and following a period of investment, the return on net operating assets has recovered from 10% to 15%. With the shares doubling, the market capitalization now stands at EUR 310m and the company continues to be conservatively financed with net debt of EUR 27m in 2017. Despite this strong performance, Uzin Utz remains exactly the kind of stock we look to invest in – a business that is highly regarded in its own industry but overlooked by ours, trading at a very attractive valuation.
As a reminder, Uzin Utz operates in a niche market, offering a portfolio of products for installing all types of floor coverings, with the majority of sales in adhesives and dry mortar. European market share is circa 15% with very strong positions in Germany (27% share) and the Netherlands (40% share). The company continues to take market share both in Germany and internationally with overseas sales accounting for 59% of revenues in 2017 and the recent entry into the US now generating revenues of USD 35m. In our view, the consistent growth delivered over the last two decades is down to a number of principles: Firstly, a focus on high quality products has created a loyal customer base that is prepared to pay on average a 10% premium versus its peers. Secondly, its niche market and commitment to innovation enables outperformance compared to larger competitors. Thirdly, protection of intellectual property – for example, only a few key employees are aware of the formulae used to make its products. Finally, the company has an engaged workforce, with

one of the highest employee satisfaction rates in Germany. We think these qualities in a company are enduring and bode very well for Uzin Utz in the years to come.

As in 2015, the company aims to grow revenues to EUR 400m and for operating margins to reach 10% by 2019 driven by a supportive construction cycle, ongoing growth in the US and market share gains in core markets. Although this target is somewhat ambitious, there are reasons to be optimistic and we think that the upside is substantial even if the targets are not fully achieved. Whilst there has been a lot of change in the management board in the last two years, this has essentially been to allow the transition of control within the founding family between the father and his two sons. Werner Utz now leads the supervisory board and his sons, Julian and Philipp Utz, together with Heinz Leibundgut, form the managing board. We are reassured by the fact that both Julian and Philipp have been working at the company since 2011 with Philipp also leading the successful US business. The shareholder structure has been largely stable with the Utz family and large shareholder Alberdingk Boley both recently adding to their holdings, reinforcing our own positive view on the shares. Despite the higher market capitalisation since 2015, the company remains below the radar for most investors due to its low free float and limited marketing to investors. However, as it successfully executes its growth strategy, we believe this family run business, with a simple capital structure and very conservative management, will be harder for institutional investors to ignore.

After delivering flat profits in 2017 as a result of increasing material costs, in 2018 we expect revenues and profits to grow significantly, despite a continued headwind from input costs. Including the acquisition of two Dutch distributors, we expect revenues of EUR 360m and operating profits of EUR 27m. For 2019 we conservatively look for revenues of EUR 390m and EUR 35m operating profit. This implies further revenue and margin improvement but not quite reaching the company's targets. Based on this, the company is currently valued at just nine times operating profits for 2019. We think this is too cheap for a high-quality business with a consistent growth track record. Based on a more appropriate valuation of 12 times operating profit for 2019, we see more than 30% upside for the next 18 months, with further potential should the company deliver on its revenue and margin targets.

Top Five Long Holdings as at 31 May 2018

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	6.3
2	Cegedim	France	Health Care	3.6
3	Costain	United Kingdom	Industrials	3.5
4	Oslo Bors	Norway	Financials	3.0
5	Kongsberg Auto	Norway	Consumer Discretionary	3.0
				19.4

Exposures as at 31 May 2018

Longs %	Shorts %	Gross Exposure %	Net Exposure %
78.9 (78.4)	47.7 (52.6)	126.6 (131.0)	31.2 (25.8)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 31 May 2018

Country	Gross%	Net%
Australia	1.3	0.5
Austria	4.4	-0.7
Belgium	1.1	-0.4
France	5.3	3.9
Germany	29.5	7.9
Hong Kong	1.4	-1.4
Italy	4.0	2.4
Luxembourg	1.3	1.3
Netherlands	1.9	0.4
Norway	7.1	7.1
Sweden	1.6	0.7
Switzerland	5.0	-5.0
UK	51.7	17.2
US	8.1	-2.1
Other	2.9	-0.6

Market Cap	Gross%	Net%
>£2bn	35.6	2.3
£700m - £2bn	29.9	-8.4
£200m - £700m	42.8	22.8
<£200m	18.3	14.5

Positions	May	Apr
Long	87	85
Short	80	84
Longs Opened	6	3
Longs Closed	4	5
Shorts Opened	7	7
Shorts Closed	11	5

Sector	Gross%	Net%
Consumer Discretionary	35.2	13.1
Consumer Staples	3.1	1.1
Energy	0.0	0.0
Financials	12.7	5.4
Health Care	5.6	2.9
Industrials	25.7	8.6
Information Technology	26.8	-7.7
Materials	4.3	3.1
Real Estate	10.4	3.2
Telecommunication	2.7	1.6
Utilities	0.1	-0.1
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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