Ennismore European Smaller Companies Fund

Investor Newsletter for the month of July 2018

Issued on 6 August 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 388m as at 31st July. Total assets under management by Ennismore Fund Management were GBP 675m. 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 July 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]	**129.15**	**144.79**	**21.82**	**20.88**	**20.95**			
Period	% Change					% Change		
July 18	**0.3**	**-0.6**	**0.3**	**-0.4**	**-0.4**	**2.1**	**1.3**	**3.3**
June 18	2.0	1.2	2.0	1.1	1.2	-0.4	-1.1	-0.3
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
2018 to date	**1.1**	**0.7**	**1.2**	**0.7**	**0.8**	**3.1**	**2.7**	**2.8**
Annualised return[5]	**14.1**	**12.7**	**10.9**	**10.3**	**10.4**	**10.2**	**8.8**	**4.4**
Since launch[5]	**1215.9**	**928.1**	**118.2**	**108.8**	**109.5**	**569.7**	**421.6**	**131.1**
	Discrete 12 Month Rolling Performance - % Change							
To 31 July 18	3.1	3.4	3.1	3.3	3.4	7.5	7.9	7.1
To 31 July 17	12.9	6.3	12.9	8.1	8.0	27.1	19.7	16.3
To 31 July 16	15.9	-2.6	15.8	0.1	0.2	13.2	-5.5	-6.2
To 31 July 15	7.0	19.8	7.0	17.3	17.2	10.2	24.0	13.8
To 31 July 14	13.8	25.8	13.9	23.8	23.5	10.3	21.7	11.5

[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 0.3% in July. Our long book contributed 1.2% while the Fund's short exposure cost 0.7%. JD Sports was the biggest contributor for the month, adding 0.4% to NAV, whilst our short position in an American automotive company added 0.3%. The biggest detractors were our short positions in a German financial services company and a European catering company which cost us 0.4% and 0.3% of NAV respectively.

SES SA – communications satellite owner and operator (1.3% of NAV)

SES is a EUR 7bn market cap satellite operator. In 2017, it made an operating profit of USD 832m on revenue of USD 2.4bn. By year end its backlog of contracted revenue was USD 9bn, flat on the previous year and compared to five years earlier. Net debt was USD 4.3bn and free cash flow to equity was c.USD 900m. If that was the whole story, SES would probably be worth several billion dollars, which is how the market values it today. But that is not the whole story. The US telecoms regulator is considering allowing satellite operators to sell their rights to use C-band spectrum. If it goes ahead, SES could receive a windfall worth more than its current market cap. If it doesn't, we think its existing business is fairly valued. For us this is a great investment, one where we could more than double our money if things go well, or not lose much if they don't.

Today SES operates two fairly distinct telco networks, SES Video and SES Networks. SES Video broadcasts TV signals. This business has strong visibility thanks to long term contracts of typically 10 years and a backlog that is 5 years of current revenue. Switching to another supplier is prohibitively expensive for broadcasters as it would require sending an engineer to every home to re-point consumer dishes to an alternative satellite. We can infer from various disclosures that SES's video business accounts for most of its total profit and probably almost all of its free cash flow. This may be a declining annuity, due to the rising popularity of video streaming, but it will only go away slowly. Future spend on satellites will also be lower if less capacity is needed. We think the conservative present value of SES Video is about two thirds of the company's EUR 11bn enterprise value.

That leaves about EUR 4bn for the Networks business, which mostly provides data connections and has run rate revenue of about EUR 650m. We value this income stream very conservatively because much of it probably isn't viable for another generation of satellites. Overcapacity has driven down pricing and returns. Cash flow will be positive from legacy satellites though, because capex won't be repeated. At cost, these are worth about EUR 3bn and we assume fair value is half that. SES's new constellation, O3B, generated about a quarter of SES Networks revenue in 2017 and has very different economics. The O3B satellites are much smaller and cheaper to build and launch and their closer proximity to Earth means they need 20 times less power to transmit the same signal, with much lower latency. No other existing satellites can offer a similar concentrated capacity cost effectively. O3B is growing fast enough to more than offset declining sales for the older fleet and in 2021 another seven O3B satellites will make the coverage global (today it cannot serve most of North America, Europe or Russia). Overall, we value O3B at somewhere between EUR 2.5bn and EUR 4bn.

Finally, last October, competitor Intelsat filed a proposal for satellite companies to be allowed to lease or sell some of the 500 MHz of C-band radio spectrum they currently use in the US. SES joined the proposal in April. Each owns the rights to use about half of the spectrum and the mobile phone companies are very keen buyers. At a not unrealistic price of USD 0.30 per MHz/population, US C-band would be worth about USD 50bn. While a number of options are under discussion, a market-based solution allowing satellite companies to sell seems to be strongly favoured and a final FCC decision could come within months. Assuming SES is allowed to sell its share of this spectrum, it would end up with a windfall of between one and three times its current market cap (after compensating its existing customers and paying tax).

In summary, we think SES's existing businesses are worth close to its current EUR 11bn enterprise value. EUR 7bn for Video, another EUR 1.5bn for the Networks business revenue on traditional data satellites, with O3B worth the rest (and probably a fair bit more once capacity becomes utilized). Any windfall from selling US C-band spectrum rights is close to a free option. It might not come, but we are certainly not betting against it.

Top Five Long Holdings as at 31 July 2018

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	7.5
2	Costain	United Kingdom	Industrials	3.3
3	Cegedim	France	Health Care	3.2
4	Oslo Bors	Norway	Financials	3.0
5	Renk	Germany	Consumer Discretionary	3.0
				20.0

Exposures as at 31 July 2018

Longs %	Shorts %	Gross Exposure %	Net Exposure %
75.3 (77.6)	50.5 (49.1)	125.8 (126.7)	24.8 (28.5)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Australia	1.3	0.6
Austria	4.3	-0.8
Belgium	1.1	0.6
France	5.4	2.0
Germany	30.1	9.4
Hong Kong	1.3	-1.3
Italy	4.3	2.9
Luxembourg	1.6	1.6
Netherlands	1.4	0.7
Norway	6.9	6.9
Sweden	2.0	-0.1
Switzerland	6.1	-6.1
UK	49.7	11.9
US	7.5	-2.9
Other	2.8	-0.6

Market Cap	Gross%	Net%
>£2bn	37.4	6.6
£700m - £2bn	22.3	-17.4
£200m - £700m	46.4	21.4
<£200m	19.7	14.2

Positions	Jul	Jun
Long	78	87
Short	78	83
Longs Opened	2	3
Longs Closed	11	3
Shorts Opened	3	6
Shorts Closed	8	3

Sector	Gross%	Net%
Consumer Discretionary	37.9	11.9
Consumer Staples	4.0	2.7
Energy	0.0	0.0
Financials	11.9	1.4
Health Care	5.9	1.0
Industrials	22.8	7.0
Information Technology	27.5	-8.0
Materials	4.6	3.0
Real Estate	8.3	4.0
Telecommunication	2.9	1.8
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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