Ennismore European Smaller Companies Fund

Investor Newsletter for the month of August 2018

Issued on 7 September 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 390m as at 31st August. Total assets under management by Ennismore Fund Management were GBP 686m. 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 August 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]	**130.58**	**145.88**	**22.06**	**21.05**	**21.12**			
Period			% Change				% Change	
August 18	**1.1**	**0.8**	**1.1**	**0.8**	**0.8**	**0.1**	**-0.3**	**-2.4**
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	**2.3**	**1.4**	**2.3**	**1.5**	**1.6**	**3.2**	**2.4**	**0.4**
Annualised return[5]	**14.1**	**12.7**	**11.0**	**10.3**	**10.4**	**10.2**	**8.8**	**4.2**
Since launch[5]	**1230.5**	**935.9**	**120.6**	**110.5**	**111.2**	**570.3**	**420.0**	**125.7**
	Discrete 12 Month Rolling Performance - % Change							
To 31 August 18	2.7	5.9	2.7	5.3	5.2	5.4	8.5	4.4
To 31 August 17	12.0	3.2	12.1	5.0	5.0	27.4	17.4	15.1
To 31 August 16	17.6	1.1	17.6	3.9	3.9	18.2	1.2	2.2
To 31 August 15	6.6	15.7	6.6	13.9	13.9	6.2	15.8	3.7
To 31 August 14	13.7	22.2	13.8	20.8	20.7	13.1	21.8	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 1.1% in August. Our long book contributed 2.4% whilst the Fund's short exposure cost 0.6%. JD Sports and METRO AG were the largest contributors in the month each adding 0.6%. TPG Telecom added 0.4% following the announcement of preliminary talks with a competitor regarding a merger. The biggest detractors were our short positions in a German financial services company and in a Chinese real estate business, which cost us 0.6% and 0.4% respectively.

Cake Box Holdings – UK cake manufacturer & franchise retailer (0.7% NAV)

Cake Box is a specialist cake retailer in the UK with a highly scalable and strong return on capital franchisee business model. The company was founded in 2009, listed in June of this year and has a £62m market capitalisation. Cake Box has grown its franchise estate from 20 to 91 stores in the last five years, creating a £13m turnover business. It has grown by more than 50% annualised over the last couple of years, whilst generating an operating margin of over 25% and a post-tax return on capital of over 65%. The franchisees themselves have shown good profitability alongside strong historic organic growth, most recently achieving 15% in the latter to March 2018. This was achieved by gaining from a wide customer offering, including personalised message and photo cakes and high growth in online ordering with in-store collection. We really like the entrepreneurial management and the CEO and CFO are original founders of the business. Furthermore, management still owns over 50% of the equity, so are highly aligned.

Cake Box partly differentiates itself by selling only eggless cakes and using fresh cream for all its products. This enhanced their initial success by accessing customers within demographics who follow a lacto vegetarian diet, common in some Asian religions. Recent store openings have included areas more typical of the UK's overall demography such as Crawley in 2017, where the strong performance of these stores serves as a marker of confidence in the ability of the estate to grow significantly from here. Cake Box is targeting a total estate of 250 stores in the future.

There is strong interest for new franchises with circa 75 enquiries per month and the company is very focussed on selecting the right people. As part of the selection process, successful applicants must have presented their business plan and been interviewed by the directors. Cake Box is committed to ensuring their franchisees are given the tools to succeed. They undertake a five-day residential course where they learn everything needed to run the store, including how to decorate the sponges. This is followed by a four-week placement in an existing store and at the end of these phases, a final assessment by the COO is required. Further support is also available in the first two weeks after opening. The company is careful not to have too much franchisee concentration with the largest currently at around 10% of the total store estate. The franchisee model requires an initial £150k investment of which £120k is for the fit out including machinery. The other £30k pays for the initial franchise fee to Cake Box which the franchisee typically earns back in an impressive 18 to 24 month period.

The revenue model for Cake Box is mainly linked to the supply of ingredients, sponges and other supplies to the franchisees, with 80% of gross profit gained from this. The company manufactures the sponges in one facility and uses its buying power to obtain significant discounts in other ingredients and supplies versus traditional wholesalers, sometimes even going direct to suppliers, e.g. for cream. This works as a barrier to entry and gives the company a competitive edge which should strengthen further as it grows. This proves particularly advantageous when there is raw material inflation as Cake Box and in turn their franchisees are in a much better position to defend their margins. A further key benefit of scale is in brand recognition, leading to better returns on advertising and the ability to run national campaigns as the company controls pricing for its standard cakes across the franchise network.

We expect operating profits to increase by 50% over the next two years to £5.1m for the March 2020 financial year and post-tax return on capital to increase to close to 80%. Due to the low capital intensity of the model, cash generation is strong, leading to a small net cash balance last reported. Going forward, we would expect Cake Box to be able to pay out a generous proportion of a growing earnings base. Overall, given the strong growth opportunity and excellent return on capital, we believe an operating profit after-tax multiple of 20 times is fair and including dividends and cash generated this leads to upside of 40% to March 2020.

Top Five Long Holdings as at 31 August 2018

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	8.1
2	Costain	United Kingdom	Industrials	3.5
3	Cegedim	France	Health Care	3.0
4	METRO	Germany	Consumer Staples	2.9
5	Renk	Germany	Consumer Discretionary	2.9
				20.4

Exposures as at 31 August 2018

Longs %	Shorts %	Gross Exposure %	Net Exposure %
78.0 (75.3)	49.7 (50.5)	127.7 (125.8)	28.3 (24.8)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Australia	1.7	1.1
Austria	4.0	-0.6
Belgium	1.2	0.7
France	5.3	1.7
Germany	31.4	10.2
Hong Kong	1.7	-1.7
Italy	4.0	2.8
Luxembourg	1.6	1.6
Netherlands	1.5	0.8
Norway	6.2	6.2
Sweden	1.7	-0.2
Switzerland	5.7	-5.7
UK	50.5	14.7
US	8.3	-3.0
Other	2.9	-0.3

Market Cap	Gross%	Net%
>£2bn	38.9	9.9
£700m - £2bn	21.5	-17.1
£200m - £700m	46.8	20.4
<£200m	20.5	15.1

Positions	Aug	Jul
Long	78	78
Short	76	78
Longs Opened	3	2
Longs Closed	3	11
Shorts Opened	4	3
Shorts Closed	6	8

Sector	Gross%	Net%
Consumer Discretionary	38.2	12.2
Consumer Staples	5.2	4.1
Energy	0.0	0.0
Financials	10.7	1.6
Health Care	6.3	1.2
Industrials	22.6	7.5
Information Technology	28.4	-6.9
Materials	4.5	3.0
Real Estate	8.5	3.4
Telecommunication	3.3	2.2
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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