Ennismore European Smaller Companies Fund

Investor Newsletter for the month of October 2018

Issued on 6 November 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 386m as at 31st October. Total assets under management by Ennismore Fund Management were GBP 706m. 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 October 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]	**129.61**	**146.16**	**21.90**	**21.05**	**21.12**			
Period			**% Change**				**% Change**	
October 18	**-1.0**	**-0.6**	**-1.0**	**-0.7**	**-0.7**	**-7.5**	**-7.0**	**-5.4**
September 18	0.3	0.8	0.3	0.7	0.7	-1.8	-1.2	0.3
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	**1.5**	**1.6**	**1.5**	**1.5**	**1.6**	**-6.3**	**-6.0**	**-4.7**
Annualised return[5]	**14.0**	**12.6**	**10.6**	**10.1**	**10.1**	**9.6**	**8.2**	**3.9**
Since launch[5]	**1220.6**	**937.9**	**119.0**	**110.5**	**111.2**	**509.1**	**377.3**	**114.3**
			Discrete 12 Month Rolling Performance - % Change					
To 31 October 18	4.5	3.4	4.5	3.5	3.5	-5.0	-6.0	-5.4
To 31 October 17	5.6	8.3	5.6	8.1	8.1	22.7	25.5	19.8
To 31 October 16	20.6	-4.1	20.7	-0.1	-0.1	22.5	-2.6	0.0
To 31 October 15	6.9	17.0	6.9	15.0	15.0	13.3	24.4	8.7
To 31 October 14	8.2	16.9	8.2	15.4	15.3	-2.6	5.3	4.6

[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 fell by 1.0% in October. Our long book cost 6.1% while the Fund's short exposure contributed 5.2%. The biggest contributor was our short position in a UK flooring company which added 0.7% due to a decline in its share price after reducing profit expectations and also, surprisingly, launching a bond issue. Other positive contributors include short positions in a European sensor manufacturer and a UK bank, adding 0.5% each. The biggest detractors were long positions in JD Sports and Tracsis, costing the fund 0.8% and 0.7% respectively. Our long position in Cegedim cost us 0.5% as the company announced additional investments.

EVS – Belgian broadcast equipment manufacturer (1.0% NAV)

EVS Broadcast Equipment SA (EVS), is a €270m market capitalised niche technology provider for the broadcast industry with a strong market position, operating margins of over 25% and a post-tax return on invested capital of over 30%. In recent years however, the company's revenues have been under pressure and the current management team needs to bring back confidence in the company's growth prospects. Despite this, we believe the business is close to a technologically cyclical low and therefore view the current valuation as highly attractive.
EVS is a truly global business with 28% of the €120m of sales reported in 2017 coming from the Americas, 47% from Europe, Middle East and Africa and 23% from the Asia-Pacific region. The majority of revenues come from products for television production, with a particular strength in server products with proprietary software for outside broadcasting vans (mobile) or in studios. Extra revenues are generated mainly on a biennial basis from big events such as the Summer and Winter Olympics. The heritage of the business, accounting for 60% of total 2017 sales, is in the mobile side of the industry where EVS has an impressive 90% market share. Over the last decade, the company has grown more in the studio area, although this is more competitive and therefore lower margin.

EVS's operating margins have fallen from a peak of over 65% over 10 years ago, which were clearly not sustainable, but continue to be highly respectable today at over 25%. So far this year, sales are down by 7%, although without the benefit from big events, the underlying is down more which is clearly disappointing. The order book however, as of the end of September is up around 20%. There has been a significant change in the broadcasting industry as routes to market for media content evolve. These changes have put pressure on some of EVS's traditional customers' budgets, which in turn has hindered technology upgrading spend. As the functionality of the core server product continues to improve however and demand for higher definition alongside new technology standards for broadcasting increases, we expect demand for EVS's products to grow in the medium term. Future growth will also be supported by recent entry into new areas, such as dynamic video and replay technology for live sports refereeing. EVS invests over 20% of sales in research and development. On the one hand, this level gives us confidence in terms of innovation, but on the other we think it is too high. This may be partly linked to current below trend revenues but perhaps also to an inefficient allocation of spend. We view this as an opportunity to further improve the core profitability of the business in the future and return margins closer to historic levels.

We see the current valuation as unsustainably low and it was interesting to see a recent stake built up by Evertz, a CAD 1.2bn capitalized peer. The subsequent announcement by the board to buy back up to EUR 10m of stock, was also a further sign of confidence. If the share price does continue to trade at the current levels, we wouldn't be surprised if we were to see a takeover attempt as the company's niche products are highly rated and we believe there is room for improved efficiency. EVS has a solid balance sheet with over EUR 25m of net cash as of the third quarter, 2018. The good return on capital allows a sustainable dividend yield of over 5%. We believe the stock should be valued using an average over the two-year big event cycle due to the profit impact. We expect an average operating profit after tax of circa EUR 21m over 2018 and 2019. We like the niche, strongly profitable attributes of EVS, but given the current trading weakness, our fair value is prudently set using a 15-times multiple, which leads to an upside of over 35% to the end of 2019.

Top Five Long Holdings as at 31 October 2018

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	6.6
2	Costain	United Kingdom	Industrials	4.0
3	METRO	Germany	Consumer Staples	3.9
4	Sto	Germany	Materials	3.1
5	Renk	Germany	Consumer Discretionary	2.6
				20.2

Exposures as at 31 October 2018

Longs %	Shorts %	Gross Exposure %	Net Exposure %
76.5 (77.3)	40.4 (45.8)	116.9 (123.1)	36.1 (31.5)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Austria	2.2	1.0
Belgium	1.4	0.7
France	5.7	2.2
Germany	31.5	10.6
Hong Kong	1.2	-1.2
Ireland	1.0	1.0
Italy	4.1	2.6
Luxembourg	1.5	1.5
Netherlands	1.9	0.3
Norw ay	5.8	5.8
Sw eden	1.5	-0.3
Sw itzerland	4.7	-4.7
UK	46.1	17.6
US	5.7	-0.5
Other	2.6	-0.5

Market Cap	Gross%	Net%
>£2bn	38.9	11.7
£700m - £2bn	9.1	-4.4
£200m - £700m	49.5	13.4
<£200m	19.4	15.4

Positions	Oct	Sep
Long	79	76
Short	72	76
Longs Opened	4	2
Longs Closed	1	4
Shorts Opened	13	4
Shorts Closed	17	4

Sector	Gross%	Net%
Consumer Discretionary	30.9	14.1
Consumer Staples	6.7	4.4
Energy	0.1	-0.1
Financials	10.3	3.6
Health Care	5.3	1.0
Industrials	20.5	9.4
Information Technology	28.5	-4.9
Materials	4.4	3.5
Real Estate	7.8	3.7
Telecommunication	2.4	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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