Ennismore European Smaller Companies Fund

Investor Newsletter for the month of November 2018

Issued on 6 December 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 393m as at 30th November. Total assets under management by Ennismore Fund Management were GBP 745m. Our smaller companies 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 30 November 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]	**132.59**	**149.41**	**22.40**	**21.52**	**21.60**			
Period			**% Change**				**% Change**	
November 18	**2.3**	**2.2**	**2.3**	**2.2**	**2.3**	**-2.3**	**-2.5**	**-0.9**
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	**3.8**	**3.9**	**3.8**	**3.8**	**3.9**	**-8.4**	**-8.4**	**-5.6**
Annualised return[5]	**14.0**	**12.6**	**10.8**	**10.3**	**10.3**	**9.4**	**8.1**	**3.9**
Since launch[5]	**1250.9**	**960.9**	**124.0**	**115.2**	**116.0**	**495.0**	**365.5**	**112.3**
			Discrete 12 Month Rolling Performance - % Change					
To 30 November 18	6.5	5.7	6.5	5.9	5.9	-5.6	-6.4	-4.6
To 30 November 17	8.9	5.0	8.9	5.7	5.7	25.9	21.3	18.5
To 30 November 16	16.6	-3.7	16.5	-0.2	-0.2	15.7	-4.2	-2.5
To 30 November 15	5.5	19.7	5.5	16.9	16.9	10.6	25.4	6.8
To 30 November 14	9.0	13.8	9.1	13.0	13.0	1.3	5.6	7.9

[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 2.3% in November. Our long and short books contributed 0.2% and 2.9% respectively. The biggest contributors to NAV for the month were our short positions in a German financial services company and a UK semiconductor company, which added 0.6% and 0.5% respectively. Our short position in a UK construction business also contributed positively, adding 0.4%, as the company surprised the market by announcing a rights issue. The biggest detractor was our short position in a Chinese real estate business which cost us 0.4%.

Walker Greenbank – UK interior furnishings designer and manufacturer (0.7% NAV)

Walker Greenbank is a UK listed, GBP 57m market capitalised producer of mainly premium wallpaper and fabric furnishings. The company has a portfolio of internationally recognised brands, targeting different price points and styles. Some brands, such as Sanderson and Morris & Co., date as far back as the 1860s while other brands such as mid-market leader Harlequin and Clarke & Clarke are more contemporary with a lower price point. The business has turnover of around GBP 105m of which 85% is from Walker Greenbank's brands with the rest from contract manufacturing for third party brands. Although sales are biased to UK customers (59% of the total), Walker Greenbank is a global business, selling into Continental Europe (18%), USA (14%) and Rest of the World (9%). The company is the largest wallpaper manufacturer in the UK and this has helped to achieve strong gross and underlying operating margins of 60% and 11% respectively (for the last financial year to January). The business has achieved an average underlying operating margin of around 10% over the last 5 years and organically grown in line with economic growth i.e. around 3% per annum.

The company has had a difficult time recently with product sales down by circa 5% in constant currency for the first half of 2018. This was partly due to lost sales during the transition to a direct sales model in some countries as well as changing their distributor in Sweden. We do however expect these changes to have a positive long-term impact on the business. They also struggled with general consumer weakness in the UK and some market move to online direct-to-consumer channels instead of via Walker Greenbank's traditional sales channel of retailers and designers. Operating profit was down by over 20% in the first half of the year due to the revenue fall and we expect a similar outcome for the financial year to around GBP 10m. The business will be looking to target some efficiency savings going forward to protect profits during this tricky time.

The CEO stepped down after the first half results. The need to modernize their distribution strategy, with perhaps a more user friendly online proposition including enhanced direct-to-customer capabilities, will be one of the priorities for his replacement. Longer term, we do see the online market, due to its broad range of price and styles, as a big opportunity for the company. Licensing is a key focus for Walker Greenbank with a recent hire in this area tasked with further monetising its design portfolio. Given the highly profitable nature of this income stream, progression here could be very valuable. In recent times, they have done well with licensing and we expect this revenue stream to hit close to GBP 5m this year, double that of three years ago, helped by sizeable deals with the likes of retailer H&M.

Walker Greenbank's return on capital is on the low side at around 12% post tax, partly due to its internal manufacturing model but also held back by the GBP 30m enterprise value invested in the 2016 acquisition of branded fabric specialist Clarke & Clarke. The company is likely to continue to invest in areas such as digital printing on fabric which will help future growth but will hold back cash generation, although we believe will still be enough to fund a dividend yield of over 4%. Overall, the balance sheet is pretty solid with average debt including pension deficit of around GBP 14m. Although Walker Greenbank is in a low growth sector, we believe it is well placed longer term to use its portfolio of strong brands to take market share. Valuing the business on 11 times operating profit after tax leaves upside of around 50% over the next two years.

Top Five Long Holdings as at 30 November 2018

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	6.2
2	Costain	United Kingdom	Industrials	3.9
3	METRO	Germany	Consumer Staples	3.7
4	Sto	Germany	Materials	3.0
5	Vossloh	Germany	Industrials	2.6
				19.4

Exposures as at 30 November 2018

Longs %	Shorts %	Gross Exposure %	Net Exposure %
73.3 (76.5)	38.8 (40.4)	112.1 (116.9)	34.5 (36.1)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 30 November 2018

Country	Gross%	Net%
Austria	2.1	1.0
Belgium	1.5	0.8
France	5.4	2.1
Germany	29.4	10.7
Hong Kong	1.5	-1.5
Ireland	0.9	0.7
Italy	4.6	2.8
Luxembourg	1.2	1.2
Netherlands	2.3	-0.1
Norway	5.7	5.7
Sweden	1.5	-0.3
Switzerland	3.8	-3.8
UK	44.7	15.6
US	5.9	-0.1
Other	1.6	-0.3

Market Cap	Gross%	Net%
>£2bn	35.3	7.7
£700m - £2bn	10.6	-3.5
£200m - £700m	46.3	15.5
<£200m	19.9	14.8

Positions	Nov	Oct
Long	81	79
Short	77	72
Longs Opened	3	4
Longs Closed	1	1
Shorts Opened	10	13
Shorts Closed	5	17

Sector	Gross%	Net%
Consumer Discretionary	31.5	11.4
Consumer Staples	6.5	3.7
Energy	0.1	-0.1
Financials	10.1	3.9
Health Care	4.9	1.2
Industrials	18.6	9.7
Information Technology	25.5	-3.2
Materials	4.4	3.2
Real Estate	7.9	3.2
Telecommunication	2.6	1.5
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.

For further information please contact:	Eleanor Scott, Ennismore Fund Management	+44 (0) 20 7368 4219	subs@ennismorefunds.com
For dealing please contact:	Northern Trust International Fund Administration Services (Ireland) Ltd	+353 (0) 1 434 5103	Ennismore_TA_Queries@ntrs.com

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For further information please contact:	Eleanor Scott, Ennismore Fund Management	+44 (0) 20 7368 4219	subs@ennismorefunds.com
For dealing please contact:	Northern Trust International Fund Administration Services (Ireland) Ltd	+353 (0) 1 434 5103	Ennismore_TA_Queries@ntrs.com