Ennismore European Smaller Companies Fund

Investor Newsletter for the month of April 2019

Issued on 8 May 2019

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 409m as at 30th April. Total assets under management by Ennismore Fund Management were GBP 863m. 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 April 2019

	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]	**137.41**	**159.84**	**23.22**	**22.88**	**22.96**			
Period	% Change					% Change		
April 19	**0.7**	**1.0**	**0.7**	**0.9**	**0.9**	**4.3**	**4.3**	**4.1**
March 19	1.5	0.8	1.5	0.9	1.0	1.0	0.7	2.0
February 19	-0.2	1.7	-0.2	1.3	1.3	1.3	3.1	3.6
January 19	1.4	4.3	1.4	3.8	3.7	5.6	8.7	5.6
December 18	0.2	-1.0	0.2	-0.7	-0.7	-5.3	-6.4	-5.3
November 18	2.3	2.2	2.3	2.2	2.3	-2.3	-2.5	-0.9
2019 to date	**3.5**	**8.0**	**3.5**	**7.1**	**7.1**	**12.7**	**17.7**	**16.2**
Annualised return[5]	**13.9**	**12.7**	**10.7**	**10.6**	**10.6**	**9.6**	**8.4**	**4.3**
Since launch[5]	**1300.0**	**1035.0**	**132.2**	**128.8**	**129.6**	**535.2**	**412.9**	**133.5**
	Discrete 12 Month Rolling Performance - % Change							
To 30 April 19	9.9	12.1	9.9	11.4	11.4	-1.8	0.4	3.5
To 30 April 18	4.3	0.1	4.3	1.0	1.1	10.6	5.9	5.5
To 30 April 17	10.7	2.8	10.7	4.4	4.4	29.4	20.2	19.5
To 30 April 16	18.7	10.7	18.7	11.8	11.7	4.3	-2.4	-9.6
To 30 April 15	-1.4	11.1	-1.3	9.0	9.0	4.7	17.7	13.2

[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 0.7% in April. Our long book contributed 4.6% while the Fund's short exposure cost 3.2%. The biggest contributor to NAV for the month was our long position in JD Sports, which added 1.7% following the publication of strong annual results. The biggest detractor was our short position in a German financial services company which cost 0.7%, followed by short positions in a UK healthcare company and in a French media business costing 0.5% each.

Tracsis – UK software and services company (2.5% NAV)

Tracsis is a £190m capitalised, highly profitable, niche technology and service provider with a UK focus. Around 50% of its GBP 40m sales and more than 70% of its GBP 8m operating profit is generated by the Rail Technology and Services (RTS) division. The RTS division sells software and hardware to assist both train operators and the rail owner to work more efficiently and to increase safety across the service. The rest of the business sits in the Traffic and Data Services (TDS) division which provides data capture services within traffic and rail environments such as monitoring rail passenger flows, as well as providing traffic planning at large events. One of the major attractions of the company is that over 60% of the RTS segment is recurring software revenue while a significant part of TDS is non-contractual repeat business.

Tracsis is becoming more weighted towards RTS, which we expect to grow both via acquisitions and strong organic growth. The company has a broad range of products in its mostly recurring GBP 14m of software sales but the largest parts are in the key areas of resource optimisation; for example crew rostering and in asset visualisation. Remote Conditioning Monitoring (RCM) provides GBP 3m of turnover by selling a hardware product with software typically to monitor potential points failure. The company is one of only two suppliers on the framework agreement and typically wins the majority of new orders which gives us confidence in their product. The remaining GBP 2m of sales are in consultancy which provides useful synergies from which to generate cross selling opportunities. Tracsis's products are often crucial to their customers' operations and are typically market leading. Software has been the highest growth area with over 15% organic revenue CAGR in the last five years, compared to 10% in consultancy and roughly flat in RCM. There are some very good opportunities for growth going forward, illustrated by a contract win for a recently created enterprise level rail product which alone we expect could generate a further GBP 2m benefit to recurring software revenue.

The TDS division has also shown good organic growth of circa 10% for the last five years as they have continued to create software products which help customers to quantify, understand and manage their traffic flows in a more efficient manner alongside traditional manual counting. Further automation within this space will be used to try and achieve more than 15% operating margin in future versus the current 10%.

The company, unlike most of our holdings, employs acquisitions as a key part of their growth strategy. The management have done a great job of making high quality bolt on acquisitions at very sensible prices. With each acquisition, management have been very cognisant of cultural fit within their transport focus and we expect this to continue going forward. A good example is the very recent acquisition of Bellvedi, a small timetable optimisation software supplier to the rail industry with operating margins over 40%. With an acquisition cost of GBP4m, on an initial multiple of around seven times net profits, this will add around 7% to profits. The acquisition spend of around GBP 23m over the last 10 years to July 2018 has come alongside operating profits growing tenfold from GBP 0.7m to GBP 7.7m. We think this very high implied return is also instructive with respect to value creation. Overall the business makes a very healthy return on invested capital of circa 20% post tax helped by having negative working capital, which is a further attractive attribute.

The idiosyncrasies of the UK rail franchisee system, such as the rail system itself being owned by one governmental organisation with multiple private and often changing franchisees, along with specific union regulations, means some of the company's software products don't always travel overseas easily. However longer term there are huge opportunities internationally, especially in the USA in RCM where Tracsis currently has one customer. The company has a strong track record of cash conversion which has helped them to make acquisitions, pay a small but growing dividend and still have a strong balance sheet of close to GBP 20m of cash as of January 2019.

Overall, we value the stock by putting the business on 20 times operating profit after tax which we believe is fair given the recurring nature of much of the revenue, the various legs of potential growth, the strong margins and the very good historic cash conversion. We then place their cash at two times its book value to try to conservatively value its acquisition value creation we expect in the future. This gives upside of around 30% by July 2020.

Top Five Long Holdings as at 30 April 2019

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	4.9
2	METRO	Germany	Consumer Staples	4.8
3	Costain	United Kingdom	Industrials	3.6
4	Oslo Bors	Norway	Financials	3.4
5	Sto	Germany	Materials	2.9
				19.6

Exposures as at 30 April 2019

Longs %	Shorts %	Gross Exposure %	Net Exposure %
77.9 (80.5)	48.9 (45.6)	126.8 (126.1)	29.0 (34.9)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 30 April 2019

Country	Gross%	Net%
Austria	2.3	0.5
Belgium	1.1	1.1
France	7.5	2.2
Germany	28.8	8.8
Hong Kong	1.7	-1.7
Ireland	1.6	1.4
Italy	4.8	2.4
Luxembourg	0.9	0.9
Netherlands	2.5	0.4
Norway	7.5	4.6
Sweden	3.2	-0.7
Switzerland	4.1	-4.1
UK	50.5	17.8
US	7.8	-3.0
Other	2.5	-1.6

Market Cap	Gross%	Net%
>£2bn	40.1	4.2
£700m - £2bn	15.4	-6.2
£200m - £700m	49.7	15.3
<£200m	21.6	15.7

Positions	Apr	Mar
Long	80	80
Short	91	86
Longs Opened	1	0
Longs Closed	1	2
Shorts Opened	9	6
Shorts Closed	4	3

Sector	Gross%	Net%
Consumer Discretionary	34.5	5.7
Consumer Staples	7.4	4.8
Energy	0.5	0.4
Financials	12.5	10.0
Health Care	7.4	-1.4
Industrials	18.9	8.4
Information Technology	30.3	-7.6
Materials	3.9	3.6
Real Estate	7.3	2.0
Telecommunication	4.1	3.1
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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