Ennismore European Smaller Companies Fund

Investor Newsletter for the month of August 2019

Issued on 5 September 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 413m as at 30th August. Total assets under management by Ennismore Fund Management were GBP 919m. 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 August 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]	**141.17**	**156.12**	**23.85**	**22.53**	**22.64**			
Period			**% Change**				**% Change**	
August 19	**0.6**	**1.2**	**0.6**	**1.1**	**1.1**	**-2.3**	**-1.5**	**-1.7**
July 19	0.6	-1.0	0.6	-0.7	-0.7	1.1	-0.6	0.7
June 19	-0.7	-1.9	-0.7	-1.8	-1.7	4.8	3.5	4.6
May 19	2.2	-0.6	2.2	-0.1	-0.1	-2.4	-5.1	-4.5
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
2019 to date	**6.3**	**5.5**	**6.3**	**5.5**	**5.6**	**13.8**	**13.2**	**14.9**
Annualised return[5]	**13.8**	**12.4**	**10.6**	**9.9**	**10.0**	**9.4**	**8.1**	**4.1**
Since launch[5]	**1338.4**	**1008.6**	**138.5**	**125.3**	**126.4**	**541.5**	**393.2**	**130.9**
	Discrete 12 Month Rolling Performance - % Change							
To 31 August 19	8.1	7.0	8.1	7.0	7.2	-4.3	-5.2	2.3
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

[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.

Top 5 Contributors and Detractors for August 2019

Contributors	MTD (bp)
UK software company	41
IQE Plc	37
Hong Kong real estate company	35
UK financial company	34
German retailer	31

Detractors	MTD (bp)
JD Sports Fashion Plc	-25
Studio Retail Group Plc	-20
Swiss electronics manufacturer	-16
Renk AG	-15
UP Global Sourcing Holdings Plc	-13

Individual stock attributions relate to GBP A shares and are gross of fees and expenses (including financing/stock borrowing costs).

The Fund's NAV rose by 0.6% in August. Our long book cost 1.9% while the Fund's short exposure contributed 3.0%.

Cerved – Italian Financial Information Provider (0.9% of NAV)

Founded in 1974, Cerved is the leading credit information provider for financial institutions and corporations in Italy today. It is also a leading player in the Italian credit management space servicing non- and sub-performing loans ("NPLS"). Cerved has built a high-quality database that collects and analyses financial statements, historical payments and qualitative data that is used by financial institutions and corporations to assess credit risk of potential customers and suppliers. Having previously invested in the business at the IPO in 2014 we are once again attracted to it. The company has a strong competitive moat that yields superior returns standing in stark contrast to the current valuation. In 2018, Cerved generated revenues of EUR 458m and an operating profit before amortisation of purchase price allocation ("EBITA") of EUR 167m. With a current market capitalisation of just EUR 1,400m and net debt of EUR 547m it trades on an EBITA multiple of below twelve times its enterprise value and eleven times on our estimate for the current year. We consider this to be cheap and we are not the only ones who have been attracted: Advent failed to acquire Cerved earlier this year when the share price surged to EUR 9.60; and Gruppo MutuiOnline, a long-term holding of the Fund, took a 3% stake in the company. Additionally, we are encouraged by the nomination of Andrea Mignanelli as new CEO to develop the business further and improve the corporate governance. Andrea founded and successfully led the credit management division.

Credit information is the core of the business and generates more than 60% of total revenues but 70% of the total profit. The business is almost evenly split between financial institutions and corporations. It has a market share of more than 40% vs. its key competitor CRIF with around 26%. Cerved can rely on its scale advantage as the cost of maintenance of the database is basically fixed and leveraged across a large customer base. This results in offering the best product in the market and enables the company to ask for a premium that in turn results in a superior profitability. It would be difficult to replicate this database, even if costs are matched, given the strong relationship with around 1,500 companies such as utilities. There are high switching costs for clients as Cerved's products are integrated into the IT systems and work-flow processes and essentially mission-critical.

Next to the credit information Cerved services non- and sub-performing loans, a business that has grown strongly over the recent years due to the new regulation and the sheer size of non-performing loans in Italy. Credit management achieved revenues of EUR 149m, up 58%, and generates a quarter of the group's profits. Although the NPL business characteristics are by far not as favourable as the credit information's, the segment has synergies with its database business and is the number two Italian player behind doValue. We appreciate that management takes a very flexible view on this business in order to enhance shareholder value by either partnering, selling or keeping it given the state of maturity in the NPL market.

Cerved has proven the strength of its business model over the last decade. While the Italian economy struggled materially, Cerved continued to grow. That is not to say the company is immune to competition or client losses, but Cerved is managing adverse factors very satisfactorily by further improving its products to become more of a solution vs. a pure data provider, increasing the efficiency and optimizing the cost structure. The recent loss of a 10-year NPL servicing agreement was unlucky as it was only signed a year ago; however, we expect the loss will have a limited impact on next year's financials. We think Cerved's current share price offers a very attractive opportunity to invest in a strong, capital-light business model with high barriers to entry and little cyclical risks at a very reasonable price. We are happy to be holders for the very long-term, but think the current low share price will once again attract strategic and/or financial buyers. At the current valuation the share's free cash flow yield is close to 9% and the company is paying a dividend of more than 4%. We think given the quality of the business it should trade at least on 13 times our estimate of operating profit offering a 30% upside, possibly much more if a buyer emerges once again.

Top Five Long Holdings as at 30 August 2019

	Company	Country	Sector	% of NAV
1	JD Sports	United Kingdom	Consumer Discretionary	4.8
2	METRO	Germany	Consumer Staples	3.6
3	Sto	Germany	Materials	3.2
4	Vossloh	Germany	Industrials	2.9
5	Costain	United Kingdom	Industrials	2.7
				17.2

Exposures as at 30 August 2019

Longs %	Shorts %	Gross Exposure %	Net Exposure %
68.9 (70.5)	45.8 (48.7)	114.7 (119.2)	23.1 (21.8)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Austria	2.5	0.6
Finland	1.2	0.7
France	5.9	2.2
Germany	30.3	6.3
Hong Kong	1.2	-1.2
Ireland	1.6	1.6
Italy	5.1	3.1
Luxembourg	1.3	1.3
Netherlands	2.4	0.5
Norway	3.5	-0.2
Sweden	1.8	-0.5
Switzerland	4.8	-4.8
UK	41.4	16.9
US	7.2	-3.5
Other	4.5	0.1

Market Cap	Gross%	Net%
>£2bn	38.0	5.1
£700m - £2bn	17.9	-7.9
£200m - £700m	38.5	10.0
<£200m	20.3	15.9

Positions	Aug	Jul
Long	75	79
Short	90	90
Longs Opened	2	4
Longs Closed	6	3
Shorts Opened	2	5
Shorts Closed	2	4

Sector	Gross%	Net%
Consumer Discretionary	31.8	9.0
Consumer Staples	6.0	3.7
Energy	0.5	0.4
Financials	7.5	6.6
Health Care	8.2	-0.5
Industrials	18.0	8.8
Information Technology	28.7	-14.7
Materials	5.1	5.0
Real Estate	4.4	1.9
Telecommunication	4.5	2.9
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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The examples of specific investments included herein are not representative of all of the companies purchased, sold or recommended for the Fund. The Fund's portfolio contains a much larger number of positions than the examples set forth herein and, accordingly, the examples are not intended to indicate the overall composition of the Fund's portfolio. It should not be assumed that investments in the companies identified will be profitable, that recommendations made in the future will be profitable or will equal the investment performance of those discussed herein, or are representative of investments that will be made in the future. There is also no guarantee that any of the positions are currently or will remain in the Fund. The information included in this document should not be considered a recommendation to purchase or sell any particular security or other financial instrument. All statements and expressions are the sole opinion of Ennismore and are subject to change without notice.

The list of winners and losers presented herein has been calculated by including those positions that contributed most significantly, either positively or negatively, to the performance of the Fund's portfolio during the period. This is not meant to be indicative of the performance of all positions contained in the portfolio. Past performance is not indicative of future results.

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