Ennismore Global Equity Fund

Investor Newsletter for the month of September 2019

Issued on 9 October 2019

Fund Details

Daily dealing UCITS and Irish Central Bank regulated open-ended investment company with Financial Conduct Authority recognition and registration in Ireland. The Fund size was USD 595m as at 30th September. Total assets under management by Ennismore Fund Management were USD 1,209m. The Fund is currently open. Please contact Eleanor Scott on +44 (0) 20 7368 4219 or email subs@ennismorefunds.com if you would like more information or to make an investment in the Fund. Redemptions can be made through the Administrator in the usual way.

Top Five Long Holdings as at 30 September 2019

	Company	Country	Sector	% of NAV
1	SES SA	Luxembourg	Consumer Discretionary	7.2
2	Rolls-Royce Holdings PLC	United Kingdom	Industrials	6.7
3	Bayer AG	Germany	Health Care	6.2
4	Ryanair Holdings PLC	Ireland	Industrials	5.6
5	Vivendi SA	France	Consumer Discretionary	5.6
				31.3

Exposures as at 30 September 2019

Longs %	Shorts %	Gross Exposure %	Net Exposure %
91.9 (92.6)	48.2 (54.4)	140.1 (147.0)	43.7 (38.2)

Figures in brackets refer to previous month end. All exposures are calculated on a delta adjusted basis.

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

Country	Gross%	Net%
United States	31.5	-4.4
Germany	23.3	10.3
United Kingdom	17.8	11.0
Luxembourg	9.8	9.5
Cayman Islands	7.2	-7.2
Norway	6.9	1.3
France	6.2	5.1
Ireland	5.6	5.6
Netherlands	4.7	4.5
South Africa	4.6	3.8
Finland	4.5	4.5
Other	18.0	-0.3

Market Cap	Gross%	Net%
>$10bn	52.8	25.8
$5bn-$10bn	40.2	19.2
$1bn-$5bn	32.8	5.9
<$1bn	14.3	-7.2

Positions	Sep	Aug
Long	46	44
Opened	5	2
Closed	3	4
Short	96	94
Opened	6	3
Closed	4	2

Sector	Gross%	Net%
Consumer Discretionary	34.8	25.9
Consumer Staples	7.0	5.8
Energy	0.4	-0.4
Financials	7.8	5.6
Health Care	11.6	1.1
Industrials	19.3	10.3
Information Technology	28.9	-21.2
Materials	5.5	3.9
Real Estate	1.9	-1.9
Telecommunication	22.4	15.1
Utilities	0.5	-0.5
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.

Performance as at 30 September 2019

	Share Class					
	GBP	GBP A	EUR	CHF	EUR I	USD I
NAV per share[1]	**14.20**	**14.17**	**14.05**	**13.99**	**11.56**	**11.21**
Period	% Change					
September 19	**1.9**	**1.9**	**3.7**	**3.5**	**1.8**	**1.9**
August 19	1.8	1.8	2.3	1.3	1.7	1.9
July 19	1.0	1.0	-0.3	-1.0	0.8	1.0
2019 to date	**11.5**	**11.5**	**12.8**	**9.5**	**10.2**	**12.1**
Annualised return[2]	**12.4**	**12.4**	**12.0**	**11.9**	**12.3**	**-**
Since launch[2]	**42.0**	**41.7**	**40.5**	**39.9**	**15.6**	**12.1**
	Discrete 12 Month Rolling Performance					
To 30 September 19	**9.7**	**9.6**	**10.2**	**6.4**	**7.9**	**-**
To 30 September 18	**27.3**	**27.4**	**27.0**	**24.5**	**-**	**-**

[1]Source: Administrator, Net Asset Value. [2]Since inception of GBP, GBP A, EUR and CHF share classes on 03/10/16, EUR I share class on 03/07/18, USD I share class on 02/01/19. Note: All performance figures net of fees. **Past performance is not a guide to future returns.**

Attribution %		GBP	EUR	CHF
Long	Q3 19	4.2	5.2	3.4
	Q2 19	7.4	4.0	3.6
	Q1 19	12.7	17.0	16.3
	Q4 18	-10.1	-11.0	-12.0
Short	Q3 19	2.8	2.7	2.8
	Q2 19	-4.0	-3.8	-3.8
	Q1 19	-6.3	-6.6	-6.5
	Q4 18	9.2	9.2	9.2

Attribution figures exclude cash returns and are prior to expenses

Top 5 Contributors and Detractors for September 2019

Contributors	MTD (bp)
United States energy company	90
SES SA	80
Ryanair Holdings PLC	63
Thyssenkrupp AG	54
JD Sports Fashion PLC	49

Detractors	MTD (bp)
Takeaway.com NV	-38
Bayer AG	-36
The Walt Disney Company	-25
Australian financial services company	-20
Japanese manufacturer	-19

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

The Fund's NAV increased between 3.8% and 4.9% in Q3, depending on the share class.

For the quarter, long positions added 4.2% to NAV (in the sterling share class). Satellite operator SES S.A. ("SES") contributed 1.3%. A decision by the US Federal Communications Commission on a proposal that would allow it to sell radio spectrum to telcos now seems imminent – commissioners have said it is coming in the fall (autumn for British English speakers). A favourable decision could be worth billions, a large part of its current market cap. As we detailed in an earlier letter (June 2018), without this we think SES is pretty fairly valued, so the downside risk seems limited. The same is not true for Intelsat S.A. ("Intelsat"), which is its main partner in the satellite consortium looking to sell spectrum. The company is so heavily levered that without a favourable decision we can't see much equity value at all; but, by the same token, the upside if the spectrum sale is allowed is much greater. We've taken a position in Intelsat call options that allows us to benefit from this potential while limiting our risk; the premium paid was around half a per cent of NAV.

JD Sports PLC delivered excellent operating results (yes, again), contributing 0.6% to returns. Twitter, Inc. contributed 0.5%. The company also reported good growth, particularly in user numbers. We have now sold out of this position which we think is close to fairly valued. We also sold our position in MTU Aero Engines AG ("MTU"). We have held this since launch and it has been one of the largest positive contributors to returns. Although MTU may well still deliver attractive returns from here, we think the investment case for another engine manufacturer – Rolls-Royce Holdings PLC ("Rolls") – is now more compelling. We expect Rolls' free cashflow will improve dramatically in the coming years as losses per new engine reduce (there is normally a learning curve to building newer models efficiently at scale), regular contracted payments for engines in service increase (based on the existing order book, its installed base of wide-body engines will go from 4,757 at the end of last year to around 6,500 by 2025), fixed costs are taken out of the business (it is

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coming to the end of a period of intensive investment in new engine development) and US dollar currency hedges roll off (without these cashflow today would be about USD 900m higher).

Shorts contributed 2.8% to returns in Q3. Bio-On S.p.A., an Italian plastics manufacturer (of sorts), which we covered in our March 2019 letter, contributed 0.9%. The company's share price imploded after questions were raised publicly about its related-party accounting. We doubt it will survive as a going concern. Upland Software, Inc. (which we also wrote about in our March letter) contributed 0.5%. Against that, a company that supplies products to the US energy sector cost the Fund 0.6% of NAV. To us it looks like one of the most outrageous cases of aggressive revenue accounting we have ever seen. We will probably write on it in our next letter.

Three Year Review

A year after the Fund launched we took stock of performance in one of our quarterly letters. Twelve months wasn't – and isn't – a time frame we consider particularly significant. For example, we would love to know why much the same portfolio performed extremely well in 2018 when it had returned almost nothing in 2017, but we doubt there is a good answer. To be honest, reviewing our returns after a year reflected the vulnerability of a fund that was only recently launched and had yet to deliver. After three years, we are in a better position to see how the Fund has performed compared to what we said before launch (we don't plan to do annual reviews in future, for the reason given above).

Starting with the bottom line, the Fund has made an annualised net return of around 12%. Its objective is to deliver positive absolute performance. Implicitly – because we have said we are not in business to deliver single digit returns – we think double digits is what we should be aiming to make, net and long term. We also wouldn't have launched the Fund if we didn't think our investment approach could deliver, as it had done for many years for our European Smaller Companies funds, with a more liquid portfolio. Those funds have made similar annualised returns since inception back in 1999. With near zero risk free rates in most of the markets we invest in today, we are not unhappy with this Fund's performance. We are not satisfied either. We will continue to invest in our investment team and resources, and we'll share some of what we are doing in that respect in future letters.

The Fund's name is not small on ambition. That was deliberate. We want to look for investment opportunities everywhere. But we haven't put your money into exotic markets or complicated instruments. We stick closely to what has worked for us since Ennismore started, back in the last century. We aim to invest in high quality companies in developed markets when they seem under-valued, and to short the bottom of the barrel. The Fund has generated about half its returns from Europe so far, and more than a third from the Americas. The balance has come from Asia. The one large developed market where we have very rarely found attractive investments (which is not to say they aren't there to be had) is Japan. We would like to change this but it will take time to build our ability to invest well there.

The Fund holds, on average, more liquid equities than Ennismore's European Smaller Companies funds, with some overlap. This does not mean it is a large cap fund. Not even close. The vast majority of returns (about three quarters) have come from companies that had a market value of less than USD 5.5bn when we invested in them. We are happy to own larger businesses where we think our research gives us an edge, but we are still much more likely to find this in smaller companies where less people are looking closely. Globally the universe of developed market equities that are liquid enough for this Fund to invest in is plenty big enough. Lack of opportunity is not likely to be an excuse you hear from us.

Returns are important but so is how you make them. Risk matters and we don't ever want to have to swallow heavy losses. We can't see how volatility is a good measure of risk but, for what it's worth, the Fund's largest drawdown so far was 8.8% (between the middle of January and April 2017). A less sophisticated but probably better yardstick is simply net exposure. This has averaged only 40% since launch. The Fund has also delivered without leveraging the long book so far.

The most significant risk we take is always stock specific. That is, have we got our research right? But diversification still matters because we make mistakes. Using a UCITS investment vehicle sometimes forces our hand here. No position can be more than 10% of NAV and those over 5% can't, in aggregate, be over 40%. We have bumped up against these limits from time to time over the last three years, but would not want to run a significantly more concentrated book anyway. If anything we expect the Fund will be a little more diversified in future.

One type of risk we do take, even though our research doesn't help us to manage it, is currency. We've explained in the past (in our September 2017 letter) why we don't think hedging the underlying foreign exchange exposure in the Fund makes sense. It is too expensive and we are only really taking developed market currency risk. Our experience with the

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European Smaller Companies funds is that the diversified exposure we have has led to similar returns over the long term, whichever share class you are invested in. So far the same is true for this Fund.

The metric that has been a little different to what we expected is turnover (that is, the value of long sales as a percentage of NAV). On that basis average holding period on the long side has been around two years, lower than historically (at around three years in Ennismore's other funds). We expect the average holding period will be higher in future but it is an output. No matter how focussed we are on absolute returns, at the margin each investment decision is always relative – like our decision to sell MTU and buy Rolls in the third quarter (explained earlier in this letter). What matters is that when we make a trade like this it adds value. It helps to know that annualised returns if we hadn't touched the book since late 2016 would still have been good, but a few percentage points lower.

We have sometimes been asked why we don't use a less liquid structure than a UCITS fund. On the one hand, anything less than a long term lock-up would not really help. We have had a monthly dealing offshore fund for our European Smaller Companies strategy since 1999, as well as a UCITS. The hedge fund saw higher redemptions in the financial crisis. Monthly dealing just bunched them together on the same day. On the other, a really long lock up – let's say three years – makes a particular point in time (or likely a few different points with different investors) definitive. At that point you as an investor have to make decision. But we have already told you (in our December 2017 letter) that we have almost no view on timing our investments and that there will be periods – sometimes long periods – when our strategy underperforms. You are free to take your money back whenever you want, you don't have to make a decision at an artificial point in time.

A more important reason for not using a vehicle with a long-term lock up is that it gives an illusion of permanency that might lead to bad decision making. In our UCITS structure investments shouldn't be affected by fund flows, because positions are liquid enough to be adjusted pro rata. So, perversely, liquidity allows us to be long term holders. A long-term lock-up defers a liquidity event but as the expiry approaches the issue returns. Investments have to be made with assumptions on likely time horizon, and that is just not something we think we can do most of the time.

Nothing is likely to shake our belief that limiting assets under management is a key part of how we deliver excess returns. In practice, though, our capacity is ultimately limited by our decision to offer you liquidity. We originally planned to raise around USD 100m for this Fund in Q2 16. We actually took in a little more, a little later. A year ago we reopened to existing investors and then to new ones, but also confirmed that this wouldn't be at the expense of maintaining liquidity within the Fund's ten day settlement terms (to be safe, in our internal calculations we assume it trades only a fifth of reported daily volume). The Fund today has net assets of about USD 600m. We have not been actively marketing but it remains open, for now. We will close it by the end of this year.

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