Ennismore European Smaller Companies Fund

Investor Newsletter for the month of December 2019

Issued on 7 January 2020

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 31st December. Total assets under management by Ennismore Fund Management were GBP 1,011m. 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 31 December 2019

	Share Class [2]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share [1]	**142.04**	**167.63**	**24.00**	**23.91**	**24.02**
Period	% Change				
December 19	**1.2**	**1.8**	**1.2**	**1.7**	**1.7**
November 19	-1.4	-0.3	-1.4	-0.5	-0.5
October 19	0.2	2.8	0.2	2.4	2.4
September 19	0.6	2.9	0.6	2.4	2.4
August 19	0.6	1.2	0.6	1.1	1.1
July 19	0.6	-1.0	0.6	-0.7	-0.7
June 19	-0.7	-1.9	-0.7	-1.8	-1.7
May 19	2.2	-0.6	2.2	-0.1	-0.1
April 19	0.7	1.0	0.7	0.9	0.9
March 19	1.5	0.8	1.5	0.9	1.0
February 19	-0.2	1.7	-0.2	1.3	1.3
January 19	1.4	4.3	1.4	3.8	3.7
2019	**6.9**	**13.3**	**7.0**	**11.9**	**12.0**
Annualised return [3]	**13.6**	**12.6**	**10.3**	**10.3**	**10.3**
Since launch [3]	**1347.2**	**1090.3**	**140.0**	**139.1**	**140.2**
	Discrete 12 Month Rolling Performance - % Change				
To 31 December 19	6.9	13.3	7.0	11.9	12.0
To 31 December 18	4.0	2.9	4.0	3.0	3.1
To 31 December 17	9.6	5.4	9.5	6.1	6.1
To 31 December 16	14.5	-1.2	14.5	1.8	1.7
To 31 December 15	9.7	15.5	9.7	14.3	14.2

[1]Source: Administrator, Net Asset Value. [2]Source: Administrator, Net Asset Value, net income reinvested. [3]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 December 2019

Contributors	**MTD (bp)**
UK healthcare company	63
German financial services company	35
Studio Retail Group Plc	30
Just Group Plc	29
U and I Group Plc	26

Detractors	**MTD (bp)**
Costain Group Plc	-64
US auto company	-47
UK consumer services company	-37
US energy company	-26
Hong Kong real estate company	-21

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 1.2% in December. Our long book contributed 2.7% while the Fund's short exposure cost 0.9%.

Metro Bank Plc – UK financial company (1.0% NAV)

Metro Bank is a GBP350m market capitalised high street challenger bank to the UK bank incumbents, which is trading on a more than 75% discount to its GBP 1.5bn of tangible equity. The company had a very challenging 2019, culminating in both the CEO and founder/chairman leaving the business. What we see as a flawed, overly aggressive growth plan allied with a very high valuation led us to be extremely negative about the stock for a while. However, we decided to take a position in the stock as its price is down 95% from its peak of £40.40 and we expect a much more cautious plan by the interim CEO Daniel Frumkin which should put the bank on a much stronger footing going forward.

Metro Bank was founded in 2010 and now has 75 branches. Its aim, to differentiate itself via better customer service such as longer, more customer friendly opening times, has been rewarded with a high customer service reputation. The branches also offer additional services compared to the main high street lenders like safety deposit boxes for its customers.

The business now has a loan book of almost GBP 15bn which has grown by circa 13% over the 12 months to September 2019, with more than 70% in residential mortgages and the rest lent into the commercial sector. This manifests as a low-risk loan book with only around GBP 200m of over 90% loan to value mortgages and the provisioning of around six basis points so far this year seems to affirm that. If anything, a broader, higher-interest loan book could leverage the branch network and be more profitable in the long term.

2019 was not helped by worries about the capital strength of the bank leading to equity and debt issuance to reassure the markets. This was partly due to the regulator determining the need to recategorize part of the loan book which increased the bank's capital requirements against these loans. This uncertainty and distraction should now be behind the company allowing management to focus on operational excellence.

The company is likely to make a small loss in 2019, due to one-off costs; going forward we believe Mr. Frumkin needs to cut the cost base. This has already begun with GBP 19m of run-rate savings expected by the end of 2019 versus a GBP 400m base, but we think much more could be done longer term with a cost-focussed management. To get the business onto a structurally profitable basis we wouldn't be surprised if there were to be branch closures. Once there is a clearer path to good long-term profitability then the company will be in a stronger position to leverage the branch network further by growing the size of the loan book.

Mr. Frumkin was brought in as a Chief Technical Officer and has a strong banking employment history with broad operational experience which we think is crucial to turning around Metro Bank. Our contact with him reinforced our impression of his capabilities.

In some ways Metro Bank is different to our typical holdings as there is uncertainty on its long-term profitability, and indeed 2020 could have a deteriorating profit situation due to the impact of debt issuance this year, however we consider this as a deep value situation. At this valuation we do believe that there is margin of safety and significant upside when viewing the stock as a candidate for running off the loan book to a large financial institution with existing administration staff servicing a UK loan book. If the acquiror were to close all the branches and make further significant labour savings due to cost synergies, then on our calculations the run off would lead to a more than doubling of their investment at the current share price. On this basis we see upside of over 50% over the next two years.

Top Five Long Holdings as at 31 December 2019

	Company	Country	Sector	% of NAV
1	Sto	Germany	Materials	3.7
2	Vossloh	Germany	Industrials	3.0
3	Costain	United Kingdom	Industrials	2.9
4	Tracsis	United Kingdom	Information Technology	2.7
5	Cello Health	United Kingdom	Consumer Discretionary	2.7
				15.0

Exposures as at 31 December 2019

Longs %	Shorts %	Gross Exposure %	Net Exposure %
71.6 (74.8)	58.9 (57.6)	130.5 (132.4)	12.7 (17.2)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 31 December 2019

Country	Gross%	Net%
Austria	2.0	1.1
Finland	1.4	0.4
France	5.9	1.8
Germany	29.9	3.2
Hong Kong	1.5	-1.5
Ireland	3.4	3.4
Italy	5.5	3.6
Luxembourg	1.1	1.0
Netherlands	2.3	0.2
Norway	2.0	0.1
Sweden	2.5	-0.3
Switzerland	6.0	-6.0
UK	49.0	12.7
US	14.2	-6.1
Other	3.8	-0.9

Market Cap	Gross%	Net%
>£2bn	45.2	-3.5
£700m - £2bn	20.6	-8.1
£200m - £700m	47.0	11.6
<£200m	17.7	12.7

Positions	Dec	Nov
Long	75	78
Short	98	98
Longs Opened	0	3
Longs Closed	3	5
Shorts Opened	2	4
Shorts Closed	2	2

Sector	Gross%	Net%
Consumer Discretionary	38.7	1.0
Consumer Staples	4.9	0.5
Energy	0.4	0.4
Financials	10.6	10.3
Health Care	7.6	0.3
Industrials	21.4	6.6
Information Technology	33.2	-15.6
Materials	5.5	5.4
Real Estate	4.7	1.7
Telecommunication	3.5	2.1
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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