Ennismore European Smaller Companies Fund

Investor Newsletter for the month of January 2020

Issued on 7 February 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 401m as at 31st January. Total assets under management by Ennismore Fund Management were GBP 974m. 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 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.

Performance as at 31 January 2020

	Share Class[2]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share[1]	**138.64**	**164.91**	**23.42**	**23.52**	**23.63**
Period	**% Change**				
January 20	**-2.4**	**-1.6**	**-2.4**	**-1.6**	**-1.6**
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
2020 to date	**-2.4**	**-1.6**	**-2.4**	**-1.6**	**-1.6**
Annualised return[3]	**13.4**	**12.4**	**9.9**	**10.0**	**10.0**
Since launch[3]	**1312.6**	**1071.0**	**134.2**	**135.2**	**136.3**
	Discrete 12 Month Rolling Performance - % Change				
To 31 January 20	2.9	6.8	2.9	6.1	6.3
To 31 January 19	7.6	8.1	7.7	7.7	7.7
To 31 January 18	6.1	4.1	6.1	4.7	4.7
To 31 January 17	13.4	0.7	13.4	3.2	3.1
To 31 January 16	12.9	11.2	12.8	11.1	11.1

[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 January 2020

Contributors	MTD (bp)
Costain Group Plc	67
RIB Software SE	43
UK healthcare company	41
UK consumer services company	28
Tracsis Plc	23

Detractors	MTD (bp)
US automotive manufacturer	-123
UK software company	-118
US food manufacturer	-86
German financial services company	-80
Austrian technology company	-29

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

The Fund's NAV fell by 2.4% in January. Our long book was flat while the Fund's short exposure cost 1.9%. Our short positions in a US car manufacturer cost 1.2% of NAV and a short in a UK software company impacted NAV negatively by 1.2%. The latter's share price rallied after what the market interpreted as good results, but we remain sceptical of the sustainability of the business model and doubt management's expectations on future cash generation.

Neurones – French IT services company (0.5% NAV)

Neurones is a EUR525m market capitalised French IT services company that provides infrastructure (69% of 2018 revenue), applications (26%) as well as consulting (5%) services to business customers. We have followed the company since the early 2000s and consider it a well-run, owner-managed business with an impressive long-term track record of growth and profitability in a structural growth market that has started to consolidate. We believe that the current market valuation of 11x enterprise value to operating profit after tax fails to reflect both the fundamental attractiveness and the capped downside due to a cash-loaded balance sheet.

Neurones employs circa 5,400 professionals that represent 90% of the total costs. Due to the industry-inherent staff turnover subcontractors support the operations and selling prices are adapted to keep the gross margin constant. Client contracts are either design/build with a fixed-price or hosting/managed services with a 3-5 years duration. The attractiveness of the business model lies in the recurring nature of circa 70% of revenue that originates from infrastructure managed-services, third-party application maintenance, and technical support across a diversified customer base. While

Neurones is not yet among the top 5 IT services and consulting players revenue-wise that operate in France – sales were EUR510m in 2019 - it has managed to gain market share. Customers tend to work with several suppliers at the same time so that there has been enough business for challengers including Neurones.

We think an important factor that differentiates Neurones from many of its competitors is its internal structure, which contributed to the company's resilience in the last severe economic slowdown. The group is organised into fourteen companies that are dedicated to a specific field and managed in an entrepreneurial manner. In some instances, the individual companies are still led by their founder/s who own a stake in the business that they lead. We believe this puts the right incentives in place and makes sure that the divisional management is focused on its operations.

In our view, another positive is that the firm is still led by its founder and CEO Mr. Luc de Chammard who owns 66% of the company. He founded the firm as an industry outsider in 1985 and under his leadership organic revenue has grown at an average rate of circa 10% per annum between 2002 and 2019. In fact, the company has not seen a decline in revenue in the past 16 years including the financial crisis in 2008/09. Between 2007 and 2018 the operating profit margin was consistently between circa 9-10% combined with a strong average unlevered free cash flow generation before acquisitions of 5% of sales. At the same time, Neurones has returned an average post-tax 17% on its invested capital including intangible assets due to the limited investment needs for the business.

Given the remarkable track record and incentivised management Neurones should trade on 15 times enterprise value to operating profits after tax, which implies an upside of circa 30% to the current share price in the next 12 months. We believe that the downside is protected with 42% of the market capitalisation being net cash excluding lease liabilities. So far, Neurones has only paid a circa 1% dividend yield and been very disciplined regarding acquisitions so there is ample room to return cash to shareholders. Additionally, the fragmented French IT services and consulting market - no participant has a market share above 10% - has started its consolidation. Capgemini is in the process of acquiring Altran and we could see Neurones being an attractive M&A target.

Top Five Long Holdings as at 31 January 2020

	Company	Country	Sector	% of NAV
1	Costain	United Kingdom	Industrials	3.7
2	Sto	Germany	Materials	3.4
3	Vossloh	Germany	Industrials	3.2
4	Tracsis	United Kingdom	Information Technology	3.0
5	Cegedim	France	Health Care	2.7
				16.0

Exposures as at 31 January 2020

Longs %	Shorts %	Gross Exposure %	Net Exposure %
69.6 (71.6)	55.3 (58.9)	124.9 (130.5)	14.3 (12.7)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 31 January 2020

Country	Gross%	Net%
Austria	4.3	-1.3
Belgium	1.0	1.0
Finland	1.4	0.4
France	6.5	2.4
Germany	27.7	5.2
Ireland	2.8	2.8
Italy	5.4	3.8
Japan	0.9	-0.2
Netherlands	2.1	0.2
Norway	1.9	0.2
Sweden	2.3	-0.2
Switzerland	4.2	-4.2
UK	48.3	10.4
US	13.4	-5.1
Other	2.7	-1.1

Market Cap	Gross%	Net%
>£2bn	39.1	-5.7
£700m - £2bn	22.7	-9.1
£200m - £700m	48.3	19.7
<£200m	14.8	9.4

Positions	Jan	Dec
Long	75	75
Short	93	98
Longs Opened	3	0
Longs Closed	3	3
Shorts Opened	2	2
Shorts Closed	7	2

Sector	Gross%	Net%
Communication Services	12.1	6.9
Consumer Discretionary	25.9	-1.8
Consumer Staples	6.3	0.3
Energy	0.4	0.4
Financials	9.6	9.3
Health Care	6.3	1.9
Industrials	23.8	5.2
Information Technology	31.8	-16.4
Materials	5.2	5.2
Real Estate	3.5	3.3
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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