Ennismore European Smaller Companies Fund

Investor Newsletter for the month of February 2020

Issued on 5 March 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 388m as at 28th February. Total assets under management by Ennismore Fund Management were GBP 930m. Our 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.

Performance as at 28 February 2020

	Share Class[2]				
	GBP A £	GBP A €	GBP B	EUR A	EUR B
NAV per Share[1]	**134.70**	**156.63**	**22.76**	**22.34**	**22.44**
Period	**% Change**				
February 20	**-2.8**	**-5.0**	**-2.8**	**-5.0**	**-5.0**
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
2020 to date	**-5.2**	**-6.6**	**-5.2**	**-6.6**	**-6.6**
Annualised return[3]	**13.2**	**12.1**	**9.4**	**9.3**	**9.3**
Since launch[3]	**1272.4**	**1012.2**	**127.6**	**123.4**	**124.4**
	Discrete 12 Month Rolling Performance - % Change				
To 29 February 20	0.2	-0.2	0.2	-0.5	-0.4
To 28 February 19	8.3	11.9	8.2	11.1	11.1
To 28 February 18	5.5	1.8	5.5	2.5	2.5
To 28 February 17	10.1	0.5	10.1	2.3	2.3
To 29 February 16	19.7	11.5	19.7	12.1	12.1

[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.

The Fund's NAV fell by 2.8% in February. Our long book cost 5.3% while the Fund's short exposure contributed 2.4%. Our short position in RIB Software cost 1.2% of NAV as the company received a tender offer from Schneider Electric.

Top 5 Contributors and Detractors for February 2020

Contributors	MTD (bp)
UK software company	61
US food manufacturer	54
German financial services company	51
Austrian technology company	43
UK healthcare company	38

Detractors	MTD (bp)
RIB Software SE	-124
US energy company	-58
Costain Group Plc	-57
US energy company	-55
Secure Trust Bank Plc	-42

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

KSB – German manufacturer of pumps and valves (0.7% NAV)

KSB is a leading producer of pumps and valves with strong positions in the energy, industrial and water sectors. We wrote about the investment three years ago and think it is a good time to give an update as the company has just released promising preliminary results for 2019 by reaching the top end of its guidance. We estimate that KSB trades at an enterprise value of just eight times its operating profit, based on the preliminary results, although the operating profit is still burdened by one-off costs. Unfortunately, KSB disappointed strongly in 2018 which brought down the share price by 46% in that year and it is 23% below our initial entry level, which we had deemed an excellent opportunity. We still believe this is the case and think that KSB is a hidden gem trading at 20% discount to its tangible book value of EUR 598m and a material discount to its peers. Although we were too optimistic in 2017, we believe that KSB will make up the valuation gap.

2017 – the year we made our investment - turned out as we expected: Revenues increased by 2% to EUR 2,205m and operating profit was up 33% to EUR 117.2m, adjusted for a one time cost of EUR 50m stated in the annual report, and met our expectations of more than EUR 150m. We decreased our position significantly during the year as our short-term target price was reached. However, 2017 was also the year in which KSB introduced a new management team. KSB disappointed the following year and, although revenues increased again by 2% to EUR 2,246m, the operating profit was burdened by a clean-up of several items including impairments and one large bad project. The operating profit adjusted

for these items fell by around 15%. The new management team have revised market expectations in relation to the recurrence of some of the larger costs previously identified as "one-off costs", however we think this has been digested by now and focus is on reported operating profit. Looking ahead, KSB has started to implement its Climb21 strategy which targets increases in the share of service and spare part business - only 25% of the installed base is currently maintained by KSB - as well as separation of the project and standard businesses from each other to work more efficiently and better address the client needs. KSB wants to focus on selected market segments where it is strongly positioned and can differentiate itself, and we would not rule out divestments of underperforming assets. A small step has been done with the divestment of a French service company for compressed air systems this year. The new strategy will also rely on further optimisation and ongoing cost cutting, but with its realignment KSB is aiming for sustainable profitable growth. We think there is a good chance that KSB will succeed and we welcome the improved communication - KSB started to give quantitative guidance rather than qualitative – as well as more proactive investor relations activity.
2019 revenues increased by 6% to EUR 2,383m and a healthy order intake of EUR 2,454m provides for a good start in 2020. Reported operating profit should be close to EUR 110m. Should the preliminary results be confirmed, we expect the dividend to be increased to yield at least 2%. One highlight of last year was the certification of its reactor coolant pumps for the latest generation of nuclear power plants in China. KSB has received its first order to supply pumps to a nuclear power station, which will be manufactured in conjunction with its joint venture with Shanghai Electric bringing projected revenues of EUR 100m to 150m annually as well as a recurring maintenance. KSB has been hit strongly by the implications of the "Energiewende" – Germany's exit from nuclear power, but is slowly recovering from that with strong positions in China and India. Water and waste water treatment are strong long term trends and we see some new applications arising in its industry segment. For the current year we expect revenues to grow around 2% and profit to further increase. With a current market cap of EUR 490m and our estimate of a net cash position of EUR200m and pension liabilities of EUR590m, we think the valuation is far too cheap for a high-quality business. With first signs of improvements, we think it should trade at an enterprise value of ten times our estimate of 2020 operating profit of EUR 120m giving an upside of more than 60% over the next 18 months.

Top Five Long Holdings as at 28 February 2020

	Company	Country	Sector	% of NAV
1	Costain	United Kingdom	Industrials	3.2
2	Sto	Germany	Materials	3.2
3	Tracsis	United Kingdom	Information Technology	3.2
4	Vossloh	Germany	Industrials	3.1
5	CPL Resources	Ireland	Industrials	2.9
				15.6

Exposures as at 28 February 2020

Longs %	Shorts %	Gross Exposure %	Net Exposure %
69.2 (69.6)	49.0 (55.3)	118.2 (124.9)	20.2 (14.3)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 28 February 2020

Country	Gross%	Net%
Austria	4.0	-0.9
Belgium	1.0	1.0
Finland	1.4	0.4
France	5.8	2.9
Germany	25.6	5.9
Ireland	5.5	5.5
Italy	5.4	3.9
Japan	0.9	-0.2
Netherlands	1.9	0.6
Norway	1.7	0.2
Sweden	1.4	0.7
Switzerland	3.8	-3.8
UK	45.7	10.4
US	11.4	-5.2
Other	2.7	-1.2

Market Cap	Gross%	Net%
>£2bn	32.9	-3.2
£700m - £2bn	21.7	-10.3
£200m - £700m	41.0	17.3
<£200m	22.6	16.4

Positions	Feb	Jan
Long	75	75
Short	87	93
Longs Opened	4	3
Longs Closed	4	3
Shorts Opened	3	2
Shorts Closed	9	7

Sector	Gross%	Net%
Communication Services	10.4	5.8
Consumer Discretionary	23.2	0.0
Consumer Staples	5.5	0.4
Energy	0.4	0.4
Financials	9.1	8.5
Health Care	6.1	1.6
Industrials	25.2	8.9
Information Technology	29.4	-13.2
Materials	4.9	4.9
Real Estate	4.0	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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