Ennismore European Smaller Companies Fund

Investor Newsletter for the month of March 2020

Issued on 7 April 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 358m as at 31st March. Total assets under management by Ennismore Fund Management were GBP 800m. 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 31 March 2020

	Share Class[2]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share[1]	**127.07**	**143.59**	**21.47**	**20.48**	**20.57**
Period	**% Change**				
March 20	**-5.7**	**-8.3**	**-5.7**	**-8.3**	**-8.3**
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
2020 to date	**-10.5**	**-14.3**	**-10.5**	**-14.3**	**-14.4**
Annualised return[3]	**12.9**	**11.6**	**8.7**	**8.1**	**8.2**
Since launch[3]	**1194.7**	**919.6**	**114.7**	**104.8**	**105.7**
	Discrete 12 Month Rolling Performance - % Change				
To 31 March 20	-6.9	-9.3	-6.9	-9.7	-9.6
To 31 March 19	9.8	11.8	9.9	11.1	11.1
To 31 March 18	4.6	2.1	4.6	2.8	2.8
To 31 March 17	10.0	2.0	10.0	3.5	3.5
To 31 March 16	20.8	10.2	20.8	11.3	11.3

[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 5.7% in March. Our long book cost 16.9% while the Fund's short exposure contributed 11.3%. Our long position in Costain cost 2.5% of NAV as the company announced a capital raising of up to GBP 100m to strengthen the balance sheet for future contract opportunities such as the High Speed 2 rail extension. Clearly the timing of this raise could hardly have been any worse, not helped with uncertainty on its pricing. However at the current share price we are highly likely to back the placing. NMC contributed 1.5% to NAV after we covered our short position for nominal value in the grey market post the announcement that an investigation into potential financial irregularities in the firm uncovered that NMC Health actually had total debts outstanding of USD 6.6bn, an increase of over USD 4bn versus their last stated accounts, rendering equity very likely to be worthless.

Top 5 Contributors and Detractors for March 2020

Contributors	MTD (bp)
NMC Health Plc	148
UK consumer services company	87
US energy company	86
UK software company	65
IQE Plc	59

Detractors	MTD (bp)
Costain Group Plc	-254
Dalata Hotel Group Plc	-115
U and I Group Plc	-95
Tracsis Plc	-80
CPL Resources Plc	-65

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

Clearly the elephant in the room is the impact from the awful Covid-19 virus pandemic. With regards to day-to-day operations, we have invoked business continuity procedures, including remote working for nearly all of our staff for their safety and that of their families, to enable our business to operate with minimal impact.

In terms of the impact on our investment portfolio there has been extreme volatility in share prices. We have tried to add to existing, and enter new, positions where Margin of Safety situations have arisen, although often very little volume has been available. As always we will be focussing on bottom-up stock selection, although clearly we have to consider the longer-term risks from the economic dislocation the virus has created. There are likely to be many capital raises in our universe as companies seek to strengthen their balance sheets due to this damage as well as perhaps a changing view from banks and the stock market on how much debt, and minimum levels of cash, companies should have in a world where it might be hard to claim this as a black swan event. Our cash balance of over 30% of the fund should prove helpful in this respect.

Intertrust – Dutch corporate services provider (1.3% NAV)

Intertrust is an Amsterdam-listed company that provides trust and corporate services (TCS) to Corporates (36% of 2019 revenues), Funds (39%), Capital Markets (12%), Private Wealth and others (13%). We initially wrote on Intertrust in January 2018 and have followed the company since IPO. What we liked back then, and we very much still like today, are its strong market position protected by high barriers to entry, its high share of recurring revenues (circa 80%), and its sticky customer base characterised by low attrition and price insensitivity, and finally, the strong cash conversion. Compliance/maintenance services are essential to customers and driven by regulation across jurisdictions. Intertrust has a good visibility on the upcoming revenue as the average lifetime of a customer's entity is c.8 years. In the past two years, the company has made significant operational progress, and completed a sizeable strategic acquisition in the US. Despite this, the unadjusted share price is now about 20% below what it was back then. We remain convinced that the resilience of the TCS market to economic downturns and the recurring nature of Intertrust's revenues are valuable defensive assets in the current environment, and we think the current share price represents a convincing investment opportunity.

Over the past four years Intertrust has reported a stable, low-to-mid single digit average annual growth in underlying revenue and adjusted operating profit before amortization and in 2019 the company had underlying revenue growth of 3.7% to EUR 545m and an adjusted operating profit before amortization of EUR 197m equivalent to a margin of 36.1%, both of which were in line with our expectations. In June 2019 Intertrust announced the acquisition of Viteos, a US tech-enabled middle and back office administration provider for hedge funds, private equity, real estate, private debt and other alternative asset managers. We believe the acquisition makes a lot of sense from a strategic standpoint, as it significantly strengthens Intertrust's exposure to the faster growing US market and funds segment, while bringing in Viteos' digitalisation and automation technology. Intertrust identified USD 22m in net annual cost synergies, 90% of which will be delivered in 2021, mainly through offshoring and efficiencies which translates into a significant increase in the operating profit before amortization margin of c.350bps. After speaking with management, we believe these synergies are highly likely to be fully realised.

The company has issued a COVID-19 update on March 23 highlighting how revenues and cash have seen no material impact to date, and Intertrust's offices have only recorded minimal disruption, with employees working remotely.

The recent share price decline of circa 30% year-to-date has left Intertrust trading on an enterprise value to 2021 operating profits after tax multiple of only 12x, which we think significantly undervalues the business. After a couple of years characterised by higher costs mainly due to the implementation of the IT roadmap, we clearly see a margin inflection point in 2021 and expect the company to start moving towards their medium-term target of around 40% adjusted operating profit before amortization margin. After the Viteos transaction, the company has a net debt pre-IFRS16 of around EUR 900m, equivalent to a pro-forma net debt to operating profit before depreciation and amortization ratio of around 4x. Despite this figure being higher than we would like, it does not make us uncomfortable given the resilient and recurring nature of revenues and the stable and strong free cash flow generation that we estimate at around EUR 280m for 2020 and 2021 combined, which should allow Intertrust to reach a debt level of around 3x by the end of 2021, well below the current bank covenant at 4.5x. Also, the vast majority of the outstanding debt has bullet repayments with no maturity before 2022.

We believe that a defensive, stable, high cash generative business like Intertrust deserves to trade on at least 16x enterprise value to operating profits after tax, which would imply an upside to the share price of around 90% at the end of 2021.

Top Five Long Holdings as at 31 March 2020

	Company	Country	Sector	% of NAV
1	Dalata Hotel Group	Ireland	Consumer Discretionary	3.7
2	Sto	Germany	Materials	3.3
3	Vossloh	Germany	Industrials	3.0
4	Renk	Germany	Consumer Discretionary	3.0
5	Tracsis	United Kingdom	Information Technology	2.6
				15.6

Exposures as at 31 March 2020

Longs %	Shorts %	Gross Exposure %	Net Exposure %
71.6 (69.2)	49.0 (49.0)	120.6 (118.2)	22.6 (20.2)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Austria	4.5	0.0
Belgium	1.1	1.1
Finland	1.3	0.5
France	6.8	5.0
Germany	26.7	6.7
Ireland	7.4	7.4
Italy	5.2	4.0
Japan	1.0	-0.3
Netherlands	1.6	1.6
Norway	1.3	0.2
Sweden	1.3	0.7
Switzerland	6.4	-6.4
UK	40.2	10.1
US	13.0	-6.7
Other	2.8	-1.3

Market Cap	Gross%	Net%
>£2bn	34.0	-0.4
£700m - £2bn	23.6	-14.5
£200m - £700m	34.4	14.7
<£200m	28.6	22.8

Positions	Mar	Feb
Long	96	75
Short	83	87
Longs Opened	23	4
Longs Closed	2	4
Shorts Opened	25	3
Shorts Closed	29	9

Sector	Gross%	Net%
Communication Services	9.0	6.5
Consumer Discretionary	26.9	3.2
Consumer Staples	6.2	-0.1
Energy	0.3	0.3
Financials	8.5	7.1
Health Care	4.3	3.1
Industrials	24.2	6.5
Information Technology	29.1	-11.8
Materials	6.6	4.1
Real Estate	5.5	3.7
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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