Ennismore Global Equity Fund

Investor Newsletter for the month of March 2020

Issued on 8 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 USD 467m as at 31st March. Total assets under management by Ennismore Fund Management were USD 992m. The fund closed to new investment at the end of 2019. Please contact Eleanor Scott on +44 (0) 20 7368 4219 or email subs@ennismorefunds.com if you would like more information. Redemptions can be made through the Administrator in the usual way.

Top Five Long Holdings as at 31 March 2020

	Company	Country	Sector	% of NAV
1	Vivendi SA	France	Communication Services	4.5
2	Royal Mail PLC	United Kingdom	Industrials	4.5
3	Pinterest Inc	United States	Communication Services	4.4
4	Nokian Renkaat Oyj	Finland	Consumer Discretionary	4.3
5	Electronic Arts Inc	United States	Communication Services	4.3
				22.0

Exposures as at 31 March 2020

Longs %	Shorts %	Gross Exposure %	Net Exposure %
97.4 (100.4)	64.2 (65.6)	161.6 (166.0)	33.2 (34.8)

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 31 March 2020

Country	Gross%	Net%
United States	50.8	3.3
Germany	30.1	4.1
United Kingdom	26.3	13.3
Cayman Islands	7.2	-7.2
Norway	6.0	1.5
Netherlands	5.8	5.8
France	5.3	3.9
Finland	4.3	4.3
Japan	3.8	0.2
South Africa	3.6	3.0
Luxembourg	3.3	3.0
Other	15.0	-2.0

Market Cap	Gross%	Net%
>$10bn	53.9	10.5
$5bn-$10bn	21.1	9.9
$1bn-$5bn	71.0	20.2
<$1bn	15.5	-7.4

Positions	Mar	Feb
Long	56	52
Opened	11	4
Closed	7	2
Short	84	94
Opened	20	3
Closed	30	9

Sector	Gross%	Net%
Communication Services	41.6	19.5
Consumer Discretionary	33.3	15.4
Consumer Staples	11.2	7.0
Energy	0.0	0.0
Financials	8.1	6.1
Health Care	8.0	0.6
Industrials	24.8	2.2
Information Technology	25.0	-16.6
Materials	4.8	2.9
Real Estate	3.4	-2.6
Utilities	0.0	0.0
Other	1.3	-1.3

Geographic analysis relates to country of incorporation or listing. This may not represent the underlying economic exposure of the operating business.

Performance as at 31 March 2020

	Share Class					
	GBP	GBP A	EUR	CHF	EUR I	USD I
NAV per share[1]	**11.54**	**11.48**	**11.33**	**11.02**	**9.30**	**9.12**
Period	**% Change**					
March 20	**-5.4**	**-5.4**	**-8.0**	**-8.2**	**-5.6**	**-5.5**
February 20	-6.6	-6.6	-8.7	-9.2	-6.8	-6.6
January 20	-4.8	-4.7	-4.0	-5.6	-4.9	-4.6
2020 to date	**-15.9**	**-15.8**	**-19.4**	**-21.3**	**-16.3**	**-15.8**
Annualised return[2]	**4.2**	**4.0**	**3.6**	**2.8**	**-4.1**	**-7.1**
Since launch[2]	**15.4**	**14.8**	**13.3**	**10.2**	**-7.0**	**-8.8**
	Discrete 12 Month Rolling Performance					
To 31 March 20	**-13.2**	**-13.4**	**-15.6**	**-19.4**	**-14.7**	**-12.7**
To 31 March 19	**23.4**	**23.3**	**25.2**	**19.8**	**-**	**-**
To 31 March 18	**4.4**	**4.4**	**2.2**	**10.4**	**-**	**-**

[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	Q1 20	-23.8	-25.6	-27.0
	Q4 19	-1.0	3.3	3.0
	Q3 19	4.2	5.2	3.4
	Q2 19	7.4	4.0	3.6
Short	Q1 20	7.7	7.0	6.9
	Q4 19	-2.2	-2.5	-2.5
	Q3 19	2.8	2.7	2.8
	Q2 19	-4.0	-3.8	-3.8

Attribution figures exclude cash returns and are prior to expenses

Top 5 Contributors and Detractors for March 2020

Contributors	MTD (bp)
Enphase Energy Inc	136
Tesla Motors Inc	75
Wirecard AG	73
NMC Health PLC	71
Fevertree Drinks PLC	54

Detractors	MTD (bp)
Rolls-Royce Holdings PLC	-222
SES SA	-217
Thyssenkrupp AG	-185
Etsy Inc	-137
Bayer AG	-119

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

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The fund's NAV declined by between 16% and 21% in Q1, depending on currency. We wrote to you at the end of February, by which point most of the damage had been done. In March global equity markets sold off heavily as the impact of restrictions related to containing the coronavirus began to be priced in. The Fund did better in this environment, relatively speaking, but our performance year to date remains below what we expect of ourselves. That is still mostly down to the (now relative) underperformance of our short book.

Our first response to the unfolding crisis was to reduce our net exposure to travel and hospitality businesses to roughly zero. Mostly that meant selling airlines and online travel agencies. We did this based on our assessment that the direct impact of coronavirus on consumer behaviour will be significant for at least another year. In part this is stating the obvious. The understandable priority right now is containment and managing the capacity of national health systems. That makes herd immunity a very distant prospect, because (we hope) only relatively few people at a time are catching the virus from here. But the virus doesn't go away. A large part of the population has to have had it, or we need to develop and widely administer a vaccine, before this is over. Restrictions, some mandated and many self-enforced, will be in place for a long time after strict lockdowns are relaxed.

In aggregate our travel and hospitality positions, including some related shorts, cost the fund c. 2.5% in the first quarter. That does not include our position in Rolls-Royce Holdings PLC ("Rolls"), which cost another 2.5%. We reduced this position but did not sell out of it for several reasons. Firstly, although in the short run its civil aerospace business is almost as impacted as an airline – it gets paid when a plane flies and at the moment not many are – we think a lot of this revenue will come back in the more extended period of lighter restrictions (and lower demand) that we expect over the next year or more. That is, most planes will resume flying but they will not be nearly as full as they were last year. For airlines this is crucial as they are highly dependent on the yield from the marginal customer. That's not the case for Rolls – it gets paid the same if a plane is 85% or 95% full (for an airline that's often the difference between a profit or a loss). The second reason for holding on to Rolls is that is has two large business – defence and diesel engines – that are not directly affected by the virus shutdowns. In fact the current market valuation appears to include little value for anything other than these operations. That is, its huge civil aerospace business is valued at close to zero. The only way that would make any sense to us would be if Rolls needed to raise a large amount of capital to get through the shutdown, and if it could only do this on highly dilutive terms for equity holders.

That brings us to our second response to the crisis, which was to estimate how much cash all of our holdings needed to survive a year of lockdowns. Rolls was the closest call in the book, but given the continuing cashflow from its other operations we do not think it will run short. As of early April the company reported liquidity (gross cash plus undrawn revolvers) of GBP 6.7bn, with Q1 normally its seasonal peak in working capital. Right now is clearly anything but normal for Rolls but with only one small debt maturity in 2020, and no financial covenants, the company appears to have enough slack to get through this year. Beyond that, the upside for the share price, even if the civil aerospace industry only returns to a level significantly below where it went into the crisis, is many times the current level.

Our third response has been to add to positions that will, we think, benefit from an extended period of restrictions, meaning people spend more time and money at home. Some of our holdings going into this year obviously fit this bill – Vivendi SA's recorded music and publishing business is largely driven by streaming subscriptions, Nordic Entertainment Group owns Viaplay, Scandinavia's second largest video streaming service, and video games developers like Electronic Arts Inc and Mixi Inc offer great value home entertainment. Bandwidth providers have noted sharp spikes in data consumption by housebound consumers, with video game engagement up as much as 100% in some countries. We are also invested in other online businesses that, while they will probably be impacted negatively in the short run, will benefit more in the medium term as the current environment is driving increased consumer adoption of the services they offer, allowing the platforms a one-off opportunity to broaden their user bases at low customer acquisition costs. The main holdings here are online marketplace Etsy Inc, social media platforms like Pinterest Inc and Twitter Inc, and food delivery services Just Eat Takeaway.com NV and Delivery Hero SE. For example, in a trading update in March Twitter noted a sharp drop in ad revenue in the last part of March, from a run rate of that was up by a single digit percentage for the quarter to down over 10%. But at the same time, it reported a further acceleration in the number of daily active users, up by nearly a quarter compared to the previous year. Similarly, Etsy reported that the underlying growth of transactions on its main marketplace dropped from a run rate of over 20% in January and February to a decline of over 10% in the third week of March, but then returned to double digit growth the following week. Short term trading will be extremely

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volatile and often weak for these businesses, but we expect them to come out of this with more loyal customers than ever before. Overall the positions listed above account for about a quarter of the fund's NAV.

The Walt Disney Company has a bit of both stories (it cost the fund 1.1% of NAV in the quarter). It has large travel and hospitality operations, particularly its theme parks, and makes a lot of money from cinema box office. But it is also a huge home entertainment provider and the most valuable part of the company looking forward is its direct to consumer video streaming service. We expect very high take up of this new service this year. Given this mix it's not surprising the stock sold off, but we don't see that the long term franchise value has been significantly reduced.

The two most significant negatives for fund performance in the quarter were SES SA and Thyssenkrupp AG, costing 2.7% and 2.9% respectively. SES we discussed in a previous letter. We held on to most of this position because we thought the imminent cashflow from the sale of c-band spectrum would lead to its shares repricing (this spectrum alone accounts for almost all of its enterprise value today even though its operating business remains highly cash generative). So far we have been wrong.

The fall in the price of Thyssenkrupp AG shares in the first quarter, down 60%, is hard to comprehend. In early March it agreed to sell its elevator manufacturing and servicing business to private equity for EUR 17.2bn. Under German law most of the proceeds are tax free. A large part is needed to reduce obligations under its unfunded pension (from c.EUR 8bn) and net debt (c.EUR 6bn), but even fully eliminating those still leaves more than EUR 3bn – which is the same as its current market cap. That is, the market is pricing in no value for its steel and auto parts units which averaged several hundred million in annual operating profits over the last cycle. This may reflect scepticism that the elevator sale will close but we do not believe there are any grounds for this.

In very weak markets our short book obviously contributed positively, adding 7.7% to NAV in the quarter. One particular highlight was NMC Health PLC (contributing 1.0%), which is likely to enter administration after discovering several billion pounds of undisclosed, off-balance sheet debt. Overall, though, the return on our shorts was a huge disappointment. Although we more than made back the losses detailed in our February letter, we would have expected a significantly larger profit in this environment. As disclosed in that letter, we plan to run a flatter exposure across the short book going forward – that is, the bigger positions will be a lot closer to average sized than they have been. To a large extent market moves in March took care of that for us. We will finish the job over the next few months.

Looking forward, it appears that the worst case scenario of an out of control pandemic has been averted, but only by accepting very strict restrictions on freedom of movement – and a deep recession. We cannot see a solution that allows these restrictions to be completely reversed this year, but we do expect them to be relaxed (although localised lockdowns may well recur in hot spots, particularly in winter). A large part of the fund will, we think, benefit from this new operating environment. The rest will suffer, but survive, and are now extremely mispriced relative to their longer term prospects. We expect the companies in our long book to be resilient to a variety of scenarios, given their conservatively financed balance sheets.

Unlike in the 2008/09 financial crisis there is a clear resolution to the immediate problem here. A vaccine (or herd immunity) will come, just not this year. To what extent the resulting economic contraction becomes self-fulfilling is hard to predict at this stage as it will depend a lot on the level of restrictions governments and consumers place on themselves in the coming months. There are certainly plenty of clear risks to a quick economic recovery: for instance, to what extent the high level of debt on corporate balance sheets magnifies the impact of demand weakness, how governments go about withdrawing the exceptional stimulus measures they have implemented or promised, and whether sovereign credit risk starts to be repriced more aggressively as the cost of this, and the path of economic recovery, becomes clearer. Overall we believe the fund is well positioned for this still uncertain future.

The same goes for our firm. In March we invoked business continuity procedures, including remote working for nearly all of our staff for their safety and that of their families. This had minimal impact on our day to day operations. We hope all of you are well and look forward to writing to you again in the summer.

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