

Ennismore European Smaller Companies Fund

Investor Newsletter for the month of April 2020

Issued on 6 May 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 354m as at 30th April. Total assets under management by Ennismore Fund Management were GBP 805m. 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 30 April 2020

	Share Class ²				
	GBP A £	GBP A €	GBP B	EUR A	EUR B
NAV per Share ¹	126.08	145.20	21.30	20.71	20.80
Period	% Change				
April 20	-0.8	1.1	-0.8	1.1	1.1
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
2020 to date	-11.2	-13.4	-11.3	-13.4	-13.4
Annualised return ³	12.8	11.6	8.5	8.2	8.2
Since launch ³	1184.6	931.1	113.0	107.1	108.0
Discrete 12 Month Rolling Performance - % Change					
To 30 April 20	-8.2	-9.2	-8.3	-9.5	-9.4
To 30 April 19	9.9	12.1	9.9	11.4	11.4
To 30 April 18	4.3	0.1	4.3	1.0	1.1
To 30 April 17	10.7	2.8	10.7	4.4	4.4
To 30 April 16	18.7	10.7	18.7	11.8	11.7

¹Source: Administrator, Net Asset Value. ²Source: Administrator, Net Asset Value, net income reinvested. ³Since 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 0.8% in April. Our long book contributed 8.7% while the Fund's short exposure cost 8.8%. Costain added 0.9% to NAV as the company was awarded a GBP 210m contract by Highways England and, more importantly, their JV with Skanska and Strabag was authorised to commence detailed design and construction of Phase 1 of the HS2 railway.

Top 5 Contributors and Detractors for April 2020

Contributors	MTD (bp)	Detractors	MTD (bp)
Costain Group Plc	92	US energy company	-125
Dalata Hotel Group Plc	66	US food manufacturer	-125
D4T4 Solutions Plc	44	UK online retailer	-71
U and I Group Plc	37	US automotive manufacturer	-66
Cegedim SA	33	UK software company	-49

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

Sto - German building materials manufacturer (3.7% NAV)

Sto is a manufacturer and direct distributor of thermal insulation systems, paints and renders. We have owned the company for 17 years and last wrote about it almost three years ago. We would like to report on it again as we feel the subdued share price is not reflecting its resilient business model, strong market position, high returns on capital, positive structural trends and a solid balance sheet - with net cash approaching EUR 180m. Since we last wrote the company has generated over EUR 120m in free cash but the share price, adjusted for dividends, is down by around 20% leaving the stock significantly undervalued in our opinion with a market capitalization at only EUR 600m. Pre the impact from Covid-19 the prospects for 2020 were very good as private investments for energy efficient refurbishments from the start of this year are now tax-deductible in Germany - which is still its biggest market with 44% of sales. This fiscal assistance will be in place for at least 10 years and alongside the increasing focus globally on the environment the company should be well placed to benefit.

In our September 2017 newsletter, we were confident that Sto would continue to grow and expand its operating margin. However, in the past couple of years, the German insulation market was impacted by negative reporting on facade insulation and the constant discussions about tax incentives led to deferred spending decisions. These circumstances have caused a decline in the size of the market, which Sto managed to partially offset by gaining market share. On top of this Sto was also hindered by a surge in raw materials and logistics costs which could only be passed on with a time lag, however to their credit over the last three years profits have been stable and its pre-tax return on capital remains healthy in the mid-teens.

The company had a good 2019 with sales growth of around five percent to EUR 1.4 billion and a similar increase in operating profits to EUR 86m. The outlook for 2020 should have reflected the very positive trends such as the reduction of CO2 emissions, a good demand in the construction industry and supportive measures for energy-efficient renovations. Before the impact of Covid-19, sales were expected to increase by circa seven percent and the operating profit to be around EUR 98m which would have confirmed the trend in improving profitability. Sto reported very encouraging first quarter results, thanks to the mild weather and the support from the introduction of tax incentives. Since the construction industry has not been impacted as much as other industries in the Corona-crisis, we only see a stagnation or slight decline in sales and a moderate decline in earnings for 2020. We believe Sto's business is resilient, and the company has proven this during the financial crisis, with 2009 sales declining only 2.3% and stable operating profits.

As mentioned Sto has a very healthy balance sheet, with net cash after deducting pension liabilities of EUR 53m. If the situation does not deteriorate further from here, the company will also stick to its dividend policy and pay an unchanged dividend of EUR 4.09 per share - this corresponds to a yield of 4.4%. In the past, the company paid a special dividend of EUR 25.14 per share for the 2014 financial year, which corresponds to more than a quarter of today's market capitalization and we estimate that Sto will have a similar net cash position in two years, if there are no large acquisitions.

As a comparative example of embedded value, in 2019, the Swiss construction materials company Sika acquired Parex for an enterprise value of CHF 2,500m and paid 16 times its 2018 operating profit. Crudely applying this to Sto would imply upside of over 150%. Of course, that's only theory as Sto is not up for sale but it does in our view show a substantial margin of safety.

Altogether, we still haven't deviated in our belief that Sto is a business that is highly regarded in its own industry but massively overlooked by ours, and continue to be very happy shareholders for the long term. We believe that investors' focus towards Environmental, Social and Governance (ESG) standards will also help support a gradual re-rating of the share. Due to Covid-19 we were able to increase our position at very attractive prices and we expect a 100% return in the medium to long term. Using a prudent ten times multiple of its operating profit of EUR 86m to its enterprise value leads to an upside of 50% over the next twelve months.

Top Five Long Holdings as at 30 April 2020

Company	Country	Sector	% of NAV
1 Dalata Hotel Group	Ireland	Consumer Discretionary	4.3
2 Sto	Germany	Materials	3.7
3 Vossloh	Germany	Industrials	3.3
4 Renk	Germany	Consumer Discretionary	3.0
5 Cegedim	France	Health Care	2.9
			17.2

Exposures as at 30 April 2020

Longs %	Shorts %	Gross Exposure %	Net Exposure %
75.2 (71.6)	45.5 (49.0)	120.7 (120.6)	29.7 (22.6)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 30 April 2020

Country	Gross%	Net%	Market Cap	Gross%	Net%	Sector	Gross%	Net%
Austria	5.0	0.3	>£2bn	27.3	-1.2	Communication Services	7.9	5.7
Belgium	1.5	1.5	£700m - £2bn	26.8	-15.4	Consumer Discretionary	27.3	1.8
Finland	1.2	0.3	£200m - £700m	36.1	20.6	Consumer Staples	5.7	1.4
France	7.4	5.6	<£200m	30.5	25.7	Energy	0.2	0.2
Germany	24.7	9.1				Financials	8.7	7.1
Ireland	8.9	8.9				Health Care	4.9	3.4
Italy	5.6	4.4				Industrials	27.4	8.4
Japan	0.8	0.0				Information Technology	26.5	-8.5
Netherlands	1.6	1.6				Materials	6.9	5.0
Norway	1.6	0.0				Real Estate	5.2	5.2
Sweden	1.6	0.9				Utilities	0.0	0.0
Switzerland	6.7	-6.7				Other	0.0	0.0
UK	42.0	10.0						
US	9.8	-5.5						
Other	2.3	-0.7						

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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We hereby disclose that as at the date of first issue of the report to which this is an Appendix, we held positions in the companies discussed in that report and we are thus subject to conflicts of interest in respect of these companies. The analysis presented on these companies has not been prepared in accordance with legal requirements regarding the independence of investment research and as such is considered non-independent research, as defined by COBS 12.3.2R of the FCA Handbook and as a marketing communication.

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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.

Additional Information for Recipients in Switzerland

The Fund has not been approved for distribution in or from Switzerland by the Swiss Financial Market Supervisory Authority. As a result, the Fund’s shares may only be offered or distributed to qualified investors within the meaning of Swiss law. The Representative of the Fund in Switzerland is Bastions Partners Office SA with registered office at Route de Chêne 61A, 1208 Geneva, Switzerland. The Paying Agent in Switzerland is Banque Heritage, with registered office at Route de Chêne 61, 1208 Geneva, Switzerland. The place of performance and jurisdiction for Shares of the Fund distributed in or from Switzerland are at the registered office of the Representative.

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