Ennismore European Smaller Companies Fund

Investor Newsletter for the month of May 2020

Issued on 5 June 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 344m as at 29th May. Total assets under management by Ennismore Fund Management were GBP 773m. 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 29 May 2020

	Share Class[2]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share[1]	**124.05**	**137.87**	**20.96**	**19.67**	**19.75**
Period	**% Change**				
May 20	**-1.6**	**-5.0**	**-1.6**	**-5.0**	**-5.0**
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
2020 to date	**-12.7**	**-17.8**	**-12.7**	**-17.7**	**-17.8**
Annualised return[3]	**12.6**	**11.3**	**8.2**	**7.5**	**7.6**
Since launch[3]	**1163.9**	**879.0**	**109.6**	**96.7**	**97.5**
	Discrete 12 Month Rolling Performance - % Change				
To 31 May 20	-11.7	-13.2	-11.7	-13.9	-13.9
To 31 May 19	11.3	10.4	11.3	10.2	10.3
To 31 May 18	3.0	2.2	3.0	2.6	2.6
To 31 May 17	14.6	0.6	14.6	3.2	3.2
To 31 May 16	14.7	7.7	14.7	9.0	9.0

[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 1.6% in May. Our long book contributed 4.3% while the Fund's short exposure cost 6.3%. Our short position in a US food manufacturer cost 0.8% of NAV as the share price increased, despite suspending their 2020 guidance, after the company reported better than expected 1Q results.

So far this year performance has been disappointing. As always, just as with our strong long-term past performance, there is no simple explanation as to why, although we'll try to add some colour. Firstly there have been some individual stock mistakes on both sides of the book, secondly micro caps as a whole generally perform poorly in troubled times and we will always be long this part of the universe, finally and perhaps most importantly there has been a bigger bifurcation in the stock market than we have ever seen before, with the beneficiaries being stocks which are seen as being unaffected or even helped by the coronavirus situation. This is rational; however it appears both excessive and indiscriminate. We have seen stocks that we believe to have significant longer term structural risks, or to be incapable of generating meaningful cash in the future, substantially outperforming the market. We are likely to be short these types of stocks which explains much of the negative impact of our short book so far this year. Benjamin Graham is attributed to have said 'In the short term the stock market is a voting machine, the long term a weighing machine', well right now we are unpopular, but we will continue to work hard and stick to the same Margin of Safety investment philosophy, with the same risk controls that we have always had and trust that the weight of earnings and future cashflows in our stock positions will be reflected over time in their share prices. The investment team are substantially invested in our funds so we are very much aligned with you, the investor, and will continue to focus on investing for the long term in these troubled times. With all these factors in place we look forward to having the opportunity to provide strong investment returns in the future, as we have been able to do over the past twenty years.

Top 5 Contributors and Detractors for May 2020

Contributors	MTD (bp)
Sto	60
Dalata Hotel Group Plc	57
Vossloh Ag	56
Costain Group Plc	56
Exasol Ag	25

Detractors	MTD (bp)
US food manufacturer	-82
UK online retailer	-65
Dutch online retailer	-62
Austrian technology company	-41
UK online retailer	-35

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

CPL Resources – Irish human resources company (2.8% NAV)

CPL Resources is a human resources company in the Republic of Ireland with a market capitalisation of €190m that we have owned in the past and know very well. We last wrote on CPL for the August 2016 newsletter, and the company still has the same strengths it had then, including a strong market position, a very well managed and profitable business, a strong balance sheet and being led by a shareholder-friendly founder in Anne Heraty. Since we last owned the stock the company has also become more attractive, in our view, by using its staff sourcing capabilities to win more long-term managed-solutions contracts mainly for large technology companies. This has increased the structural profitability of the business as well as reducing its economic sensitivity.

Overall CPL Resources generated almost EUR 100m of net fee income("NFI") (or gross profit) in the year to June '19. Geographically 77% of this related to Ireland with the United Kingdom being its second largest market. CPL continues to have strong exposure to the structural growth sectors of Information Technology and Healthcare, which account for 75% of NFI. This we view as very important in respect of the economic impact associated with Covid-19 and Brexit.

CPL's Flexible Talent segment accounts for approximately 70% of NFI and has turnover of circa EUR550m. This segment includes a traditional temporary staffing business and Covalen, its managed-solutions business that has grown to be a significant proportion of the segment. The type of managed-solutions contracts vary, ranging from content moderation for social media platforms to customer support for financial service firms. These contracts are typically for three to five years and are more profitable than traditional work as it's more value-added than just supplying staff. This has helped to increase the gross margin in its Flexible Talent segment from just over 9% to around 13% over the last five years. Given the stronger expected resilience for this type of work we believe this will help to protect gross margin pressure in the Flexible Talent segment in the event of a downturn.

Being the market leader in Ireland with around 10% overall of a typically highly fragmented market has helped the business to show solid operating profit growth of around 10% per annum over the last 15 years to EUR 25m for the year to June '19, thanks to its ability to invest through the cycle. The vast majority of the growth has been organic although their strong financial footing has enabled value accretive bolt-on acquisitions. With the uncertain economic situation currently, we expect profits to be flat this financial year after a strong first half where they grew over 23%. They should be well placed to take market share going forward and may be able to add value via acquisitions of firms which get into financial difficulties.

Since we last sold the stock three years ago, the earnings multiple has halved, adjusted for its cash holding. Clearly the uncertainty about the impact of covid-19 on the economic situation seems to be weighing heavily on the stock. However, this seems overly harsh given the larger proportion of more resilient earnings than in the last downturn, post the financial crisis, when the more cyclical permanent fees were around 50% of NFI versus 30% now. We therefore see the company as a better placed and more resilient entity now compared to back then.

CPL is led by Anne Heraty, the founder of the business, who still owns almost 30% of the equity, and is therefore very well aligned with shareholders. The business continues to be very well run with good cash generation, high return on invested capital after tax of over 25%, and strong NFI to operating profit conversion of over 25%. To illustrate how well the business has managed over the last five years, while the company has had NFI growth of over 75%, the total working capital has increased by only 30%. The balance sheet as of December '19 had almost EUR 45m of net cash which is clearly ideal in difficult times, however when there is more economic certainty we wouldn't be surprised to see them return a reasonable proportion of this via a share tender as they have done twice in the last 10 years.

Valuation is tricky due to earnings uncertainty but we have prudently assumed earnings fall by around 30% for the year to June '21, mainly due to permanent fee weakness. We believe a 15 times operating profit after tax multiple is also conservative given the quality of the company, its management and ability to take market share going forward. This leads to upside of 35% over the next 12 months.

Top Five Long Holdings as at 29 May 2020

	Company	Country	Sector	% of NAV
1	Costain	United Kingdom	Industrials	4.4
2	Sto	Germany	Materials	4.4
3	Vossloh	Germany	Industrials	4.0
4	Renk	Germany	Consumer Discretionary	3.1
5	Dalata Hotel Group	Ireland	Consumer Discretionary	3.0
				18.9

Exposures as at 29 May 2020

Longs %	Shorts %	Gross Exposure %	Net Exposure %
78.8 (75.2)	48.3 (45.5)	127.1 (120.7)	30.5 (29.7)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 29 May 2020

Country	Gross%	Net%
Australia	0.9	-0.9
Austria	5.8	0.1
Belgium	1.6	1.6
France	8.9	5.7
Germany	31.1	9.8
Ireland	7.0	7.0
Italy	5.6	4.3
Japan	0.8	0.0
Netherlands	1.5	1.5
Norway	2.2	-0.3
Sweden	1.9	0.9
Switzerland	7.5	-7.5
UK	42.8	12.5
US	7.0	-3.8
Other	2.5	-0.4

Market Cap	Gross%	Net%
>£2bn	29.9	-6.2
£700m - £2bn	25.5	-14.6
£200m - £700m	39.3	22.6
<£200m	32.4	28.7

Positions	May	Apr
Long	85	87
Short	79	83
Longs Opened	5	2
Longs Closed	7	11
Shorts Opened	2	10
Shorts Closed	6	10

Sector	Gross%	Net%
Communication Services	7.8	5.0
Consumer Discretionary	27.6	-0.3
Consumer Staples	3.8	3.1
Energy	0.2	0.2
Financials	6.8	5.0
Health Care	5.8	2.9
Industrials	30.6	12.8
Information Technology	31.0	-9.5
Materials	8.1	5.9
Real Estate	5.4	5.4
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.

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