# Ennismore European Smaller Companies Fund

## Investor Newsletter for the month of July 2020

**Issued on 6 August 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 339m as at 31st July. Total assets under management by Ennismore Fund Management were GBP 734m. 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 Jo-Anne Bailey on +44 (0) 20 7368 4231 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 July 2020

| | Share Class[2] | | | | |
|---|---|---|---|---|---|
| | **GBP A £** | **GBP A €** | **GBP B** | **EUR A** | **EUR B** |
| **NAV per Share[1]** | **124.03** | **137.66** | **20.96** | **19.64** | **19.72** |
| **Period** | **% Change** | | | | |
| **July 20** | **-3.8** | **-3.0** | **-3.8** | **-3.0** | **-3.0** |
| June 20 | 4.0 | 2.9 | 4.0 | 2.9 | 2.9 |
| 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 |
| **2020 to date** | **-12.7** | **-17.9** | **-12.7** | **-17.9** | **-17.9** |
| **Annualised return[3]** | **12.5** | **11.2** | **8.1** | **7.4** | **7.4** |
| **Since launch[3]** | **1163.7** | **877.5** | **109.6** | **96.4** | **97.2** |
| | **Discrete 12 Month Rolling Performance - % Change** | | | | |
| To 31 July 20 | -11.6 | -10.8 | -11.6 | -11.9 | -12.0 |
| To 31 July 19 | 8.7 | 6.6 | 8.7 | 6.8 | 6.9 |
| To 31 July 18 | 3.1 | 3.4 | 3.1 | 3.3 | 3.4 |
| To 31 July 17 | 12.9 | 6.3 | 12.9 | 8.1 | 8.0 |
| To 31 July 16 | 15.9 | -2.6 | 15.8 | 0.1 | 0.2 |

[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 3.8% in July. Our long and short books cost 0.8% and 2.5% respectively. Our long position in Cello Health contributed 1.1% as it received a takeover offer at a premium of 43.8%. The biggest detractor with 0.9% was a short position in a US energy company that announced it is planning to enter a more environmentally friendly segment of its market. We no longer hold a position in this stock.

## Top 5 Contributors and Detractors for July 2020

| Contributors | MTD (bp) |
|---|---|
| Cello Health Plc | 112 |
| Schibsted ASA | 22 |
| Wirecard Ag | 22 |
| UP Global Sourcing Holdings Plc | 16 |
| Swiss retailer | 16 |

| Detractors | MTD (bp) |
|---|---|
| US energy company | -85 |
| Costain Group Plc | -60 |
| Dutch online retailer | -50 |
| Cayman Islands education company | -41 |
| US energy company | -29 |

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

## Exasol – German software developer (1.1% NAV)

Exasol is a EUR 300m market capitalised data analytics software company that listed on the Frankfurt stock exchange in May. Exasol's product has been developed for more than 10 years and, after conducting our due diligence which included discussions with current and potential customers, we consider the software is a high-quality offering with a significant growth trajectory. The software stands out from its competitors in terms of performance and total cost of ownership, has a low customer churn of 4% and has already attracted a diverse client base including blue chips such as Adidas, Zalando and Sony. At IPO management didn't sell a single share and connected parties still have a shareholding of circa 32%. Before going public, the company managed to entirely self-finance its organic revenue growth in the last nine years. With its net cash position of circa EUR 40m after the equity raise, Exasol now has the firepower to accelerate this growth by expanding the sales and marketing teams. Due to its remarkable customer economics, we expect the investments to be highly accretive.
Exasol's product enables its users to access and analyse large data volumes in real-time in order for them to extrapolate information which adds value to and accelerates their decision-making processes. For instance, one use case of the software is the provision of real-time information on product availability for the online fashion company Zalando. The

software is available on-premises or in the cloud and has been specifically built from the start to be scalable and high performance, making it one of the fastest analytics databases in the market. Accessing data that is stored in-memory, the product has a significant speed advantage that has allowed the company to command a price premium as it is a critical feature for customers. Another major advantage, compared to the legacy solutions in the market, is its simplicity and cost advantage as the system is designed to take care of itself through intelligent algorithms that monitor the data usage and self-optimises its performance. In contrast, the administration and maintenance of legacy databases can be complex and protracted, which is another important consideration from a client's perspective.

We are aware that Exasol is still a challenger in the USD 46bn database management system market that is dominated, with a combined 88% share, by the top five players including Microsoft and Oracle. However, the organic revenue growth and the diversified customer list show that the company has generated significant traction with its offering. Even during the Covid-19 outbreak, annual recurring revenue grew 30% year-on-year at the end of the second quarter. While we do expect the investments into sales and marketing as well as the indirect sales network to bring profitability and cash generation into negative territory, the customer profitability is very compelling. The customer lifetime value is EUR 3.7m compared to the acquisition costs of EUR 173k. In other words, a ratio of 21 times allows the company to grow and invest into the business with the proceeds of the recent IPO.

Snowflake, a US peer and challenger in the database software market, has also gained traction and is expected to IPO this year. Its expected valuation of USD 20bn would value Snowflake's business at around 25 times enterprise value to 2021 revenue. While we would argue that Exasol's size, growth and liquidity warrant a valuation discount compared to Snowflake, we believe the current seven times enterprise value to 2021 projected revenues of around EUR 40m undervalues the business and its prospects. We believe in the long term Exasol should be able to achieve an operating margin in excess of 25%, once the investments have been made, as the client wins lead to a higher recurring revenue combined with a gross margin of around 90%. Applying a fair multiple of 10 times enterprise value to 2021 sales, we see a fair value of circa EUR 19.5 per share, representing a return for shareholders of around 40% over the next 17 months. If the market continues to fail to recognise what we think is the fair value of Exasol, we wouldn't be surprised to see the company become an acquisition target at some point in the future.

## Top Five Long Holdings as at 31 July 2020

| | Company | Country | Sector | % of NAV |
|---|---|---|---|---|
| 1 | Sto | Germany | Materials | 4.3 |
| 2 | Vossloh | Germany | Industrials | 3.9 |
| 3 | Cello Health | United Kingdom | Communication Services | 3.8 |
| 4 | Costain | United Kingdom | Industrials | 3.5 |
| 5 | Renk | Germany | Consumer Discretionary | 3.2 |
| | | | | **18.7** |

## Exposures as at 31 July 2020

| Longs % | Shorts % | Gross Exposure % | Net Exposure % |
|---|---|---|---|
| 76.7 (73.6) | 43.4 (42.2) | 120.1 (115.8) | 33.3 (31.4) |

Figures in brackets refer to previous month end.

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

| Country | Gross% | Net% |
|---|---|---|
| Australia | 1.3 | -1.3 |
| Austria | 5.7 | 0.0 |
| Belgium | 1.7 | 1.7 |
| France | 9.7 | 7.5 |
| Germany | 28.3 | 14.9 |
| Ireland | 4.5 | 4.5 |
| Italy | 5.5 | 4.5 |
| Japan | 0.9 | 0.0 |
| Netherlands | 1.4 | 1.4 |
| Norway | 1.8 | 0.3 |
| Sweden | 2.1 | 1.2 |
| Switzerland | 7.2 | -7.2 |
| UK | 38.8 | 11.8 |
| US | 8.4 | -5.3 |
| Other | 2.8 | -0.7 |

| Market Cap | Gross% | Net% |
|---|---|---|
| >£2bn | 22.2 | -2.0 |
| £700m - £2bn | 26.2 | -14.2 |
| £200m - £700m | 39.2 | 19.3 |
| <£200m | 32.5 | 30.2 |

| Positions | Jul | Jun |
|---|---|---|
| Long | 81 | 80 |
| Short | 74 | 74 |
| Longs Opened | 3 | 4 |
| Longs Closed | 2 | 9 |
| Shorts Opened | 4 | 1 |
| Shorts Closed | 4 | 6 |

| Sector | Gross% | Net% |
|---|---|---|
| Communication Services | 9.5 | 6.2 |
| Consumer Discretionary | 27.3 | -1.5 |
| Consumer Staples | 2.7 | 2.7 |
| Energy | 0.0 | 0.0 |
| Financials | 3.9 | 2.8 |
| Health Care | 5.7 | 3.2 |
| Industrials | 28.8 | 15.6 |
| Information Technology | 30.0 | -6.7 |
| Materials | 7.4 | 6.2 |
| Real Estate | 4.8 | 4.8 |
| 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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| For further information please contact: | Jo-Anne Bailey, Ennismore Fund Management | +44 (0) 20 7368 4231 | subs@ennismorefunds.com |
| For dealing please contact: | Northern Trust International Fund Administration Services (Ireland) Ltd | +353 (0) 1 434 5103 | Ennismore_TA_Queries@ntrs.com |

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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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| For further information please contact: | Jo-Anne Bailey, Ennismore Fund Management | +44 (0) 20 7368 4231 | subs@ennismorefunds.com |
| For dealing please contact: | Northern Trust International Fund Administration Services (Ireland) Ltd | +353 (0) 1 434 5103 | Ennismore_TA_Queries@ntrs.com |