Ennismore European Smaller Companies Fund

Investor Newsletter for the month of August 2020

Issued on 7 September 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 325m as at 28th August. Total assets under management by Ennismore Fund Management were GBP 651m. Our funds are hard closed with the number of shares in issue capped. If you would like to invest when capacity is available through redemptions please contact Jo-Anne Bailey on +44 (0) 20 7368 4231 or email subs@ennismorefunds.com.

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 28 August 2020

	Share Class[2]				
	GBP A £	GBP A €	GBP B	EUR A	EUR B
NAV per Share[1]	**120.96**	**135.53**	**20.44**	**19.33**	**19.42**
Period	% Change				
August 20	**-2.5**	**-1.5**	**-2.5**	**-1.6**	**-1.5**
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	**-14.8**	**-19.1**	**-14.8**	**-19.2**	**-19.2**
Annualised return[3]	**12.3**	**11.1**	**7.7**	**7.1**	**7.2**
Since launch[3]	**1132.4**	**862.4**	**104.4**	**93.3**	**94.2**
	Discrete 12 Month Rolling Performance - % Change				
To 31 August 20	-14.3	-13.2	-14.3	-14.2	-14.2
To 31 August 19	8.1	7.0	8.1	7.0	7.2
To 31 August 18	2.7	5.9	2.7	5.3	5.2
To 31 August 17	12.0	3.2	12.1	5.0	5.0
To 31 August 16	17.6	1.1	17.6	3.9	3.9

[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 2.5% in August. Our long book contributed 3.1% while the Fund's short exposure cost 5.2%. Our long position in Sto contributed 0.7% to NAV as the company reported strong results for the first half of the year.

Top 5 Contributors and Detractors for August 2020

Contributors	MTD (bp)
Sto	66
UP Global Sourcing Holdings Plc	49
Piteco SpA	38
Exasol Ag	31
Tracsis Plc	29

Detractors	MTD (bp)
UK software company	-78
Dutch online retailer	-66
US logistics company	-59
Costain Group Plc	-36
Swiss electronics manufacturer	-36

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

Semcon – Swedish technology company (1.3% NAV)

Semcon is a Swedish SEK 1.1bn market capitalised research and development consultancy company. In the last five years the business has roughly doubled both its operating margin and return on capital employed helped, via disposal, by a move away from the lower margin, cyclical, automotive segment. Semcon is now much better positioned for structural growth as the need for technological assistance in product development and aftermarket care only increases. The improved quality of the business we believe is being ignored by the stock market.

Accounting for circa 70% of its SEK 1.9bn of revenue, the Engineering and Digital Services division helps its clients in the innovation of new products, systems and facilities. This work is typically project based on a time and materials basis and achieved operating margins last year of eight percent. The remainder of revenue is in the Product Information segment, generating a nine percent operating margin, which supports products and systems throughout the product life cycle: from sales and marketing to installation, maintenance, repairs, as well as training service staff. This work can be managed service type solutions and therefore multi-year contracts giving better revenue visibility - an example of this is the partnership agreement with AGCO assuming overall responsibility for their aftermarket information. As Semcon's origins are as an engineering development company which have historically had lower margins and day rates than consulting firms, they are benefitting now from customers' demand for more integrated solutions. This change on the other hand has led to price pressure for their consulting competitors. We see the increasing trend towards digitalisation and need for help in new technologies, such as artificial intelligence and the increasing customer demand for more frequent product releases, as a helpful tailwind for Semcon's future.

Overall Semcon generated SEK 142m of operating profit in 2019, the company aims for an eight percent operating margin, but medium term we expect this target to be increased. In the first half of 2020, due to the Covid-19 impact, sales were down seven percent and they achieved a commendable six percent operating margin, or over seven percent after adjusting for restructuring charges and government assistance. For the year we expect adjusted profits to fall slightly.

Geographically over 70% of sales are in Sweden, the other main markets being Norway (7%), Brazil (6%) and the UK (6%). Automotive at 40% of sales is the biggest sector, however this is down significantly from the past and they are now more focussed in the technologically more complex segments such as connected vehicles and electrification. Both industry (33% of sales), and life sciences (9%) sectors grew double digit in 2019. Semcon has a diverse blue-chip customer list, with no customer accounting for more than 10% of sales, including the likes of ABB, Siemens, Bombardier and Land Rover which gives us confidence to the quality of Semcon's services.

It is always a big positive for us when a company focuses on return on capital, and this is the case with Semcon now. Our return on invested capital calculation sits at a solid 24% pre-tax even though it is held back by goodwill from an acquisition in 2007 under previous management. The current CEO has done a good job in trying to focus the business into sectors with better returns and cash generation, leading to over SEK 180m of cash generated in the last two years and a strong net cash position of SEK 158m as of the end of June. This strong balance sheet should enable a strong dividend in future years akin to the 2019 level of 3 SEK, as well as enabling further value accretive bolt-on acquisitions.

We see Semcon as an undervalued, good quality microcap stock with operational momentum and a clear medium-term strategy to improve the growth and returns in the business. Currently the business is trading on around 9 times enterprise value to operating profit after tax for 2020, for context this compares to the multiple of circa 23 times HiQ AB, a not too dissimilar comparable, has recently been bid for. We conservatively place a multiple of 14 times 2021 enterprise value to operating profit after tax leading to a fair value of 110 SEK per share and upside of circa 80% to the end of next year.

Top Five Long Holdings as at 28 August 2020

	Company	Country	Sector	% of NAV
1	Sto	Germany	Materials	5.3
2	Vossloh	Germany	Industrials	4.1
3	Costain	United Kingdom	Industrials	3.3
4	Renk	Germany	Consumer Discretionary	3.3
5	Cegedim	France	Health Care	3.3
				19.3

Exposures as at 28 August 2020

Longs %	Shorts %	Gross Exposure %	Net Exposure %
79.7 (76.7)	45.4 (43.4)	125.1 (120.1)	34.3 (33.3)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 28 August 2020

Country	Gross%	Net%
Australia	1.3	-1.3
Austria	6.1	0.1
Belgium	1.8	1.8
France	10.2	8.0
Germany	30.1	16.9
Ireland	4.7	4.5
Italy	6.3	5.3
Japan	1.0	0.1
Netherlands	1.5	1.5
Norway	2.1	0.3
Sweden	2.5	1.6
Switzerland	6.9	-6.9
United Kingdom	39.3	8.3
United States	8.6	-5.3
Other	2.7	-0.6

Market Cap	Gross%	Net%
>£2bn	28.3	-6.9
£700m - £2bn	23.6	-11.0
£200m - £700m	43.1	24.2
<£200m	30.1	28.0

Positions	Aug	Jul
Long	81	81
Short	66	74
Longs Opened	3	3
Longs Closed	3	2
Shorts Opened	1	4
Shorts Closed	9	4

Sector	Gross%	Net%
Communication Services	6.2	2.8
Consumer Discretionary	27.5	1.2
Consumer Staples	2.9	2.9
Energy	0.0	0.0
Financials	5.5	4.2
Health Care	6.6	2.4
Industrials	30.4	16.1
Information Technology	32.9	-7.1
Materials	8.1	6.8
Real Estate	5.0	5.0
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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