Ennismore European Smaller Companies Fund

Investor Newsletter for the month of September 2020

Issued on 6 October 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 315m as at 30th September. Total assets under management by Ennismore Fund Management were GBP 616m. 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 30 September 2020

	Share Class[2]				
	GBP A £	GBP A €	GBP B	EUR A	EUR B
NAV per Share[1]	**121.93**	**134.42**	**20.60**	**19.17**	**19.26**
Period	**% Change**				
September 20	**0.8**	**-0.8**	**0.8**	**-0.8**	**-0.8**
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	**-14.2**	**-19.8**	**-14.2**	**-19.8**	**-19.8**
Annualised return[3]	**12.3**	**11.0**	**7.7**	**7.0**	**7.0**
Since launch[3]	**1142.3**	**854.5**	**106.0**	**91.7**	**92.6**
	Discrete 12 Month Rolling Performance - % Change				
To 30 September 20	-14.2	-16.3	-14.2	-16.9	-16.9
To 30 September 19	8.5	9.2	8.5	8.9	9.1
To 30 September 18	4.3	3.2	4.3	3.3	3.4
To 30 September 17	8.9	6.9	8.9	7.4	7.4
To 30 September 16	18.9	1.3	18.9	4.4	4.4

[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 increased by 0.8% in September. Our long book cost 2.0% while the Fund's short exposure contributed 2.7%. Our short position in S&T AG contributed 0.7% as the company was targeted by a UK based analyst firm that has issued a short recommendation on the shares, while our long position in Costain cost 0.8% as the company received an adverse arbitration decision in relation to its A465 contract.

Top 5 Contributors and Detractors for September 2020

Contributors	MTD (bp)
S&T AG	73
UK software company	50
IQE Plc	39
Exasol AG	34
CPL Resources Plc	27

Detractors	MTD (bp)
Hammerson Plc	-88
Costain Group Plc	-84
Vossloh AG	-42
Hong Kong real estate company	-31
D4T4 Solutions Plc	-31

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

Maisons du Monde – French furniture retailer (0.8 % NAV)

Maisons du Monde is a French furniture and home decoration retailer founded in 1996 with a strong presence in France and growing strongly across Europe. The company operates both a network of 376 physical stores and online stores which accounted for 25% of total sales as of last year. The current market capitalisation is around EUR 580m but used to be much higher at the time we initially looked at it. Back then, in 2017, one year after its IPO, the market fell in love with the stock and was prepared to pay a high price for its roll-out growth model, valuing it at around three times today's price. This has changed as Maisons du Monde had to scale back its ambitions which we see has resulted in a loss of favour with the market. We believe Maisons du Monde's business model is not broken, and think it offers the best of two worlds: on the one hand its store network still offers sufficient growth across Europe, on the other hand it has strong omnichannel capabilities and a leading position online. The coronavirus pandemic and the lockdowns across all major markets have provided us with a good opportunity to invest and we have been noticing we are not alone with our positive view as we have seen continued buying from management, activist shareholders acquiring a 20% stake as well as strategic investors crossing the 5% hurdle.

Maisons du Monde has a strong brand and a large fan base across digital platforms such as Instagram and a broad offering of mostly in-house collections combining furniture and decoration. Besides the strong revenues it generates through its online stores, Maisons du Monde has a very successful omnichannel offering with digital instore sales accounting for 25% of total revenues. The company profits from a very fragmented competitive landscape in which it is taking share from independent retailers and legacy operators. We believe Maisons du Monde has a significant competitive edge as it is ahead of its traditional offline peers in terms of share of online and omnichannel, and on par with the pure online players in terms of sales and online presence. Furthermore, it has a dedicated design to cost approach helped by a furniture plant it owns in Vietnam, supporting its gross margin goals of above 60%. The company has a robust profitability profile, and its strong return on capital employed, which we estimate at around 35% pre-tax after adjusting for goodwill and lease assets, enables the group to comfortably finance its expansion. Going forward we think the group will invest even more in its digital and logistic capabilities and less so in its store network. Interestingly, although Germany operates only ten stores it is the second largest online market after the French market with around 227 stores and we estimate online revenues already account for 60% of total sales in Germany. Last year the group grew revenues by 10.3% to EUR 1.2bn and operating profit by 2% to EUR 114m. France still accounts for 55% of total revenues but the international segment will soon overtake it given its continued strong growth of 19.2% last year. Maisons du Monde's online sales, which grew 20.1% to EUR 302m,and which we expect to reach EUR 700m by 2024, compare with pure online players like Westwing or home24 at EUR 267m and EUR 372m respectively, while both of them were still heavily loss-making as of last year. This year COVID-19 had a huge impact on retailers, with traditional offline players closing stores and online players seeing a strong growth in purchasing. Maisons du Monde fared relatively well considering their strong exposure to the hardest hit European countries. Store-based revenues decreased by 27% in the first half of 2020 and online partially compensated with an increase of 24.9%, for a total decline in revenues of 13.3% at EUR 489m. Operating profit was negative but free cash flow was strong, helped by positive working capital fluctuation, and net debt was reduced to EUR 106m excluding leases. We think it is hard to forecast how this year will end given the current uncertainty driven by the COVID-19 pandemic, and estimate revenues to be down around 10% and operating profit to be positive at around EUR 60m. Currently the market values the shares at around 11.5x its enterprise value to last year's net operating profit after tax. If the stock remains at these very attractive levels, we see the chance of the company being taken over as it boosts a strong free cash flow margin of around 10% even after growth capital expenditures. We believe a multiple of 16x enterprise value to net operating profits after tax reflects the quality and growth outlook more appropriately, giving the shares an upside of more than 40% for the next fifteen months.

Top Five Long Holdings as at 30 September 2020

Company	Country	Sector	% of NAV
Sto	Germany	Materials	5.6
Vossloh	Germany	Industrials	3.8
Cpl Resources	Ireland	Industrials	3.7
Cegedim	France	Health Care	3.3
Piteco	Italy	Information Technology	2.7
			19.1

Exposures as at 30 September 2020

Longs%	Shorts%	Gross Exposure%	Net Exposure%
82.4(79.7)	45.0(45.4)	127.4(125.1)	37.4(34.3)

Figures in brackets refer to previous month end. All calculations are subject to the impact of rounding

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

Country	Gross%	Net%
Australia	1.2	-1.2
Austria	5.2	1.4
Belgium	1.7	1.7
France	10.7	7.8
Germany	29.0	17.1
Hong Kong	1.3	-1.3
Ireland	5.3	5.3
Italy	6.2	5.2
Netherlands	1.5	1.5
Norway	3.0	-0.4
Other	3.9	-0.4
Sweden	2.4	1.5
Switzerland	6.7	-6.7
United Kingdom	38.9	9.8
United States	10.4	-3.8

Market Cap	Gross%	Net%
>£2bn	28.4	-2.4
£700m - £2bn	31.1	-7.9
£200m - £700m	39.1	21.0
<£200m	28.7	26.6

Positions	Sep	Aug
Long	85	81
Short	71	66
Longs Opened	6	3
Longs Closed	2	3
Shorts Opened	7	1
Shorts Closed	2	9

Sector	Gross%	Net%
Communication Services	6.2	3.3
Consumer Discretionary	25.2	1.3
Consumer Staples	3.1	3.1
Energy	0.0	0.0
Financials	8.4	7.1
Health Care	6.8	2.3
Industrials	31.6	15.9
Information Technology	31.9	-6.3
Materials	8.5	7.6
Real Estate	5.7	3.1
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.

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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