Ennismore European Smaller Companies Fund

Investor Newsletter for the month of October 2020

Issued on 4 November 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 299m as at 30th October. Total assets under management by Ennismore Fund Management were GBP 582m. 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 October 2020

	Share Class[2]				
	GBP A £	**GBP A €**	**GBP B**	**EUR A**	**EUR B**
NAV per Share[1]	**118.11**	**131.10**	**19.96**	**18.70**	**18.78**
Period	**% Change**				
October 20	**-3.1**	**-2.5**	**-3.1**	**-2.5**	**-2.5**
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	**-16.8**	**-21.8**	**-16.8**	**-21.8**	**-21.8**
Annualised return[3]	**12.1**	**10.8**	**7.3**	**6.6**	**6.7**
Since launch[3]	**1103.4**	**830.9**	**99.6**	**87.0**	**87.8**
	Discrete 12 Month Rolling Performance - % Change				
To 31 October 20	-17.0	-20.6	-17.0	-20.9	-20.9
To 31 October 19	9.9	13.0	9.9	12.3	12.4
To 31 October 18	4.5	3.4	4.5	3.5	3.5
To 31 October 17	5.6	8.3	5.6	8.1	8.1
To 31 October 16	20.6	-4.1	20.7	-0.1	-0.1

[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 decreased by 3.1% in October. Our long book cost 4.3% while the Fund's short exposure contributed 1.5%. Our long position in Cegedim cost us 0.6% in the month as the company returned to growth in the third quarter but had to withdraw its guidance due to renewed lockdown in France. Our short position in a US education company contributed 0.7% as the share price declined 26% following a broker downgrade, and our short in a UK online retailer contributed 0.6% after they announced the CEO will be leaving the company.

Top 5 Contributors and Detractors for October 2020

Contributors	MTD (bp)
US education company	67
UK online retailer	59
Hong Kong real estate company	28
Secure Trust Bank PLC	24
Under Armour, Inc.	20

Detractors	MTD (bp)
Cegedim SA	-59
Costain Group Plc	-45
UK software company	-43
Exasol AG	-40
Sto - Preferred	-34

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

Hammerson Plc – UK property investment company (2.0 % NAV)

Hammerson is a property investment company that owns retail and leisure destinations. With a market capitalisation of GBP 642m it trades on a discount of over 80% to its last reported book value, adjusted for a recent net GBP 525m rights issue. It is clearly in the eye of the Covid-19 storm right now but we think that there is significant value in the stock over the medium term, the business having generated around GBP 200m net profit per annum excluding capital value changes over the last couple of years.

The company post a disposal of their 50% holding in VIA Outlets, is left with underlying ownership in GBP 7bn of investment assets with a 2019 net rent roll of circa GBP 400m. The assets are 56% in its flagship destinations - held in joint ventures and wholly owned – encompassing 21 sites e.g. the Bull Ring in Birmingham, across UK (c. 50%), France (30%) and Ireland (20%). 29% is in associates consisting mainly of 9 premium outlets across Europe, such as Bicester Village in the UK, via their 40% holding in the Value Retail (VR) venture, 8% in development sites, and the rest across 8 retail parks in the UK. This all compares to underlying look-through net debt of circa GBP 2.9bn post the disposal and rights issue.

In the flagship assets capital values have been under pressure in recent times due to both macro difficulties and online penetration increasingly putting pressure on the offline retail sales. We, and the company, expect rents to come down over the next few years but longer term we believe that the mixed "clicks and mortar" model will prove to be the winning formula as it reduces online marketing costs due to stronger brand recognition as well as offering a better service proposition to customers with a multi-channel offering e.g. click and collect. We also believe there is a strong argument for fiscal assistance from the government with business rates being reduced for stores and replaced by taxation targeted at the online sector. Hammerson is looking to move to a rebased rent level in the UK which will be index-linked with a performance-based top-up likely to be linked to footfall. This makes sense to us and will mean more than ever that they need to make sure they have tenants which are market share winners – we see this enforced focus as a good thing. It will also mean there may be substantial rotation, and higher churn, in tenants, we also expect more space is likely to go to non-shopping tenants such as leisure offerings in a post Covid-19 world.

Both the chairman and CEO have been replaced and we expect the new team to bring renewed energy and a more proactive view of managing and optimising Hammerson's assets. The new CEO has only just started but our conversation with the new chairman - the ex- CEO of Land Securities – gave us some confidence in that regard.

Hammerson will continue to look to reduce debt and simplify the corporate structure, with disposals in France and, perhaps, the investment in VR likely to be the favoured sources of funds. If Hammerson was able to sell its GBP 1.2bn French assets, primarily two wholly owned assets, then as well releasing significant cash it would also enable a significant cut in the cost base of the company. The French market has had more stable asset prices due to less online penetration and indexed rent levels. For VR, premium outlets has been a retail segment showing structural growth and although currently Covid-19 is clearly hurting, over time we expect recent trends to resume. The 2019 net rental yield implied by the sale price of VIA Outlets, an investment asset similar to VR, would suggest around a 10% percent reduction to the GBP 1.9bn valuation as at 30 June 2020.

This year will be very difficult due to Covid-19 and rent collecting negotiations have not been helped by Hammerson's inability to evict tenants until the end of the year in the UK, under temporary legislation. We expect a reduction of over 40% in total rent collected this year, although some of this may be collected in future and overall net profit excluding valuation changes to fall very substantially this year but recovering in 2021 to around GBP 100m.

Due to Covid-19 in the first half of 2020 there has been significant reduction in capital values with the portfolio overall down by almost 12%. In our conservative forecasts, we assume asset values trough at a 35% fall from 30 June 2020 levels assuming rent falls of around 30% versus 2019 along with increased rent capitalisation rates. On this basis the book value of Hammerson would fall to around GBP 1.8bn.

Overall, in a two-year time frame putting the valuation on a conservative 40% discount to our trough book value expectations would lead to an upside of over 60%.

Top Five Long Holdings as at 30 October 2020

Company	Country	Sector	% of NAV
Sto	Germany	Materials	5.5
Cpl Resources	Ireland	Industrials	3.9
Vossloh	Germany	Industrials	3.7
Cegedim	France	Health Care	2.9
Piteco	Italy	Information Technology	2.6
			18.5

Exposures as at 30 October 2020

Longs%	Shorts%	Gross Exposure%	Net Exposure%
79.5(82.4)	40.3(45.0)	119.8(127.4)	39.2(37.4)

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 October 2020

Country	Gross%	Net%
Australia	1.5	-1.5
Austria	4.6	1.8
Belgium	1.5	1.5
France	9.6	7.3
Germany	25.7	14.9
Ireland	5.5	5.5
Italy	5.6	5.1
Japan	1.2	0.3
Netherlands	1.4	1.4
Norway	3.8	-0.5
Other	3.8	-1.5
Sweden	2.4	1.6
Switzerland	6.1	-6.1
United Kingdom	38.8	11.8
United States	8.4	-2.3

Market Cap	Gross%	Net%
>£2bn	26.5	-1.6
£700m - £2bn	22.2	-9.6
£200m - £700m	43.7	26.0
<£200m	27.4	24.4

Positions	Oct	Sep
Long	83	85
Short	70	71
Longs Opened	2	6
Longs Closed	4	2
Shorts Opened	2	7
Shorts Closed	3	2

Sector	Gross%	Net%
Communication Services	5.7	2.8
Consumer Discretionary	21.8	1.6
Consumer Staples	3.2	3.2
Energy	0.0	0.0
Financials	9.1	7.6
Health Care	5.9	3.0
Industrials	30.3	15.8
Information Technology	30.3	-5.5
Materials	8.2	7.5
Real Estate	5.4	3.3
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.

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.

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