Ennismore Global Equity Fund

Investor Newsletter for the month of December 2020

Issued on 12 January 2021

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 USD 272m as at 31st December. Total assets under management by Ennismore Fund Management were USD 795m. The number of shares issued by our funds is capped in order to limit the level of assets under management in each strategy. We currently have capacity available in the Ennismore Global Equity Fund. If you would like to invest please contact Jo-Anne Bailey on +44 (0) 20 7368 4231 or email subs@ennismorefunds.com.

Top Five Long Holdings as at 31 December 2020

Company	Country	Sector	% of NAV
thyssenkrupp AG	Germany	Materials	10.1
METRO AG	Germany	Consumer Staples	8.0
Royal Mail PLC	United Kingdom	Industrials	7.6
Schibsted ASA	Norway	Communication Services	7.1
Vivendi SA	France	Communication Services	5.1
			37.8

Exposures as at 31 December 2020

Longs%	Shorts%	Gross Exposure%	Net Exposure%
85.9(103.1)	43.9(72.5)	129.8(175.6)	42.0(30.6)

Figures in brackets refer to previous month end. All exposures are calculated on a delta adjusted basis. All calculations are subject to the impact of rounding

Exposures by Country, Market Cap & Sector as % NAV and Positions as 31 December 2020

Country	Gross%	Net%
United States	30.3	-4.3
United Kingdom	26.2	14.7
Germany	21.5	15.8
Norway	11.6	2.6
Sweden	7.9	7.9
Netherlands	5.8	5.8
France	5.5	5.1
Cayman Islands	4.8	-4.8
South Africa	3.6	3.6
Switzerland	3.0	-3.0
Japan	2.2	2.2
Other	7.4	-3.8

Market Cap	Gross%	Net%
>$10bn	46.2	6.7
$5bn - $10bn	23.3	14.7
$1bn - $5bn	46.8	24.9
<$1bn	13.3	-4.1

Positions	Dec	Nov
Long	44	50
Opened	2	7
Closed	8	2
Short	83	108
Opened	0	9
Closed	25	5

Sector	Gross%	Net%
Communication Services	32.7	11.3
Consumer Discretionary	26.7	3.1
Consumer Staples	14.2	11.9
Energy	0.0	0.0
Financials	4.0	2.8
Health Care	3.6	-3.3
Industrials	14.4	6.0
Information Technology	14.9	-1.0
Materials	15.0	12.0
Real Estate	4.0	-0.7
Utilities	0.0	0.0
Other	0.2	-0.2

Geographic analysis relates to country of incorporation or listing. This may not represent the underlying economic exposure of the operating business.

Performance as at 31 December 2020

	Share Class					
	GBP	GBP A	EUR	CHF	EUR I	USD I
NAV per share[1]	**10.79**	**10.74**	**10.47**	**10.40**	**8.60**	**8.50**
Period	% Change					
December 20	**2.1**	**2.2**	**2.2**	**2.2**	**2.0**	**2.2**
November 20	-3.6	-3.6	-3.0	-1.6	-3.7	-3.6
October 20	-0.7	-0.7	-0.1	-0.8	-0.8	-0.7
2020	**-21.4**	**-21.3**	**-25.5**	**-25.7**	**-22.6**	**-21.5**
Annualised return[2]	**1.8**	**1.7**	**1.1**	**0.9**	**-5.9**	**-7.8**
Since launch[2]	**7.9**	**7.4**	**4.7**	**4.0**	**-14.0**	**-15.0**
	Discrete 12 Month Rolling Performance					
To 31 December 20	**-21.4**	**-21.3**	**-25.5**	**-25.7**	**-22.6**	**-21.5**
To 31 December 19	**7.7**	**7.3**	**12.8**	**9.5**	**5.9**	**-**
To 31 December 18	**18.6**	**18.6**	**18.0**	**13.9**	**-**	**-**

[1]Source: Administrator, Net Asset Value. [2]Since inception of GBP, GBP A, EUR and CHF share classes on 03/10/16, EUR I share class on 03/07/18, USD I share class on 02/01/19. Note: All performance figures net of fees. **Past performance is not a guide to future returns.**

Attribution %		GBP	EUR	CHF
Long	Q4 20	16.0	17.1	17.5
	Q3 20	9.3	9.5	10.5
	Q2 20	25.2	23.5	23.5
	Q1 20	-23.8	-25.6	-27.0
Short	Q4 20	-16.9	-17.2	-17.2
	Q3 20	-17.7	-17.9	-18.2
	Q2 20	-18.9	-18.7	-18.7
	Q1 20	7.7	7.0	6.9

Top 5 Contributors and Detractors for December 2020

Contributors	MTD (bp)
Thyssenkrupp AG	360
METRO AG	126
Royal Mail plc	84
Ascential Plc	37
Nordic Entertainment Group AB	34

Detractors	MTD (bp)
Tesla Motors Inc	-71
Mixi Inc	-50
UK air transport service company	-50
US financial services company	-50
US information technology company	-46

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

The fund's NAV declined by between 0.4% and 2.5% in the quarter, depending on currency. This was the product of fairly spectacular performance, sadly in opposite directions, from the two sides of the book.

In GBP terms, the long book contributed 16.0%. The main positives were ThyssenKrupp AG (+5.0%) which remains substantially the largest position in the fund, and which we discuss in depth in this letter, as well as Royal Mail plc (+3.1%), which benefited from another significant profit forecast upgrade, and Under Armour, Inc. (+1.9%). Mixi Inc (-0.5%) was the largest negative contributor from the long book.

Unfortunately, this strong performance was offset by another poor period for the short book, which cost 16.9%. The main negatives were Tesla Motors, Inc (-1.5%) and advertising agency Veritone, Inc (-1.4%), with a significant number of smaller negative contributors.

2020 has been a humbling year for us. We have done a great deal of both private and public self-flagellation. The clearest lesson is very obvious in hindsight: our portfolio was poorly positioned for a market defined by extreme speculation, which is a truly hostile environment for a short book where stock promotions are a key part of the strategy. Having cut back short exposure significantly in August, we made much deeper cuts to the book in December, ending the year with the smallest short exposure we have had since late 2018, at just under 44% of NAV. Almost 10 percentage points of this is hedges against long positions (mainly Tencent, closehedged against Naspers/Prosus, and Adevinta, hedged against Schibsted), so the true single name short exposure at year end was a little below 35%. This is decently below our typical level. We have since reduced it below 30%. In particular, companies we believe are either stock promotions or frauds represent about 10% of NAV as of writing, and we have reduced Tesla Motors, Inc and Nio Limited to a combined exposure of below 1% of NAV. These changes reflect our intention to avoid ever having to report to you another period of short book performance like Q4.

One indication of the speculative temperature this year has been the average first day pop of IPOs. This suggests that the US equity market was already becoming speculative in 2019, and that a speculative environment re-emerged as early as May 2020, following the March crash. Since 1980 there have only been five years where the average first day return of US IPOs was higher than 21%: 1998, 1999, 2000, 2019 and 2020. The data also suggest the environment has become increasingly speculative throughout 2020: the average first day return in Q2 was 35%, in Q3, 38%, and in December a pretty remarkable 72%. If we identify such a speculative market in future, we will be much quicker to cut back our short portfolio, particularly the promotional component of the book, and to consider using put options to replace some of the downside protection – as we have done in December and January. The put options are important, as we suspect that the unwind of the current environment, when it comes, will happen fast – too fast to realistically expect to add back significant short exposure to individual promotional stocks in time to benefit. The Russell 2000 Index declined by 35% in two weeks in March 2020, for instance, and the Nasdaq Composite by 34% in just over a month in March 2000.

The write-up of ThyssenKrupp AG ("TKA") below highlights an improvement we think we have made to our process this year. Historically, some of our biggest mistakes have been selling out of positions in great companies too early – and then compounding the mistake by never buying them back. Painful examples from Ennismore's history include Xing (sold in 2014) and Rightmove (sold in 2009 and only bought back in 2018 with the arrival of a new portfolio manager). As the bible says, "As a dog returns to his vomit, so a fool repeats his folly" – sadly we repeated the trick earlier last year, selling out of Etsy completely in April and early May after the stock doubled in a few weeks. It promptly doubled again over the summer once the scale and persistence of the acceleration the pandemic had brought to Etsy's business became clear. Obviously, we would have been better off doing this earlier, but in October we finally sat down and conducted a thorough re-appraisal of Etsy. We were impressed enough to buy back into the company, and so far have been rewarded. TKA is another example of this change in approach.

"Alexa, what is ThyssenKrupp?"

"A German multinational conglomerate with a focus on industrial engineering and steel production."

That is one answer. Starting with the income statement you might be tempted with a shorter one: "It's a total mess". TKA reported an operating loss of more than EUR 5bn for the year ended September 2020.

It is certainly not what it was. We took a long position in 2019 when we were convinced that management was finally (after at least two decades of talk) serious about separating out its prize asset, the lift manufacturing and servicing business. Our range for what this could be worth appeared to be significantly above consensus (and more than the shares implied the whole company was trading for). This was confirmed in February 2020 when it sold for EUR 17bn, allowing TKA to report a net profit of over EUR 11bn for the year.

Life, as they say, gets in the way. Trading in TKA's remaining businesses mostly fell off a cliff as Europe locked down. Being cyclical wasn't news and didn't change the long term value of the company all that much (particularly as the sale proceeds meant liquidity would not be an issue). The value of the lifts business was no longer in doubt either. Our investment idea had largely played out so why was the market so pessimistic, with the stock down by two thirds between the start of the year and May?

We won't ever pretend to understand Mr. Market but it is our job to profit from him. Our initial response was to confirm our investment thesis was intact (in particular, that the agreed sale price for the lifts business could not be renegotiated) and then to add to the position. But in August management disclosed a EUR 2.5bn working capital adjustment. This was basically undoing a deeply entrenched culture of year end window dressing. We were not unaware of this culture, but we

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were taken back by the scale of the adjustment – around double what we had in our estimates. That was a big miss relative to fair value and enough for us to sell the position.

We have said before that we think it is important to be disciplined about exiting positions where our idea is not playing out, even if the share price has been going our way or we start to see other valid reasons to hold. Thesis drift is dangerous. We have generally managed to avoid it. As discussed above, what we have often not done so well is to re-evaluate relatively quickly and then take the positive decision to go back in. We did that with TKA in October and, so far, it has been a much happier experience, more than offsetting earlier negative returns.

Why did we invest in TKA again? Well, if you started with its balance sheet then you might be tempted to describe it as value (yes, we know that's a dirty word these days). At the end of September 2020, it had net tangible assets of over EUR 9bn. Some of the assets are difficult to value, particularly the Duisburg steel plant, which might need writing down by EUR 2-3bn. But a lot are simple, particularly net cash and working capital. Most importantly the net asset value includes an unfunded pension liability of EUR 10bn but the cash cost of funding this implies a liability that is perhaps half as big. In contrast, when we bought back in, TKA's equity was valued at about EUR 2.5bn. Today it is a little over EUR 5bn.

Financial accounts are meant to be statements of fact but they do not portray a complete picture (and don't claim to). If they did TKA wouldn't have held its lifts business at only a tiny fraction of its market value. Similarly, we didn't buy TKA because of its balance sheet alone. We think it is undervalued based on our assessments of its various remaining businesses and, crucially, because we remain convinced that this management team is actually working to realise this value for all stakeholders, including shareholders. We have looked hard for signs of any more undisclosed liabilities, but failed to find any. In fact, we suspect the adjustment taken in August was probably a pretty sizeable "kitchen sink".

We'll spare you the division-by-division analysis in this letter. There are some very good businesses in the group: rothe erde is the world leading manufacturer of slewing bearings for wind turbines; some mediocre ones with great asset backing: metal distribution is probably worth about the same as its c. EUR 2bn of inventory, which isn't perishable; and some speculative ones: Uhde Chlorine Engineers dominates the market for electrolysis plant to produce hydrogen (smaller listed peer Nel ASA has an enterprise value of EUR 4bn). Steel production is the hardest to value but there is at least a bid on the table for it, with due diligence ongoing. Overall, we think the group's equity is worth about EUR 10bn and, importantly, that there is little risk that it is worth less than its current share price given all those tangible assets.

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