Ennismore European Smaller Companies Fund

Investor Newsletter for the month of June 2021

Issued on 7 July 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 GBP 342m as at 30th June. Total assets under management by Ennismore Fund Management were GBP 581m. 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 June 2021

	Share Class[2]				
	GBP A £	GBP A €	GBP B	EUR A	EUR B
NAV per Share[1]	**149.15**	**173.74**	**25.20**	**24.85**	**24.96**
Period	% Change				
June 21	**1.0**	**1.1**	**1.0**	**1.1**	**1.1**
May 21	3.4	4.6	3.4	4.8	4.8
April 21	4.7	2.6	4.7	2.8	2.7
March 21	4.5	6.5	4.5	6.5	6.5
February 21	1.7	3.7	1.8	3.7	3.7
January 21	-5.2	-4.1	-5.2	-4.0	-4.1
2021 to date	**10.3**	**15.0**	**10.3**	**15.3**	**15.3**
Annualised return[3]	**12.9**	**11.9**	**9.3**	**9.1**	**9.2**
Since launch[3]	**1419.7**	**1133.7**	**152.0**	**148.5**	**149.6**
	Discrete 12 Month Rolling Performance - % Change				
To 30 June 21	15.7	22.5	15.6	22.8	22.8
To 30 June 20	-7.5	-9.0	-7.5	-9.8	-9.8
To 30 June 19	8.3	7.0	8.3	7.1	7.2
To 30 June 18	5.7	4.9	5.6	5.0	5.0
To 30 June 17	11.3	5.4	11.4	7.2	7.1

[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 increased by 1.0% in June. Our long and short books each contributed 0.8%.

Top 5 Contributors and Detractors for June 2021

Contributors	MTD (bp)
STO SE & Co KGaA	56
Strabag Se-Br	31
US education company	29
UK building products distributor	26
UK travel services company	22

Detractors	MTD (bp)
HeiQ Plc	-24
Swiss electronics manufacturer	-21
UK consumer services co.	-18
Secure Trust Bank Plc	-17
LSL Property Services Plc	-17

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

U & I Group – UK Property Developer (1.8% NAV)

U & I Group (U&I) is a GBP 117m market capitalised, property investor and regeneration specialist that we've been invested in for over five years. We are more confident than ever that the market is currently heavily undervaluing the company. Since we last wrote back in April 2016 the most significant change which gives us increased conviction is the previous Chief Executive Officer and Chief Financial Officer having been replaced. This we believe will be helpful in the execution of the strategy to simplify the business model and will also allow the company to be run on a much leaner cost base, both ultimately helping to achieve stronger equity returns. Richard Upton, the previous Deputy Chief Executive Officer, has now taken over the reins and we have full confidence in him not repeating the past mistakes of the business but rather having a laser focus on increasing returns on capital by disposing of non-core projects, leaving a much smaller, simpler portfolio with the best risk versus return characteristics suited to the company.

Since we last wrote the investment has been an extremely disappointing one with the share price falling by around 30%, adjusted for dividends, not helped by the book value also falling by 25%, on the same basis, to GBP 203m. The fall in net asset value has primarily been due to write downs in their property portfolio of GBP 55m, especially in the retail area, not helped by the recent Covid-19 situation, alongside some other poor legacy investment decisions. Clearly, we should not have invested in U & I at that time with too many uncertainties over that executive's previous track record and decision making. Last year was a particularly poor year for U&I with GBP 45m of impairments taken on properties and development projects, however we do feel the property portfolio and work in progress on projects has now been freshly looked over and discounted more aggressively by the new management team and gives us a lot more confidence that the balance sheet is now conservatively valued overall.

Currently the company has an investment portfolio of GBP 95m, a non-core development and trading assets portfolio of GBP 126m and core regeneration assets of GBP 58m. Going forward the new strategy is to dispose of the 35 non-core assets which we believe will generate a small book gain from the circa GBP 110m of cash in, net of debt attached, over the next two years with bigger gains further out. It will obviously help to reduce the leverage further from the GBP 72m at the year end and release capital to be reinvested towards the regeneration part of the business, which have the highest targeted returns. The investment portfolio is held to help give an ongoing revenue stream and consists of 15 assets now which will be optimised going forward on a total return basis, as it stands around half the portfolio is in retail & shopping centres with commercial, leisure and some land making up the rest. The equivalent rental yield overall sits around 8.5% which given the overall mix seems prudent to us. The investment portfolio has an expensive fixed long-term debt facility which we give a negative value at GBP 5m above the value of the debt on the balance sheet. The regeneration portfolio currently consists of five schemes, of which we expect four are more likely to proceed - these are based in Manchester, Cambridge and two in London. The company believes these four schemes have a total development value of over GBP 5 billion and profits of over GBP 1 billion, over the next decade. Clearly U & I don't have the finances to develop out schemes of this size but instead would partner up with suitable partners and would take a small proportion of the schemes' value as they develop. We and the company were very disappointed by a recent decision by the Secretary of State for Housing reversing a previous planning permission from Lambeth council to help to regenerate the old London Fire Brigade Headquarters, but it does show the uncontrollable political risks in certain regeneration projects. We believe this decision will knock off around GBP 11m off the book value of U & I as work they've capitalised on this scheme over the last number of years will most likely now need to be written off. Notwithstanding this we have more confidence than ever in the execution of the management plans going forward.

The streamlining of the company's cost base is a key part of the strategy in increase equity returns in the business and is assisted by the reduction in the number of the assets U & I are involved with. Overall, the plan is to reduce overhead by more than 40% from GBP 21m one year ago to GBP 12m by March 2023, this is mainly being achieved by reducing, now, unneeded staff resource due to a smaller number of projects over the medium term. This implies, ceteris paribus, circa 300 basis points increase in the structural return on equity of the business.

It's good to see our continued belief in the undervaluation of the share seems to be in agreement with management as they've recently spent around GBP 250k buying shares around current levels. We value the business prudently on a sum of the parts basis, putting the investment portfolio at a 10% discount to book value, the non-core assets at book value and the regeneration assets, expected to proceed, at a premium of 50% to book value given the huge potential upside from these schemes. Netting off debt and other deductions mentioned leaves a fair value of GBP 200m, allowing then a discount on this of 15% gives upside to the current share price of over 45% over the next 12 months.

Top Five Long Holdings as at 30 June 2021

Company	Country	Sector	% of NAV
STO SE & Co KGaA	Germany	Materials	7.9
Vossloh AG	Germany	Industrials	3.8
Studio Retail Group Plc	United Kingdom	Consumer Discretionary	3.0
UP Global Sourcing Holdings Plc	United Kingdom	Consumer Discretionary	2.9
Costain Group Plc	United Kingdom	Industrials	2.8
			20.4

Exposures as at 30 June 2021

Longs%	Shorts%	Gross Exposure%	Net Exposure%
76.1(78.5)	28.2(27.7)	104.3(106.2)	47.8(50.8)

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 June 2021

Country	Gross%	Net%
Austria	3.9	1.8
Belgium	1.8	1.7
Finland	0.5	-0.5
France	4.0	2.8
Germany	24.9	18.4
Italy	3.9	3.7
Luxembourg	1.3	1.3
Netherlands	3.2	3.1
Norway	5.2	-1.4
Other	0.8	-0.8
Spain	0.6	0.6
Sweden	5.8	1.5
United Kingdom	41.4	18.6
United States	3.9	-0.5

Market Cap	Gross%	Net%
>£2bn	19.0	-2.5
£700m - £2bn	21.5	8.5
£200m - £700m	37.6	16.2
<£200m	26.2	25.6

Positions	Jun	May
Long	66	69
Short	57	52
Longs Opened	1	3
Longs Closed	4	1
Shorts Opened	8	5
Shorts Closed	3	3

Sector	Gross%	Net%
Communication Services	1.8	-0.0
Consumer Discretionary	24.5	4.1
Consumer Staples	5.0	2.3
Energy	0.0	0.0
Financials	9.9	8.8
Health Care	3.7	2.7
Industrials	24.6	12.8
Information Technology	19.1	2.2
Materials	9.9	9.2
Real Estate	5.8	5.8
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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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.

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