

Ennismore European Smaller Companies Fund

Investor Newsletter for the month of November 2017

Issued on 8 December 2017

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 385m as at 30th November. Total assets under management by Ennismore Fund Management were GBP 632m. Our funds are hard closed to new investment with the number of shares in issue capped and we have a waiting list of clients that want to invest as and when capacity becomes available through redemptions. If you would like to be included on this please call Eleanor Scott on +44 (0) 20 7368 4219 or email subs@ennismorefunds.com. Redemptions can be made through the Administrator in the usual way.

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. Index data is provided in the following table as a guide to general equity market conditions.

Performance as at 30 November 2017

	Share Class ²					HSBC Index ³		MSCI Index ⁴
	GBP A £	GBP A €	GBP B	EUR A	EUR B	GBP	EUR	(local)
NAV per Share¹	124.49	141.33	21.03	20.33	20.40			
Period	% Change					% Change		
November 17	0.4	-0.1	0.3	0.0	0.0	-1.7	-2.1	-1.7
October 17	-1.2	-0.8	-1.2	-0.9	-0.8	1.0	1.6	2.1
September 17	-1.2	3.4	-1.3	2.6	2.5	-0.2	4.3	2.7
August 17	1.5	-1.6	1.5	-1.0	-1.0	2.1	-0.8	0.1
July 17	2.7	0.9	2.7	1.2	1.2	2.8	0.7	0.6
June 17	-0.6	-1.4	-0.5	-1.2	-1.2	-1.8	-2.4	-2.3
May 17	2.2	-1.2	2.2	-0.6	-0.6	5.5	1.9	2.6
April 17	1.0	2.7	1.0	2.4	2.4	3.1	4.5	1.5
March 17	0.9	0.7	0.9	0.8	0.7	2.3	2.5	3.5
February 17	-0.2	0.4	-0.2	0.3	0.3	2.5	3.0	2.8
January 17	1.2	0.6	1.2	0.7	0.7	1.8	1.4	-0.3
2017 to date	6.8	3.5	6.8	4.1	4.1	18.7	15.2	12.0
Annualised return⁵	14.4	13.0	11.4	10.9	11.0	10.3	8.9	4.3
Since launch⁵	1168.4	903.6	110.3	103.3	104.0	530.4	397.4	122.7
	Discrete 12 Month Rolling Performance - % Change							
To 30 November 17	8.9	5.0	8.9	5.7	5.7	25.9	21.3	18.5
To 30 November 16	16.6	-3.7	16.5	-0.2	-0.2	15.7	-4.2	-2.5
To 30 November 15	5.5	19.7	5.5	16.9	16.9	10.6	25.4	6.8
To 30 November 14	9.0	13.8	9.1	13.0	13.0	1.3	5.6	7.9
To 30 November 13	24.7	21.7	24.6	22.5	22.4	39.3	36.0	22.0

¹Source: Administrator, Net Asset Value. ²Source: Administrator, Net Asset Value, net income reinvested. ³Source: Bloomberg, Euromoney (formerly HSBC) Smaller European Total Return Index. ⁴Source: Bloomberg, MSCI Europe Index, local currencies, total return. ⁵Since 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 0.4% in November. Our long book was flat while the Fund's short exposure contributed 0.7%. Both Servelec and IGE+XAO added 0.4% after receiving takeover offers from a private equity firm and Schneider Electric respectively. JD Sports detracted 0.4% despite no company news, and our short position in a UK semiconductor company cost 0.7%.

DEFAMA Deutsche Fachmarkt AG - German real estate company (0.4% of NAV)

DEFAMA is a real estate company which invests in retail assets in rural areas across Germany. Since 2014, founder and major shareholder Matthias Schrade has built up a high-quality portfolio. The focus is on acquiring retail parks in smaller cities valued between EUR 1m and 5m. The company uses inexpensive debt to finance high yielding assets and a cost conscious operating approach results in very attractive funds from operations (FFO). The company is at an early stage and given its market capitalisation of EUR 38m it is a smaller position in the Fund. We have high confidence in it however and own 5% of the equity. We think the combination of a business operating in a niche where it can exploit an inefficient market, coupled with entrepreneurial management is a highly attractive proposition.

DEFAMA is based in Berlin, but don't think fancy offices - it operates from a basement in the founder's home on the outskirts of the city. The management team is hands on and knows every asset inside out, conducting extensive due diligence on prospective purchases. To fit its criteria, retail parks must be well established, ideally with no competition in close proximity, have at least two strong anchor tenants, low vacancies and limited investment needs. For this, the company will pay no more than nine times annual net rental income. Management is extremely disciplined and would rather forego a deal than compromise on this. Geographically it focuses on smaller cities across North and East Germany that play a key role within the local area rather than prestigious cities where assets command much higher prices. The 22 assets acquired so far generate annual net rental income of circa EUR 6.3m and given the lean operating cost base this results in FFO of EUR 3.2m. Whilst a weighted average lease term (WALT) of 3.9 years may appear low, our assessment

of the assets confirms it is not an indication of low quality. We revert to the popular saying in property investment: Location, Location, Location! An upcoming lease expiry is only a concern if the property is no longer attractive to the tenant. For properties in good locations with no alternatives there is little risk of tenants leaving. The consistently low vacancy rate of 3%, combined with a clear bias towards value retailers, grocery and local service providers, where the threat from online is lower, is also supportive for demand. For DEFAMA the lower WALT is primarily because most assets are over 10 years old, and typical German leases are structured with an initial 10-year fixed term followed by options to extend for 5 year periods. We are also encouraged by the willingness of local banks who know the properties and market conditions well to finance assets at an average interest cost of just 2.5%. The current loan to value (LTV) is around 65% and strong cash generation would see this fall over time, but whilst attractive investment opportunities remain, we expect LTV to remain stable. Debt is fixed and long term – average duration is over 8 years - and structured as annuity loans. As we know from our investment in VIB Vermögen the beauty of this is that there is no refinancing risk and this provides a tailwind to the development of net asset value. It is no coincidence that one of the former management board members of VIB, Peter Schropp, is chairman of the supervisory board.

When we first met Mathias Schrade, the company was almost un-investable given its market capitalisation of EUR 20m, but we were impressed and initiated a small position. A recent placement of management shares allowed us to substantially increase our stake. Given management still owns 42% of the equity, we were not concerned by its decision to sell. By the end of 2017 the company will have EUR 4m cash available for further investments and we expect to see the acquisition of circa EUR 20m of assets over the next 18 months. This would result in a FFO yield of more than 10%, enabling the company to pay an attractive dividend of around 5%. Including dividends, we think there is 50% upside for the next 18 months based on a prospective FFO yield of 7.5%. Longer term, our base case sees DEFAMA growing rental income by around EUR 2m to 3m per annum, funded from cash flows or proceeds from recycling assets, enabling FFO to double by 2020. Given the significant opportunity for DEFAMA to grow, we are very happy to be investors for the long term.

Top Five Long Holdings as at 30 November 2017

Company	Country	Sector	% of NAV
1 Jd Sports	United Kingdom	Consumer Discretionary	5.3
2 Kongsberg Auto	Norway	Consumer Discretionary	3.3
3 Costain	United Kingdom	Industrials	3.2
4 Cegecim	France	Health Care	3.2
5 Renk	Germany	Consumer Discretionary	2.8
			17.8

Exposures as at 30 November 2017

Longs %	Shorts %	Gross Exposure %	Net Exposure %
76.2 (75.1)	51.6 (52.9)	127.8 (128.0)	24.6 (22.2)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 30 November 2017

Country	Gross%	Net%	Market Cap	Gross%	Net%	Sector	Gross%	Net%
Australia	1.5	0.6	>£2bn	37.3	-2.3	Consumer Discretionary	39.0	13.4
Austria	3.7	-0.6	£700m - £2bn	33.6	-4.9	Consumer Staples	10.4	-3.6
Belgium	1.1	-0.3	£200m - £700m	36.7	17.4	Energy	0.6	-0.6
France	8.1	6.2	<£200m	20.2	14.4	Financials	7.0	1.7
Germany	31.2	7.1				Health Care	5.6	3.7
Hong Kong	1.7	-1.7				Industrials	19.5	5.7
Italy	4.1	3.8				Information Technology	30.4	-3.1
Netherlands	4.0	-1.7				Materials	4.1	3.2
Norway	7.0	7.0				Real Estate	7.8	3.3
Spain	2.0	-2.0				Telecommunication	3.2	1.1
Sweden	2.0	0.4				Utilities	0.2	-0.2
Switzerland	5.4	-5.4				Other	0.0	0.0
UK	44.9	12.1						
US	9.5	-1.1						
Other	1.6	0.2						

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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