

# Ennismore European Smaller Companies Fund

## Investor Newsletter for the month of January 2018

Issued on 6 February 2018

### 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 384m as at 31<sup>st</sup> January. Total assets under management by Ennismore Fund Management were GBP 626m. 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 31 January 2018

|  | Share Class <sup>2</sup> |         |       |       |       | HSBC Index <sup>3</sup> |       | MSCI Index <sup>4</sup> |
|--|--------------------------|---------|-------|-------|-------|-------------------------|-------|-------------------------|
|  | GBP A £                  | GBP A € | GBP B | EUR A | EUR B | GBP                     | EUR   | (local)                 |
| NAV per Share <sup>1</sup>                       | 125.14                   | 142.85  | 21.14 | 20.59 | 20.65 |                         |       |                         |
| Period   | % Change                 |         |       |       |       | % Change                |       |                         |
| January 18                                       | -2.0                     | -0.7    | -2.0  | -0.7  | -0.7  | 0.5                     | 2.0   | 1.1                     |
| December 17                                      | 2.6                      | 1.8     | 2.6   | 2.0   | 1.9   | 3.1                     | 2.1   | 1.0                     |
| 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                     |
| 2018 to date                                     | -2.0                     | -0.7    | -2.0  | -0.7  | -0.7  | 0.5                     | 2.0   | 1.1                     |
| Annualised return <sup>5</sup>                   | 14.3                     | 13.0    | 11.2  | 10.9  | 10.9  | 10.4                    | 9.0   | 4.4                     |
| Since launch <sup>5</sup>                        | 1175.0                   | 914.4   | 111.4 | 105.9 | 106.5 | 553.1                   | 418.2 | 127.2                   |
| Discrete 12 Month Rolling Performance - % Change |                          |         |       |       |       |                         |       |                         |
| To 31 January 18                                 | 6.1                      | 4.1     | 6.1   | 4.7   | 4.7   | 20.8                    | 18.4  | 14.7                    |
| To 31 January 17                                 | 13.4                     | 0.7     | 13.4  | 3.2   | 3.1   | 28.1                    | 13.8  | 12.4                    |
| To 31 January 16                                 | 12.9                     | 11.2    | 12.8  | 11.1  | 11.1  | 6.8                     | 5.3   | -4.0                    |
| To 31 January 15                                 | 4.5                      | 14.1    | 4.6   | 12.5  | 12.5  | 0.6                     | 9.8   | 11.2                    |
| To 31 January 14                                 | 20.1                     | 25.3    | 20.2  | 24.6  | 24.4  | 23.5                    | 28.8  | 13.0                    |

<sup>1</sup>Source: Administrator, Net Asset Value. <sup>2</sup>Source: Administrator, Net Asset Value, net income reinvested. <sup>3</sup>Source: Bloomberg, Euromoney (formerly HSBC) Smaller European Total Return Index. <sup>4</sup>Source: Bloomberg, MSCI Europe Index, local currencies, total return. <sup>5</sup>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 fell by 2.0% in January. Our long book was flat while the Fund's short exposure cost 1.5%. Cegedim contributed 0.7% as the company reported improved Q4 revenues and increased profit guidance, and JD sports added 0.5% following a strong Christmas trading update. Kongsberg Automotive detracted 0.5%, giving up some of its previous gains. Our short position in a UK semiconductor company added 0.7% whilst our position in a German software company cost 0.4%.

### Intertrust - Dutch corporate services provider (0.9% NAV)

Intertrust is a trust and corporate secretarial services ("TCS") company based in the Netherlands. It helps corporates (typically multinationals and private-equity owned companies), funds and high net worth individuals set up and manage companies and trusts. Intertrust offers a broad range of services to their clients. These include the provision of independent directorships, company secretarial functions including the co-ordination of board meetings, taxation return preparation and filings, regulatory reporting and compliance as well as accounting, bookkeeping and financial reporting services. Its EUR 470m of revenue is split between the Netherlands (25%), Luxemburg (18%), the Cayman Islands (16%), Jersey (14%), Guernsey (7%) and ROW (20%). We estimate it will generate operating profit of around EUR 175m this year, a 37% margin.

There is a lot to like about Intertrust's business model. Around 80% of its sales are recurring and changing a TCS provider can create issues, with little economic benefit. The average revenue per client is around EUR 20k, insignificant relative to the client's total legal costs and pricing is similar amongst the blue-chip providers. This keeps customer attrition low at 10-15%, most of which is driven by an entity being liquidated. There is also something of a "friendly middleman". Most new client introductions come through lawyers, whose primary concern is choosing a firm with a strong reputation rather than cost. This is a critical service after all. This dynamic keeps most of the business in a handful of blue-chip TCS companies and means customers are price insensitive.

A new entrant would have a serious challenge to become profitable. Unlike the legal profession, it is very hard for a few partners to start out on their own. Scale matters. Providers need to serve clients across multiple jurisdictions and offer

many services. Large players also benefit from operating leverage – Intertrust’s margin in the Netherlands, where it is the number one player, is over 60%. Moreover, without a strong reputation, law firms are unlikely to introduce clients and attempting to gain share by undercutting existing providers will most probably prove ineffective when clients are price insensitive. This all means that a new entrant faces years of likely losses. These barriers to entry keep supply stable. Demand is growing at around 5% per annum, driven by increasing regulation, growing private-equity ownership and a trend towards outsourcing. As the number one or number two in its key markets, Intertrust’s sales should follow. The market is not particularly cyclical, down around 3% in the last recession.

Intertrust is not without its risks and a glance at its stock chart shows significant volatility since its IPO in 2015. We share some of the concerns – Intertrust’s net debt is 4 times operating profit, although its plan is to reduce this to 2 times. We believe this shouldn’t take long given its cash generative nature; its return on net operating assets is over 300%. Blackstone, its former private-equity sponsor, also underinvested in Intertrust and profit margins of 41% proved unsustainable. We are reassured that the company has increased investments and margins are now more sustainable at 37%. There has been a management change, which may cause concern, although the new CEO looks to be a good replacement. In our opinion, other concerns are misunderstood or overdone. Regulation is perceived to be a major risk but, save for universal tax harmonisation, it is more likely to be a tailwind. Each piece of new regulation adds more reporting and substance requirements, benefitting Intertrust. Capital allocation has generally been good. A series of bolt-on acquisitions have been done at single digit operating profit multiples and the company has been buying back shares cheaply. These short-term concerns have left us with something rare in this current market: a solid business that is growing organically at 4-5%, trading at a 10% FCF yield. TMF, its closest peer, was recently acquired by CVC. At the same valuation, Intertrust would trade 60% higher than its current market capitalisation of EUR 1.4bn. We think the shares could double over the next three to five years based on a more reasonable multiple of eighteen times operating profit after tax.

### Top Five Long Holdings as at 31 January 2018

| Company          | Country        | Sector                 | % of NAV    |
|------------------|----------------|------------------------|-------------|
| 1 Jd Sports      | United Kingdom | Consumer Discretionary | 5.9         |
| 2 Cegedim        | France         | Health Care            | 4.0         |
| 3 Costain        | United Kingdom | Industrials            | 3.5         |
| 4 Kongsberg Auto | Norway         | Consumer Discretionary | 3.3         |
| 5 Oslo Bors      | Norway         | Financials             | 3.1         |
|                  |                |                        | <b>19.8</b> |

### Exposures as at 31 January 2018

| Longs %     | Shorts %    | Gross Exposure % | Net Exposure % |
|-------------|-------------|------------------|----------------|
| 74.7 (77.2) | 49.8 (48.5) | 124.5 (125.7)    | 24.9 (28.7)    |

Figures in brackets refer to previous month end.

### Exposures by Country, Market Cap & Sector as % NAV and Positions as at 31 January 2018

| Country     | Gross% | Net% | Market Cap    | Gross% | Net% | Sector                 | Gross% | Net% |
|-------------|--------|------|---------------|--------|------|------------------------|--------|------|
| Australia   | 1.7    | 0.6  | >£2bn         | 38.2   | 0.9  | Consumer Discretionary | 37.1   | 14.6 |
| Austria     | 3.9    | -0.5 | £700m - £2bn  | 27.9   | -7.0 | Consumer Staples       | 8.8    | 0.0  |
| Belgium     | 1.2    | -0.3 | £200m - £700m | 41.4   | 17.6 | Energy                 | 0.7    | -0.7 |
| France      | 6.6    | 4.6  | <£200m        | 17.0   | 13.4 | Financials             | 8.6    | 2.6  |
| Germany     | 32.2   | 5.9  |               |        |      | Health Care            | 6.5    | 4.0  |
| Hong Kong   | 1.6    | -1.6 |               |        |      | Industrials            | 19.8   | 4.7  |
| Italy       | 4.2    | 3.7  |               |        |      | Information Technology | 26.7   | -7.6 |
| Netherlands | 2.6    | -0.4 |               |        |      | Materials              | 4.4    | 3.4  |
| Norway      | 7.7    | 7.7  |               |        |      | Real Estate            | 8.9    | 2.6  |
| Spain       | 0.7    | -0.7 |               |        |      | Telecommunication      | 3.0    | 1.3  |
| Sweden      | 1.6    | 0.8  |               |        |      | Utilities              | 0.0    | 0.0  |
| Switzerland | 5.5    | -5.5 |               |        |      | Other                  | 0.0    | 0.0  |
| UK          | 43.5   | 12.6 |               |        |      |                        |        |      |
| US          | 9.2    | -1.4 |               |        |      |                        |        |      |
| Other       | 2.3    | -0.6 |               |        |      |                        |        |      |

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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|---|---|----------------------|--|
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