

Ennismore European Smaller Companies Fund

Investor Newsletter for the month of April 2018

Issued on 3 May 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 375m as at 30th April. Total assets under management by Ennismore Fund Management were GBP 622m. 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 April 2018

	Share Class ²					HSBC Index ³		MSCI Index ⁴
	GBP A £	GBP A €	GBP B	EUR A	EUR B	GBP	EUR	(local)
NAV per Share ¹	125.06	142.56	21.13	20.54	20.61			
Period	% Change					% Change		
April 18	0.7	0.6	0.7	0.6	0.6	3.7	3.7	4.9
March 18	0.0	1.0	0.0	1.0	1.0	-2.6	-1.9	-1.9
February 18	-0.8	-1.8	-0.8	-1.8	-1.8	-2.0	-3.2	-3.5
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
2018 to date	-2.1	-0.9	-2.0	-0.9	-0.9	-0.5	0.6	0.4
Annualised return ⁵	14.1	12.8	10.8	10.4	10.5	10.2	8.8	4.3
Since launch ⁵	1174.2	912.3	111.3	105.4	106.1	546.6	410.8	125.6
	Discrete 12 Month Rolling Performance - % Change							
To 30 April 18	4.3	0.1	4.3	1.0	1.1	10.6	5.9	5.5
To 30 April 17	10.7	2.8	10.7	4.4	4.4	29.4	20.2	19.5
To 30 April 16	18.7	10.7	18.7	11.8	11.7	4.3	-2.4	-9.6
To 30 April 15	-1.4	11.1	-1.3	9.0	9.0	4.7	17.7	13.2
To 30 April 14	22.0	25.9	22.0	25.4	25.3	26.0	29.8	15.5

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 0.7% in April. Our long book contributed 3.0% while the Fund's short exposure cost 2.1%. JD Sports contributed 0.9%, reporting full year results ahead of market expectations. Tracsis added 0.4% after reporting strong results at the end of March and U&I added 0.3% following good results, which supports our view that the large discount to NAV is unwarranted. Our short position in a UK semiconductor company added 0.6%, whilst short positions in a German financial services company and a German software company cost 0.6% and 0.4% respectively.

Vossloh AG - German rail infrastructure manufacturer (2.4% of NAV)

Vossloh is a global leader for rail infrastructure components headquartered in Werdohl, Germany with a market capitalisation of EUR 640m. With its origins as a blacksmith supplying the Royal Prussian Railway in 1883, the company today is active in over 65 markets globally, generating revenues of EUR 918m and operating profits of EUR 70m in 2017. Vossloh underwent a comprehensive restructuring program between 2014 and 2017 and is now a pure play rail infrastructure provider with leading positions in its remaining three segments. Despite this, the share price is trading at lows not seen for 10 years. Sentiment towards the stock is incredibly weak - very few analysts have a buy recommendation, a far cry from 2014 when Vossloh was being promoted as Germany's best industrial restructuring case. We think this bodes well for an investment entry point. After following the company for many years, we now see the opportunity to invest in a high-quality business at a very attractive valuation.

Up until 2013, Vossloh was controlled by its founding family, who used the cash flow from their bestselling rail fastening products to fund a large number of acquisitions. This resulted in an inefficient conglomerate made up of many sub-scale operations with limited synergies between them. The family owners were not in a position to recognize or address this and sold their shareholdings after strategic shareholder Heinz Hermann Thiele gained control of the supervisory board in 2013. Since then, a new management team has been installed and the restructuring program has largely been completed with the exception of the sale of one of the non-core businesses, which is likely to be sold this year. What remains is a very attractive business. The rail infrastructure market is relatively defensive and grows at around 4% annually. Demanding technical requirements and the need to serve large customers globally make for high barriers to entry. 80% of revenues are maintenance related, with a high degree of repeat business and order book providing good visibility. Although the timing of orders in different countries can be volatile, Vossloh's global presence smooths this. The company has strong

market positions and is the second largest player globally in fastening systems with a 20% share (behind Pandrol with a 25% share), and customised modules with a 19% share (after Voestalpine with a 28% share). Outside of these larger players, the industry remains fragmented, giving Vossloh the opportunity to use its strong cash flow to act as a consolidator in the future.

With most of the restructuring complete, management is focussed on restoring profitability and we expect operating margins to benefit from more vertical integration as well as capital investments to increase efficiency and output. The Core Components segment which produces fastening products and accounts for EUR 351m of revenues, already makes 14.5% operating margins, but there is clear scope for improvement in both Customised Modules and Lifecycle Solutions where operating margins are just 6.2% and 7.2% respectively. The company also aims to supplement organic growth with value enhancing bolt on acquisitions. As a result, we expect revenue growth of ten percent per annum over the next five years with margin expansion driving profit growth in excess of this and return on capital employed improving towards 20%. After a period of investment, cash generation is improving and we were encouraged to see that the company reinstated its dividend in 2017 resulting in a 2.4% yield. We expect cash flow and dividends to improve further.

Whilst the outlook for 2018 is weak, with guidance for flat revenues and a decline in operating profit to EUR 60m, this is entirely explained by a lower share of profitable Chinese orders. The remainder of the business is making progress. Based on improving order intake across the business and returning orders from China, we are confident that 2019 will be stronger with revenues exceeding EUR 970m and operating profit improving to EUR 80m. Excluding acquisitions we expect net debt of EUR 190m. Based on an enterprise value of EUR 830m, Vossloh trades on just ten times its operating profits for 2019. Given the strong position in a growing market and positive operational improvements, we value Vossloh on fourteen times our estimate of 2019 operating profit, which implies upside of 40%. We see significant further upside if management deliver on their profitability and growth ambitions. There is also a potential positive catalyst should 44.7% shareholder, Heinz Hermann Thiele, look to take advantage of the recent share price weakness to further increase his holding in the company.

Top Five Long Holdings as at 30 April 2018

Company	Country	Sector	% of NAV
1 Jd Sports	United Kingdom	Consumer Discretionary	6.5
2 Costain	United Kingdom	Industrials	3.6
3 Cegedim	France	Health Care	3.5
4 Oslo Bors	Norway	Financials	3.2
5 Renk	Germany	Consumer Discretionary	2.9
			19.7

Exposures as at 30 April 2018

Longs %	Shorts %	Gross Exposure %	Net Exposure %
78.4 (75.7)	52.6 (47.4)	131.0 (123.1)	25.8 (28.3)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 30 April 2018

Country	Gross%	Net%	Market Cap	Gross%	Net%	Sector	Gross%	Net%
Australia	1.3	0.5	>£2bn	37.6	-2.1	Consumer Discretionary	39.0	10.1
Austria	4.3	-0.8	£700m - £2bn	26.4	-11.3	Consumer Staples	3.7	-0.3
Belgium	1.1	-0.3	£200m - £700m	48.8	24.8	Energy	0.0	0.0
Denmark	1.4	-1.4	<£200m	18.2	14.4	Financials	11.3	3.7
France	5.3	3.8				Health Care	5.4	3.2
Germany	30.3	7.0				Industrials	27.0	8.9
Hong Kong	1.5	-1.5				Information Technology	26.9	-6.6
Italy	3.6	3.0				Materials	4.2	3.2
Netherlands	2.0	0.5				Real Estate	10.2	2.9
Norway	6.9	6.9				Telecommunication Servic	3.2	0.8
Sweden	1.4	0.9				Utilities	0.1	-0.1
Switzerland	5.7	-5.7				Other	0.0	0.0
UK	54.8	14.2						
US	8.6	-1.2						
Other	2.8	-0.1						

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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