

Ennismore European Smaller Companies Fund

Investor Newsletter for the month of June 2018

Issued on 9 July 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 383m as at 29th June. Total assets under management by Ennismore Fund Management were GBP 647m. 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 29 June 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	128.80	145.64	21.76	20.97	21.04			
Period	% Change					% Change		
June 18	2.0	1.2	2.0	1.1	1.2	-0.4	-1.1	-0.3
May 18	0.9	0.9	0.9	1.0	0.9	1.8	1.9	-0.5
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
2018 to date	0.9	1.2	0.9	1.2	1.2	0.9	1.4	-0.4
Annualised return ⁵	14.2	12.8	11.0	10.5	10.6	10.2	8.8	4.2
Since launch ⁵	1212.3	934.2	117.6	109.7	110.4	555.7	414.7	123.8
Discrete 12 Month Rolling Performance - % Change								
To 30 June 18	5.7	4.9	5.6	5.0	5.0	8.2	7.3	4.3
To 30 June 17	11.3	5.4	11.4	7.2	7.1	31.9	25.5	20.2
To 30 June 16	16.5	-0.7	16.5	1.7	1.7	9.2	-7.2	-5.8
To 30 June 15	5.2	18.9	5.2	16.2	16.1	2.9	16.1	7.0
To 30 June 14	16.8	25.0	16.9	23.7	23.6	24.0	32.7	20.2

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 2.0% in June. Our long and short books contributed 1.5% and 0.8% respectively. JD Sports contributed 1.0% to NAV after completing their strategic acquisition of The Finish Line in the USA. Inmarsat added 0.3% after it received a preliminary takeover approach from Echostar. Etsy contributed 0.3% after it announced a 50% price increase for sellers using the platform. Kongsberg Automotive detracted 0.3% despite no company specific news. Our short position in an American automotive company cost 0.4% of NAV.

IFG Group - Irish financial services company (1.2% NAV)

IFG is an Irish financial services company primarily operating in the UK, with a market capitalisation of GBP 142m. It has two subsidiaries - Saunderson House, a financial advisor with client assets of over GBP 5bn, and James Hay, an investment platform with assets under administration (AuA) of over GBP 25bn. Recent turmoil including legacy claims against James Hay and a poorly managed attempt to sell Saunderson House has led to substantial management change with the CEO, CFO and Chairman stepping down. We believe the accompanying negative sentiment towards the shares has resulted in a compelling value opportunity arising, even on very conservative financial assumptions.

Saunderson House occupies an attractive position in the financial planning market, focussing on wealthy clients where there is less competition between providers. Typical clients have over GBP 2.5m of assets and pay hourly for advice, limiting the negative implications from regulatory changes in recent years. Given the loyal client base with retention rates over 95%, the earnings stream is largely recurring in nature, as whilst one-off tax or regulatory changes can sometimes boost revenues, clients typically want advice annually. The number of clients and revenues have grown by over 11% and 15% p.a. respectively over the last four years. Operational leverage has seen underlying margins rise from around 22% to 26% and underlying profit of GBP 8.3m in 2017. Discretionary management was launched in 2015 and whilst in the investment stage, it is currently delivering strong revenue growth and offers good medium-term profit potential. Whilst profit growth in 2018 is likely to be hampered by the uncertainty created by the aborted sales process, overall, we view Saunderson House as a top-quality business, capable of growing profits by over 10% p.a.

The James Hay investment platform is predominantly used by financial advisors with a small proportion of direct business with consumers. It is particularly suited for assets in self-invested personal pensions (SIPPs), which form the vast majority of the platform's AuA. The average client has a portfolio value of circa GBP 450k and customer churn is low

at 7%, mainly due to death. Revenues come from annual fees based on either the portfolio value or a fixed amount, as well as some revenue from retaining a portion of interest earned on clients' cash. Over the last five years the company has seen reasonable underlying growth, with AuA and the number of SIPPs increasing by 13% and 8% p.a. respectively. Profit trends however have been disappointing as fee pressure and lower interest rates meant operating profits were GBP 6.1m for 2017, versus over GBP 9m in 2012. From here we expect the trend to turn and the combination of cost reductions and higher interest rates to see profits rise above GBP 10m in 2018. With an outlook for stable fees and ongoing client wins, we expect the recurring nature of the fee income to be more apparent and sustainable margins to be over 20% versus 16% in 2017.

New management already know the businesses well. The CEO was previously on the board as a non-executive director and the Chairman was previously interim CFO, which we believe will be helpful in returning the company to a steady growth path. Recent share buying by the new executives and Chairman is also encouraging.

The company has GBP 4m of central costs covering both the board and central functions. We assume the central activities will be taken on by the divisions going forward, requiring additional costs of GBP 2m, which may prove to be overly conservative. The main legacy claim of up to GBP 20m against James Hay is for allowing an instrument (linked to an investment called Elysian Fuels) to be accepted into their SIPPs which has now been deemed unacceptable. In reality, apportioning the full blame for this to the platform, as opposed to other parties such as the advisor, seems unlikely. Nevertheless, we prudently adjust our enterprise value by GBP 15m for this. The platform no longer accepts non-standard assets and following a comprehensive review, the company is confident this will not recur.

Given the two distinct businesses, we think it is best to value IFG on a sum of the parts basis. We prudently value Saunderson House at 18 times profit after tax due its high quality, defensive, recurring profit stream. We value James Hay on a multiple of 14 times profit after tax as we see this as an annuity like profit stream with some growth expected. After adjusting for cash generation expected over the next two years, central costs, legacy costs and additional short-term incentives to ensure senior staff stability at Saunderson House, we get to a very conservative upside of over 35% by the end of next year.

Top Five Long Holdings as at 29 June 2018

Company	Country	Sector	% of NAV
1 Jd Sports	United Kingdom	Consumer Discretionary	7.1
2 Costain	United Kingdom	Industrials	3.4
3 Cegedim	France	Health Care	3.3
4 Oslo Bors	Norway	Financials	2.9
5 Renk	Germany	Consumer Discretionary	2.9
			19.6

Exposures as at 29 June 2018

Longs %	Shorts %	Gross Exposure %	Net Exposure %
77.6 (78.9)	49.1 (47.7)	126.7 (126.6)	28.5 (31.2)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 29 June 2018

Country	Gross%	Net%	Market Cap	Gross%	Net%	Sector	Gross%	Net%
Australia	1.2	0.5	>£2bn	36.9	6.2	Consumer Discretionary	37.3	13.3
Austria	4.2	-0.7	£700m - £2bn	24.1	-14.8	Consumer Staples	4.3	2.5
Belgium	1.6	0.4	£200m - £700m	44.9	24.1	Energy	0.0	0.0
France	4.8	3.3	<£200m	20.8	13.0	Financials	10.5	3.0
Germany	29.2	9.7				Health Care	6.2	1.2
Hong Kong	1.3	-1.3				Industrials	23.9	8.2
Italy	4.2	2.8				Information Technology	27.7	-7.6
Luxembourg	1.4	1.4				Materials	4.4	2.9
Netherlands	1.8	0.4				Real Estate	9.5	3.2
Norway	6.7	6.7				Telecommunication	2.9	1.8
Sweden	2.1	0.1				Utilities	0.0	0.0
Switzerland	6.4	-6.4				Other	0.0	0.0
UK	50.6	15.1						
US	8.3	-2.9						
Other	2.9	-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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