Ennismore European Smaller Companies Fund

Investor Newsletter for the month of December 2018

Issued on 8 January 2019

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 395m as at 31st December. Total assets under management by Ennismore Fund Management were GBP 770m. Our smaller companies 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 December 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]	**132.82**	**147.98**	**22.44**	**21.36**	**21.44**			
Period	% Change					% Change		
December 18	**0.2**	**-1.0**	**0.2**	**-0.7**	**-0.7**	**-5.3**	**-6.4**	**-5.3**
November 18	2.3	2.2	2.3	2.2	2.3	-2.3	-2.5	-0.9
October 18	-1.0	-0.6	-1.0	-0.7	-0.7	-7.5	-7.0	-5.4
September 18	0.3	0.8	0.3	0.7	0.7	-1.8	-1.2	0.3
August 18	1.1	0.8	1.1	0.8	0.8	0.1	-0.3	-2.4
July 18	0.3	-0.6	0.3	-0.4	-0.4	2.1	1.3	3.3
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	**4.0**	**2.9**	**4.0**	**3.0**	**3.1**	**-13.3**	**-14.2**	**-10.6**
Annualised return[5]	**14.0**	**12.5**	**10.7**	**10.1**	**10.1**	**9.1**	**7.7**	**3.6**
Since launch[5]	**1253.3**	**950.8**	**124.4**	**113.6**	**114.4**	**463.6**	**335.6**	**101.0**
	Discrete 12 Month Rolling Performance - % Change							
To 31 December 18	4.0	2.9	4.0	3.0	3.1	-13.3	-14.2	-10.6
To 31 December 17	9.6	5.4	9.5	6.1	6.1	22.4	17.7	13.1
To 31 December 16	14.5	-1.2	14.5	1.8	1.7	19.2	2.9	7.2
To 31 December 15	9.7	15.5	9.7	14.3	14.2	15.6	21.7	4.9
To 31 December 14	6.4	14.0	6.4	12.6	12.6	-1.8	5.2	4.7

[1]Source: Administrator, Net Asset Value. [2]Source: Administrator, Net Asset Value, net income reinvested. [3]Source: Bloomberg, Euromoney (formerly HSBC) Smaller European Total Return Index. [4]Source: Bloomberg, MSCI Europe Index, local currencies, total return. [5]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 0.2% in December. Our long book cost 2.4% while the Fund's short exposure contributed 2.8%. The biggest contributor to NAV for the month was our long position in Oslo Børs, which added 0.8% as Euronext announced a takeover offer. The biggest detractors were our long positions in JD Sports which cost 0.7%, followed by Costain which cost 0.6%. Our long positions in Cegedim and Kongsberg Automotive also cost 0.4% each.

Ryanair – Irish low-cost airline (0.7% NAV)

Ryanair, the leading short haul low-cost airline in Europe with 15% market share, is listed in Ireland and has a market cap of EUR 12bn. The airline launched in 1986 and lost money for five years. The low-cost model however was firmly established by 1992 and since then, Ryanair has been consistently profitable. Ryanair carried more than 8x as many passengers in FY18 as FY03 (15% CAGR) and despite the much larger base, has still increased the passenger count by 10% p.a. since FY13. Although the business owns almost all its planes, it has generated enough excess cash to pay out almost EUR 2bn in dividends and reduce the share count by 25% since 2007. Thus, per share passenger growth has been 17% p.a. since 2003 and 15% p.a. since 2013.

We believe Ryanair's business model is characterised by significant competitive advantages, most importantly its cost efficiency. Despite generating lower revenue per plane than its peers (EUR 17.8m in the 12 months to March 2018 vs. c. EUR 22.8m for Easyjet), Ryanair delivers higher profits: EUR 4.1m PBT per plane vs. c. EUR 2.9m per plane for Easyjet.

The biggest source of cost advantage to the business is in airport & handling costs. Most airports (excluding large city hubs such as Heathrow) compete for traffic and are prepared to cut a deal on the aeronautical fees to drive traffic through their terminals, where captive passengers can be monetised through shops and restaurants. Ryanair reinvests its cost advantage in fares which competitors can't match, resulting in an unparalleled ability to stimulate demand, making it an attractive partner for an airport.

Secondly, the business has made large opportunistic aircraft orders during cyclical downturns when the manufacturers are desperate for business. Ryanair also benefits from attractive financing rates resulting from a strong balance sheet. Its fully uniform fleet enables maintenance work to be efficiently insourced at substantial savings vs. third party providers. Ryanair also uses its aircraft more intensively than most other operators, amortising the fixed capital costs across more flights.

Finally, staff costs are lower than competitors, primarily due to higher utilisation of pilots and cabin crew. Ryanair manages with only 5 crew members per aircraft, compared to Vueling (IAG's short haul subsidiary) which uses 7. Whilst this advantage will reduce now that Ryanair is recognising and negotiating with unions leading to higher compensation and reduced flexibility, we anticipate the overall cost advantage will be only modestly affected.

Risks to our investment case include a challenging market over the next year or two as overcapacity is rationalised and the potential that Ryanair's relative cost advantage is eroded as the weakest players steadily exit the market. However, we believe investors are overweighting the risk of poor employee relations whilst neglecting the structural advantages that the company continues to enjoy.

With a 7-year-old plane currently worth c. USD 30m second-hand, the enterprise value of the business has fallen close to our EUR 11bn estimated liquidation value of the fleet. The stock is trading at 11x consensus expectations of earnings for the year ending March 2019, assuming margins that are materially below historical averages. We expect the business to grow its capacity by c. 5-6% p.a. over the next 5 years, below management's target of 7.5%. After funding the aircrafts required to deliver this growth, Ryanair should generate c. EUR 6-7bn of surplus cash for share buybacks or acquisitions. This implies per share growth in capacity of close to 15% p.a., and profit per share growth in the region of 15-20%. In addition, the long-term average PE multiple at which Ryanair has traded is 16x. Whilst this partly reflected a business with higher growth potential, it suggests there may also be some upside to the current multiple, which would drive returns on the stock to over 20% compound over a 5-year period.

Top Five Long Holdings as at 31 December 2018

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	5.5
2	METRO	Germany	Consumer Staples	4.6
3	Costain	United Kingdom	Industrials	3.6
4	Oslo Bors	Norway	Financials	3.2
5	Sto	Germany	Materials	2.7
				19.6

Exposures as at 31 December 2018

Longs %	Shorts %	Gross Exposure %	Net Exposure %
74.8 (73.3)	36.2 (38.8)	111.0 (112.1)	38.6 (34.5)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Austria	1.8	0.8
Belgium	1.6	0.9
France	4.7	1.7
Germany	28.5	10.7
Hong Kong	1.7	-1.7
Ireland	0.8	0.7
Italy	4.6	2.7
Luxembourg	1.1	1.1
Netherlands	2.4	-0.1
Norway	6.3	6.2
Sweden	1.8	0.0
Switzerland	4.1	-3.2
UK	44.9	20.0
US	5.4	-0.6
Other	1.3	-0.6

Market Cap	Gross%	Net%
>£2bn	35.8	7.5
£700m - £2bn	10.7	-2.3
£200m - £700m	43.8	18.0
<£200m	20.7	15.4

Positions	Dec	Nov
Long	83	81
Short	79	77
Longs Opened	6	3
Longs Closed	4	1
Shorts Opened	7	10
Shorts Closed	5	5

Sector	Gross%	Net%
Consumer Discretionary	32.7	12.0
Consumer Staples	7.2	4.6
Energy	0.3	0.2
Financials	11.1	7.5
Health Care	4.4	0.8
Industrials	17.3	9.9
Information Technology	23.9	-3.3
Materials	4.0	2.9
Real Estate	8.0	2.8
Telecommunication	2.1	1.2
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.

For further information please contact:	Eleanor Scott, Ennismore Fund Management	+44 (0) 20 7368 4219	subs@ennismorefunds.com
For dealing please contact:	Northern Trust International Fund Administration Services (Ireland) Ltd	+353 (0) 1 434 5103	Ennismore_TA_Queries@ntrs.com

Risk Warning

This document is issued by Ennismore Fund Management Limited ("Ennismore", "the Company") which is authorised and regulated by the Financial Conduct Authority.

This document is for information purposes only and is not an offer to sell or an invitation to buy shares in Ennismore European Smaller Companies Fund. In particular, it does not constitute an offer or solicitation in any jurisdiction where it is unlawful or where the recipient may not lawfully receive any such offer or solicitation. It is the responsibility of any person in possession of this document to inform themselves of, and to observe, all applicable laws and regulations of relevant jurisdictions.
Content in this document is provided for information only and is not intended for trading purposes. Any information and opinion in this document is subject to change by the Company without prior written notice. Content in this document is not an invitation or inducement to engage in any investment activity and is not appropriate for the purposes of making a decision to carry out a transaction or trade in any of the companies mentioned in this document. Nor does it provide any form of advice amounting to investment advice, or make any recommendations regarding particular financial instruments or investment products. Use of this document is no substitute for obtaining proper investment advice from an authorised investment professional.
We hereby disclose that we currently hold positions in the companies discussed in this report and we are thus subject to conflicts of interest in respect of these companies. The analysis presented on these companies has not been prepared in accordance with legal requirements regarding the independence of investment research and as such is considered non-independent research, as defined by COBS 12.3.2R of the FCA Handbook, and as a marketing communication.
Although the Company considers the content of this document to be accurate at the time it was written, we do not guarantee the accuracy of the information presented or of our opinions. The factual information contained in this document may become inaccurate as a result of the passage of time and should therefore be read for historical information only. Future expectations are the opinion of the Company at the time of writing and are subject to change without notice, and the Company does not undertake to provide information concerning changes to its opinions and expectations in any way. All forecasts are subject to risks and uncertainties that may cause actual results to differ materially from those which were expected.

Additional Information for Recipients in Switzerland

The Fund has not been approved for distribution in or from Switzerland by the Swiss Financial Market Supervisory Authority. As a result, the Fund's shares may only be offered or distributed to qualified investors within the meaning of Swiss law. The Representative of the Fund in Switzerland is Bastions Partners Office SA with registered office at Route de Chêne 61A, 1208 Geneva, Switzerland. The Paying Agent in Switzerland is Banque Heritage, with registered office at Route de Chêne 61, 1208 Geneva, Switzerland. The place of performance and jurisdiction for Shares of the Fund distributed in or from Switzerland are at the registered office of the Representative.

For further information please contact:	Eleanor Scott, Ennismore Fund Management	+44 (0) 20 7368 4219	subs@ennismorefunds.com
For dealing please contact:	Northern Trust International Fund Administration Services (Ireland) Ltd	+353 (0) 1 434 5103	Ennismore_TA_Queries@ntrs.com