Ennismore European Smaller Companies Fund

Investor Newsletter for the month of January 2019

Issued on 6 February 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 399m as at 31st January. Total assets under management by Ennismore Fund Management were GBP 804m. 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 January 2019

	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]	**134.69**	**154.41**	**22.76**	**22.17**	**22.24**			
Period	**% Change**					**% Change**		
January 19	**1.4**	**4.3**	**1.4**	**3.8**	**3.7**	**5.6**	**8.8**	**5.6**
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
2019 to date	**1.4**	**4.3**	**1.4**	**3.8**	**3.7**	**5.6**	**8.8**	**5.6**
Annualised return[5]	**14.0**	**12.7**	**10.8**	**10.5**	**10.5**	**9.3**	**8.1**	**3.8**
Since launch[5]	**1272.3**	**996.5**	**127.6**	**121.7**	**122.4**	**495.3**	**373.8**	**112.3**
	Discrete 12 Month Rolling Performance - % Change							
To 31 January 19	7.6	8.1	7.7	7.7	7.7	-8.8	-8.6	-6.6
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

[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 1.4% in January. Our long book contributed 5.6% while the Fund's short exposure cost 3.2%. The biggest contributor to NAV for the month was our long position in JD Sports, which added 1.8% after publishing a strong Christmas trading update, followed by Costain and Cegedim adding 0.9% and 0.4% respectively.

Secure Trust Bank – UK specialist lender (1.1% NAV)

Secure Trust Bank is a GBP 260m market capitalised, conservatively managed, specialist UK lender. The company is very shareholder return focussed and dynamically managed, being wary of the available returns adjusted for default risk. This ability to assess risk, enables them to act quickly and stop lending into a segment if they feel returns are no longer satisfactory and has enabled them to build and maintain a relatively small but well diversified loan book. The decision in the last couple of years to pull out of two different areas - subprime lending for motor purchases and specialist residential mortgages - bears testament to this. A further example of the management's strong focus on creating shareholder value is the sale of the Everyday Loans Group in 2016 at two times book value, leading to an equity gain of around GBP 120m having paid GBP 1 for the business four years previously. This has helped them to generate more than GBP 250m of accumulated net profit over the last 7 years.

As of the end of June, the company had a loan book of around GBP 1.8bn across various sub segments, generating an overall revenue margin of about 8.5%, which compares favourably to a provision rate of less than 2%. We feel the business is over resourced for a specialist lender, perhaps being prepared for a substantially bigger loan book over time. This generates a current cost to income ratio of over 55% which we would expect to improve in the medium term. Given the risks for this type of business however, we would definitely prefer an over resourced to an under resourced company.

Real estate finance and retail finance, which grew 30% in first half of their fiscal year, are two main areas of lending and account for around two thirds of the loan book. Real estate lending focusses especially on the institutional buy to let market as well as lending into the residential house building sector. Retail finance lends to consumers via retailers in areas such as jewellery, sport season tickets, furniture and bicycles, typically on 12-month interest free type deals, receiving a fee from the retailer plus any future interest. The other main area of focus is for used car financing (15% of total lending) which, as already mentioned, was pivoted away from subprime consumer categories.

Going forward, we expect Secure Trust Bank to grow further in niche sub segments within the consumer finance area as well as focussing more on higher quality customers within the motor area. Recent hires with experience in the car lending market as well as investments made into their digital platform will assist here and we believe this could have a material impact on profits in the medium term.

Clearly the cloud of Brexit is currently a worry for all UK lenders, but we do feel that the management at Secure Trust Bank will create value over the coming number of years whatever the outcome. More than 90% of its funding comes from retail deposits which we prefer in terms of funding uncertainty in a worst-case Brexit scenario.

The business generates a return on equity of over 13% which means that they may slowly absorb capital as they are growing their loan book at a double-digit rate alongside paying out a growing healthy dividend. Although we don't expect it, if further capital was needed going forward then given the company's historic value creation, we expect them to be well supported.

Overall, we see the stock as having strong tangible equity backing on our forecasts of around GBP 240m by the end of 2019, with earnings growing close to 20%. This after paying out a dividend yield of 6%. Over time we expect the business to leverage their well invested cost base by further value accretive lending, giving good quality earnings momentum and an increasing return on equity. Putting the business on a multiple of 1.4 times tangible book for 2020 gives a total return of over 60% over the next two years.

Top Five Long Holdings as at 31 January 2019

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	7.2
2	METRO	Germany	Consumer Staples	4.9
3	Costain	United Kingdom	Industrials	4.4
4	Oslo Bors	Norway	Financials	3.4
5	Sto	Germany	Materials	2.9
				22.8

Exposures as at 31 January 2019

Longs %	Shorts %	Gross Exposure %	Net Exposure %
82.4 (74.8)	43.3 (36.2)	125.7 (111.0)	39.1 (38.6)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 31 January 2019

Country	Gross%	Net%
Austria	2.1	0.9
Belgium	1.5	0.8
France	5.3	2.1
Germany	30.6	9.4
Hong Kong	1.7	-1.7
Ireland	1.6	1.3
Italy	4.6	2.8
Luxembourg	1.1	1.1
Netherlands	2.8	0.8
Norway	6.7	6.3
Sweden	2.3	-0.1
Switzerland	4.0	-4.0
UK	52.6	23.1
US	7.0	-2.6
Other	1.8	-1.1

Market Cap	Gross%	Net%
>£2bn	43.4	8.3
£700m - £2bn	11.7	-4.3
£200m - £700m	49.7	20.9
<£200m	20.9	14.2

Positions	Jan	Dec
Long	83	83
Short	82	79
Longs Opened	5	6
Longs Closed	5	4
Shorts Opened	7	7
Shorts Closed	4	5

Sector	Gross%	Net%
Consumer Discretionary	37.5	9.5
Consumer Staples	8.2	4.5
Energy	0.6	0.4
Financials	13.5	10.3
Health Care	5.1	1.2
Industrials	19.0	10.3
Information Technology	27.0	-4.4
Materials	4.2	3.1
Real Estate	8.1	2.6
Telecommunication	2.5	1.6
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