Ennismore European Smaller Companies Fund

Investor Newsletter for the month of February 2019

Issued on 6 March 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 400m as at 28th February. Total assets under management by Ennismore Fund Management were GBP 823m. 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 28 February 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]	**134.40**	**156.99**	**22.71**	**22.46**	**22.53**			
Period			% Change				% Change	
February 19	**-0.2**	**1.7**	**-0.2**	**1.3**	**1.3**	**1.3**	**3.1**	**3.6**
January 19	1.4	4.3	1.4	3.8	3.7	5.6	8.7	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
2019 to date	**1.2**	**6.1**	**1.2**	**5.1**	**5.1**	**7.0**	**12.0**	**9.4**
Annualised return[5]	**13.9**	**12.8**	**10.6**	**10.5**	**10.6**	**9.4**	**8.2**	**4.0**
Since launch[5]	**1269.4**	**1014.8**	**127.1**	**124.6**	**125.3**	**503.0**	**388.0**	**120.0**
	Discrete 12 Month Rolling Performance - % Change							
To 28 February 19	8.3	11.9	8.2	11.1	11.1	-5.8	-2.7	0.3
To 28 February 18	5.5	1.8	5.5	2.5	2.5	15.4	11.4	7.7
To 28 February 17	10.1	0.5	10.1	2.3	2.3	29.2	18.2	17.7
To 29 February 16	19.7	11.5	19.7	12.1	12.1	3.1	-4.4	-11.2
To 28 February 15	0.8	14.5	0.8	12.6	12.6	-0.9	12.8	12.6

[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 fell by 0.2% in February. Our long book contributed 0.2% while the Fund's short exposure was flat. There was one contributor of note during the month, our short position in a German financial services company which added 0.5% to NAV.

Just Group – UK specialist financial services group (0.9% NAV)

Just Group resulted from the April 2016 merger between Just Retirement and Partnership Assurance, the purpose of which was to increase scale after legal changes had a highly disruptive impact on the individual pension annuity market, also known as guaranteed income for life ("GIfL"). The market was effectively halved overnight due to it no longer being compulsory for private pension holders to buy an annuity with their pension pot. With a market capitalisation of GBP 980m, the company is present in various types of annuities with total annual premiums in excess of GBP 2bn. The heritage of the business is in GIfL products, which now account for less than 50% of the current total of premium. The company's focus within GIfL products is on people with long term illnesses or those at a higher risk of illness. This is a less competitive market as more technical expertise is needed to calculate how much extra benefit can be offered to these individuals versus standard rates. This focus gives Just Group a better view on the likely lifespan of this subset of individuals and hence they are able to price risk more efficiently and accurately than their peers. They are also able to translate this knowledge to their other growing and larger source of premiums; defined benefit pension de-risking.

Defined pension de-risking involves Just Group typically taking on the risks of a salary related company pension - namely how long the workers live post retirement and the returns generated by the fund assets - and guaranteeing to pay the total costs of their members' lifetime pensions. The former risk has historically been the most important as people have tended to live longer than previously expected. Thanks to its expertise in the GIfL segment, the company is well placed to price this risk, to correctly value the long-term liabilities and therefore assess how much premium the corporate must pay to ensure an income stream that matches its pension liabilities. The de-risking market is a huge and growing market. Legal risk for directors for underfunding pension funds is increasing and low interest rates have structurally increased deficits and brought them more to front of mind. This has created a large amount of opportunities for Just Group, although they do focus more on the smaller GBP 250m sized schemes where their granular analysis of members' health risks is easier to perform. The total corporate pension market is over GBP 2 trillion of assets with around GBP 20bn of that looking to de-risk last year, up by over 65% year on year.

To generate the returns to more than cover its individual and pension annuities, Just Group invests 60% of its GBP 19bn of investment assets in investment grade fixed income securities while the vast majority of the remaining 40% is invested in lifetime mortgages. Lifetime mortgages are a specialist area and are loans secured against a residential property, with interest accruing and no repayment until the house is sold or the individuals die. These loans match well in terms of duration with their annuity liabilities and are extremely low risk as they are typically lent at sub 30% loan to value of the property and achieve an interest rate of 5-6%. Historically, Just Group has lost just GBP 250k cumulatively on a loan book now of around GBP 7bn.

In 2018, new regulations were introduced for lifetime mortgage assets which means in the coming years there will be a requirement for a more conservative assumption on the final house value for capital solvency requirements in order to cover the fact that the total value to be paid back cannot exceed the value of the house at payback date. This seems to have impacted Just Group's share price as the market was worried about a potential need to strengthen the group's capital. We do not expect a raise to occur although this would put downward pressure on Just Group's solid capital ratios. If a raise did happen, then we think they would still achieve double digit investment returns on this capital.

The business should generate around GBP 100m of net profit for 2018 although on an ongoing basis, this is closer to GBP 140m. The more important valuation point we believe is the fact it is trading at a discount to book value excluding intangibles of around 40%. We believe this gives very strong valuation support in the long term and indeed upside to the share price. Just putting the stock on a discount of 20% to the expected end of 2019 equivalent book value, which we think fairly discounts some capital uncertainty, would lead to upside of over 45% by the end of the year.

Top Five Long Holdings as at 28 February 2019

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	7.2
2	METRO	Germany	Consumer Staples	4.8
3	Costain	United Kingdom	Industrials	4.2
4	Oslo Bors	Norway	Financials	3.5
5	Sto	Germany	Materials	2.8
				22.5

Exposures as at 28 February 2019

Longs %	Shorts %	Gross Exposure %	Net Exposure %
82.5 (82.4)	48.8 (43.3)	131.3 (125.7)	33.7 (39.1)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 28 February 2019

Country	Gross%	Net%
Austria	2.3	0.5
Belgium	1.4	0.7
France	6.1	1.6
Germany	31.3	8.0
Hong Kong	1.7	-1.7
Ireland	1.7	1.4
Italy	4.6	2.7
Luxembourg	1.1	1.1
Netherlands	3.1	1.0
Norway	7.5	6.5
Sweden	3.2	-0.9
Switzerland	4.2	-4.2
UK	53.8	20.8
US	7.4	-2.6
Other	1.9	-1.2

Market Cap	Gross%	Net%
>£2bn	46.8	5.0
£700m - £2bn	17.0	-8.9
£200m - £700m	48.1	23.3
<£200m	19.4	14.3

Positions	Feb	Jan
Long	82	83
Short	83	82
Longs Opened	0	5
Longs Closed	1	5
Shorts Opened	3	7
Shorts Closed	2	4

Sector	Gross%	Net%
Consumer Discretionary	39.4	7.7
Consumer Staples	8.1	4.2
Energy	0.6	0.4
Financials	12.8	10.7
Health Care	7.2	-0.9
Industrials	19.6	9.7
Information Technology	28.3	-6.2
Materials	4.0	3.0
Real Estate	7.9	2.6
Telecommunication	3.4	2.5
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.

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