Ennismore European Smaller Companies Fund

Investor Newsletter for the month of July 2013

Issued on 14 August 2013

Fund Details

Daily dealing UCITS and Irish Central Bank regulated open-ended investment company with Financial Conduct Authority recognition, registered in Ireland and listed on the Irish Stock Exchange. The Fund size was GBP 243m as at 31st July. Total assets under management by Ennismore Fund Management were GBP 297m. 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 31 July 2013

	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]	**78.65**	**89.80**	**13.28**	**12.86**	**12.94**			
Period			**% Change**				**% Change**	
July 13	**2.8**	**0.6**	**2.8**	**0.9**	**1.0**	**8.1**	**5.8**	**5.9**
June 13	-0.9	-1.2	-0.8	-1.1	-1.1	-3.6	-3.8	-5.0
May 13	1.8	0.9	1.8	1.1	1.1	4.2	3.2	2.5
April 13	-0.9	-1.1	-0.9	-1.0	-1.1	1.7	1.4	1.9
March 13	1.5	3.4	1.5	3.0	3.0	-1.8	0.2	0.9
February 13	2.7	2.1	2.7	2.2	2.2	3.5	2.8	0.9
2013 to date	**14.2**	**5.7**	**14.2**	**7.3**	**7.3**	**23.0**	**14.2**	**12.3**
Annualised return[5]	**15.4**	**13.6**	**11.9**	**10.6**	**10.9**	**9.2**	**7.4**	**3.1**
Since launch[5]	**701.4**	**537.7**	**32.8**	**28.6**	**29.4**	**256.5**	**183.0**	**56.1**

[1]Source: Administrator, Net Asset Value. [2]Source: Administrator, Net Asset Value, net income reinvested. [3]Source: Bloomberg, 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.

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 2.8% in July. Our long book contributed 5.5% and the Fund's short exposure cost 1.8%.

The largest attributions were from Zynga and Xing (both 0.5%) and our short in Avanti Communications (0.6%). Social games developer Zynga rallied strongly in July after appointing a new CEO to replace founder Steve Pincus and we took the opportunity to sell our position at a good profit. Trading has been worse than we expected this year and the stock had reached our estimate of fair value. Avanti Communications, despite the hype from management, once again reported little demand for its services. Given the capital intensive nature of the business, and the high level of debt used to fund it, we continue to believe that the company may have little if any equity value.

Portfolio Activity

Figures in brackets refer to previous month end; * = positions > 0.5% of NAV.

As at 31st July the Fund was invested in 79 (79)* stocks.

Reply – Italian IT consultancy (1.0% NAV)

Reply is an information technology business providing consultancy, system integration and application management. The company has a strong bias to Italy (75% of its EUR 495m turnover) with Germany (16%) and the UK (9%) accounting for the rest of the business. Reply operates a network of highly specialised subsidiaries that focus on processes and technologies in niches such as mobile, social media and cloud computing. Although in any given year there are typically several large contracts – in 2012, for example, the top ten customers accounted for nearly half of revenue – these are often made up of a number of services supplied by different group subsidiaries. By industry, customer exposure is reasonably well spread with manufacturing and retail at 28.5%, financial services 24.5% and telecommunications 20.6%. Due to revenues being project-based, with its consultants charged out on a day rate basis, the company has good visibility to manage its own cost base. Operating margins over the last ten years have been reasonably stable as a result, ranging from a low of around 8.5% in 2003 to a peak of almost 14% in 2007, with a post-tax return on net operating assets of around 15%.

After meeting Reply in Italy and the UK we came away convinced of company's lean, flexible and dynamic culture. Management are very well aligned with shareholders with the CEO and founder owning 54% of the equity and senior management pay based strongly on profitability and debtor days (they can double what they earn if they hit maximum targets). Management are also clear that the only way to deliver consistent growth alongside good profitability is a relentless focus on staying ahead of the competition by continually evolving the skillset within the company to satisfy customer demands in niche, technologically innovative and high growth areas. Organic growth has been consistently good historically, with 10 to 15% a year typical, and the first half of 2013 was no exception supported by extremely strong trading in the UK. Reply has also made small bolt on acquisitions in the past as well as starting up new ventures to get expertise in specific niche technologies, both of which we view as being value creative.

Reply's current market capitalisation is EUR 346m. The balance sheet is conservatively financed with no net debt and deferred consideration and liabilities to buy out minorities of a little over EUR 30m which should be well covered by free cash flow. This year we expect operating profit to grow by 20% to around EUR 67m, a margin of 12% (despite relative underperformance in Germany where profitability is currently less than 5% of revenues, well below its historic level). We view Reply as a very solid, high quality operator with good, low-risk exposure to several strong growth trends in technology. With the founder still owning a controlling stake the business is managed for the long term. The current enterprise value of less than eleven times this year's operating profit after tax does not reflect the growth and profitability that Reply has consistently delivered. Valuing the stock on a more reasonable multiple of 14 times we see upside of over 35% in the next 18 months.

Top Five Holdings as at 31 July 2013

	Company	Country	Sector	% of NAV
1	Xing	Germany	Information Technology	6.5
2	Vib Vermoegen	Germany	Financials	5.0
3	Sto	Germany	Materials	4.3
4	Home Retail	United Kingdom	Consumer Discretionary	3.8
5	Oslo Bors	Norway	Financials	3.6
				23.2

Exposures as at 31 July 2013

Longs %	Shorts %	Gross Exposure %	Net Exposure %
91.2 (93.6)	29.4 (28.9)	120.6 (122.5)	61.8 (64.7)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 31 July 2013

Country	Gross%	Net%
Austria	1.7	1.7
Belgium	2.3	1.1
Bermuda	1.8	1.0
Denmark	2.1	1.7
France	5.2	4.7
Germany	32.1	27.5
Ireland	3.5	3.5
Italy	7.0	3.1
Norway	4.5	4.5
Spain	1.6	-1.6
Sweden	2.8	-0.5
Switzerland	7.7	0.4
UK	39.7	15.9
US	5.4	-1.8
Other	3.2	0.6

Market Cap	Gross%	Net%
>£2bn	3.3	-2.3
£700m - £2bn	32.7	8.1
£200m - £700m	44.7	20.5
<£200m	39.9	35.5

Sector	Gross%	Net%
Consumer Discretionary	35.5	18.7
Consumer Staples	1.2	-1.2
Energy	4.0	1.8
Financials	17.0	12.8
Health Care	4.4	0.8
Industrials	16.6	12.7
Information Technology	25.4	8.3
Materials	10.8	10.8
Telecommunication	4.1	-1.3
Utilities	1.6	-1.6
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. Sector analysis is based on the Global Industry Classification Standard ("GICS"). Source: Bloomberg.

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