Ennismore European Smaller Companies Fund

Investor Newsletter for the month of September 2013

Issued on 15 October 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 249m as at 30th September. Total assets under management by Ennismore Fund Management were GBP 304m. 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 30 September 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]	**80.82**	**96.69**	**13.65**	**13.74**	**13.81**			
Period			% Change				% Change	
September 13	**1.6**	**3.6**	**1.6**	**3.2**	**3.2**	**3.6**	**5.7**	**3.6**
August 13	1.2	4.0	1.2	3.5	3.4	-1.3	1.2	-1.5
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
January 13	6.5	0.9	6.5	2.0	2.0	9.7	4.2	5.1
2013 to date	**17.3**	**13.8**	**17.4**	**14.6**	**14.5**	**25.7**	**22.2**	**14.7**
Annualised return[5]	**15.5**	**14.0**	**12.2**	**12.7**	**12.9**	**9.2**	**7.8**	**3.2**
Since launch[5]	**723.5**	**586.6**	**36.5**	**37.4**	**38.1**	**264.4**	**202.7**	**59.4**

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 1.6% in September. Our long book contributed 3.7% and the Fund's short exposure cost 1.4%.

The largest positive contributions came from Home Retail (0.6%), Sto and JD Sports Fashion (both 0.4%) with all three companies reporting positive trading. Xing also added another 0.4% to NAV in September.

On the short side there were two significant attributions. Dialight contributed positively (0.4%) after another downgrade to full year guidance as a result of increased competition in the market for cellphone tower lighting in the US. The fact that this challenge has come from the firm (SPX) that was previously their distributor reflects very low barriers to entry in light fitting manufacturing which we expect to be an issue across all of Dialight's product lines. Trading on a current year price to earnings ratio of nearly 30 times, and generating almost no cashflow, we believe the shares are significantly over-valued.

Our short position in Avanti Communications cost the Fund 0.4%. Having issued a major profits warning in July, Avanti's full year results contained no further negative surprises and the usual bullish management commentary. The company's high yield bond issue late last month, which needed a coupon of 10% to get it away, reflects the high risk that this business will ultimately generate little if any value for equity shareholders.

Portfolio Activity

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

As at 30th September the Fund was invested in 78 (77)* stocks.

Cello – UK marketing agency (1.5% NAV)

Cello is a marketing agency that specialises in pharmaceutical and health products, accounting for around 70% of the group's operating profit (the Health division). Other sectors, such as fast moving consumer goods, are served by the Consumer division. Although 60% of revenue is still generated in the UK, Cello is a global business with significant revenue in the rest of Europe and in the United States. The Health division provides market research and consulting - a typical project would be planning how best to market a new drug - which are increasingly important as the channels to communicate with potential customers become more fragmented. The division has seen good, steady growth in recent years as a result. The Consumer offering, though less specialised, also benefits from this long-term trend away from mass market advertising but is more cyclical - although this now seems to be working in Cello's favour with 12% growth in gross profit in the first half of this year. Cello is also increasing its offering in both divisions, primarily through new office openings, which should support future growth.

Cello was largely built by acquisition in the years up to 2007. One legacy of this strategy was a high level of deferred consideration that came due as the global economy entered recession. This is now behind them and the other, more significant legacy is a Health business with long-standing, successful relationships with the major global pharmaceutical companies that would be hard to replicate. In recent years acquisitions have been small, with only one significant deal in early 2011 which considerably bolstered its presence in the US for its Health division. Our meetings with management, along with their continued share purchases, give us further confidence that that any future acquisitions will be prudent.

Trading has been steady so far in 2013 with operating profit growth of nearly 15% in the first half and management commentary on the outlook is also positive. Cello has a market capitalisation of just over GBP 50m with forecast net debt of about GBP 6m. This compares to our estimate of GBP 8m for 2013 operating profit, an enterprise value of eleven times operating profit after tax (NOPAT). The business requires little capital to grow organically and this has allowed management to increase the dividend by almost 60% from 2010 up to this year's level, putting the stock on a well-covered three and a half per cent yield. We value Cello's two divisions separately, with Health deserving a premium (14 times NOPAT) to the Consumer division (10 times) due to its structural growth and greater specialisation. This leads us to expect a return of over one third from the share between now and the end of 2014.

Top Five Holdings as at 30 September 2013

	Company	Country	Sector	% of NAV
1	Xing	Germany	Information Technology	7.3
2	Vib Vermoegen	Germany	Financials	5.2
3	Sto	Germany	Materials	4.8
4	Home Retail	United Kingdom	Consumer Discretionary	4.1
5	Oslo Bors	Norway	Financials	3.5
				24.9

Exposures as at 30 September 2013

Longs %	Shorts %	Gross Exposure %	Net Exposure %
88.7 (88.1)	33.8 (30.7)	122.5 (118.8)	54.9 (57.4)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 30 September 2013

Country	Gross%	Net%
Austria	1.6	1.6
Belgium	2.0	0.7
Bermuda	1.9	0.6
Denmark	2.0	1.6
France	5.2	4.7
Germany	32.7	26.2
Ireland	2.1	2.1
Italy	6.1	2.8
Norway	4.0	4.0
Spain	1.2	-1.2
Sweden	3.2	-0.7
Switzerland	7.2	0.7
UK	43.3	14.6
US	5.5	-1.7
Other	4.5	-1.1

Market Cap	Gross%	Net%
>£2bn	2.4	-2.4
£700m - £2bn	33.3	6.0
£200m - £700m	49.0	17.7
<£200m	37.8	33.6

Sector	Gross%	Net%
Consumer Discretionary	36.8	14.9
Consumer Staples	1.3	-1.3
Energy	4.3	1.1
Financials	15.7	12.5
Health Care	3.5	0.7
Industrials	17.9	10.9
Information Technology	27.7	9.6
Materials	9.6	9.6
Telecommunication	3.9	-1.3
Utilities	1.8	-1.8
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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