Ennismore European Smaller Companies Fund

Investor Newsletter for the month of November 2013

Issued on 13 December 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 263m as at 29th November. Total assets under management by Ennismore Fund Management were GBP 317m. 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 29 November 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]	**85.25**	**102.56**	**14.39**	**14.57**	**14.64**			
Period			% Change				% Change	
November 13	**1.2**	**3.1**	**1.2**	**2.8**	**2.7**	**-0.1**	**2.0**	**0.5**
October 13	4.2	2.9	4.2	3.2	3.2	6.1	4.7	4.4
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	**23.7**	**20.8**	**23.7**	**21.5**	**21.4**	**33.3**	**30.5**	**20.4**
Annualised return[5]	**15.7**	**14.3**	**13.6**	**14.2**	**14.4**	**9.5**	**8.2**	**3.5**
Since launch[5]	**768.6**	**628.3**	**43.9**	**45.7**	**46.4**	**286.5**	**223.2**	**67.3**

[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 1.2% in November. Our long and short books both contributed 0.9% to performance. The main positive was JD Sports, adding 0.7% to NAV. The company announced continued good trading in its main sports fashion chain, JD, and improved trading at its other divisions. The shares have performed very strongly this year, up 107%, but continue to be modestly valued at an enterprise value of 10 times expected 2014 operating profit after tax. On the short side Perform Group contributed 0.4% after the company reduced profit guidance for 2013 for a second time. It is often said to be the case that profit warnings come in threes and for Perform this has proved to be true with a further, much larger downgrade announced yesterday for both 2013 and 2014 earnings.

Portfolio Activity

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

As at 29th November the Fund was invested in 80 (82)* stocks.

Surteco – German manufacturer of decorative materials (1.2% NAV)

Surteco is the largest manufacturer of edgings and laminates in Europe, which accounts for 75% of sales, used for surface decoration in furnishing and interior design. The company has led the consolidation of its industry over the last 15 years and the recently announced acquisition of 2D Group will add around EUR 200m to revenue, an increase of more than 50%. The acquisition makes strategic and operational sense as it makes Surteco the largest supplier of paper foils, an area where it previously had a smaller position, and provides an opportunity for large synergies, mostly from better purchasing and an optimized value chain in printing and treating of paper surfaces. Surteco will now be the largest manufacturer of both paper and plastic decorative coverings, with high market share in most of its product lines, and the only supplier of both materials. Most importantly of all, at EUR 100m debt free, Surteco has not had to pay a high price for 2D at half of sales, although given trough earnings it is around 20 times expected EBIT this year. We remember that in 2006 Surteco CEO Friedhelm Paefgen told us he was very interested in acquiring 2D but was outbid by private equity paying more than EUR 300m. A further benefit of the deal is that it should greatly improve liquidity in Surteco's shares as it is partly funded by a EUR 80m capital increase that the founding families did not participate in, reducing their ownership from 77% to 55%. This has allowed us to increase the weighting of the position.

When we first wrote on Surteco in September 2010 we were happy to invest in a business which is highly regarded in its industry but neglected by ours due to its tightly held shares and a fairly mundane business model. Although we underestimated the impact of the economic crisis in Europe and unfavourable material cost hikes, Surteco was able to fare much better than most of its peers by keeping sales stable, adding small acquisitions and most importantly protecting operating margins and cash flows. This meant the company was in a strong position to take another large step in consolidating its industry and the deal to acquire 2D is why we think it is worth highlighting Surteco once again. We expect synergies will reduce ongoing expenses by around EUR 30m per year, at a one off cost of EUR 20m, and that the group will generate underlying operating profit of over EUR 60m by 2015. Capital expenditure should be limited to EUR 20m for maintenance implying Surteco shares, at a current market capitalisation of circa EUR 350m, trades on a forecast free cash flow yield of over 14% in 2015. Any recovery in European consumer spending, with furniture and flooring accounting for 60 and 25 percent of sales respectively, will obviously add to profitability but we believe the valuation is attractive even without this. Net debt of EUR 100m is reasonable for the size of the enlarged business and with improved liquidity, and very likely entry into the SDAX segment, we expect Surteco's share price to perform well. With its even stronger market position now and longer term margin uplift potential we value the business on an enterprise value of 14 times 2015 operating profit after tax which gives upside of 50 percent.

Top Five Holdings as at 29 November 2013

	Company	Country	Sector	% of NAV
1	Xing	Germany	Information Technology	5.3
2	Sto	Germany	Materials	4.8
3	Vib Vermoegen	Germany	Financials	4.8
4	Jd Sports	United Kingdom	Consumer Discretionary	4.0
5	Home Retail	United Kingdom	Consumer Discretionary	3.7
				22.6

Exposures as at 29 November 2013

Longs %	Shorts %	Gross Exposure %	Net Exposure %
82.1 (85.0)	34.2 (34.8)	116.3 (119.8)	47.8 (50.2)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 29 November 2013

Country	Gross%	Net%
Austria	1.4	1.4
Belgium	1.9	0.7
Bermuda	1.8	0.7
Canada	1.9	-1.6
Denmark	1.4	1.1
France	5.2	4.5
Germany	29.6	23.2
Italy	5.9	2.5
Norway	4.8	4.8
Spain	2.1	-2.1
Sweden	2.5	-0.2
Switzerland	6.1	1.4
UK	40.7	12.4
US	5.3	-0.8
Other	5.7	-0.2

Market Cap	Gross%	Net%
>£2bn	3.8	-0.7
£700m - £2bn	32.6	3.6
£200m - £700m	51.2	21.7
<£200m	28.7	23.2

Sector	Gross%	Net%
Consumer Discretionary	37.3	16.1
Consumer Staples	1.6	-1.6
Energy	3.5	0.5
Financials	14.3	10.3
Health Care	2.7	1.1
Industrials	15.3	7.4
Information Technology	27.5	7.8
Materials	8.9	8.9
Telecommunication	3.4	-0.9
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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