Ennismore European Smaller Companies Fund

Investor Newsletter for the month of January 2014

Issued on 12 February 2014

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 272m as at 31st January. Total assets under management by Ennismore Fund Management were GBP 331m. 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 January 2014

	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]	**88.18**	**107.46**	**14.89**	**15.24**	**15.30**			
Period	**% Change**					**% Change**		
January 14	**1.1**	**2.5**	**1.1**	**2.2**	**2.2**	**0.0**	**1.4**	**-2.2**
December 13	2.3	2.2	2.4	2.3	2.3	1.6	1.4	1.0
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
2014 to date	**1.1**	**2.5**	**1.1**	**2.2**	**2.2**	**0.0**	**1.4**	**-2.2**
Annualised return[5]	**15.7**	**14.5**	**14.0**	**15.1**	**15.2**	**9.5**	**8.3**	**3.4**
Since launch[5]	**798.5**	**663.1**	**48.9**	**52.4**	**53.0**	**292.7**	**232.3**	**65.1**

[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 1.1% in January. Our long book contributed 1.9% and the Fund's short exposure cost 0.2%. The main contributions were from Xing (0.5%), JD Sports Fashion (0.4%) and Cello Group (0.3%). JD reported continued good like for like sales growth in its core sports fashion stores. Cello announced stronger than expected profit for 2013.

Portfolio Activity

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

As at 31st January the Fund was invested in 70 (77)* stocks.

SPARK Ventures – UK venture capital fund (0.4% NAV)

SPARK is a venture capital fund focused on media and technology with a market capitalisation of GBP 33m. We first invested in it back in 2004 making it one of our longest held positions. We were attracted by management's strong track record, having been an early investor in companies such as lastminute.com, Pricerunner and Mergermarket, all of which were sold after delivering very attractive returns. We significantly increased our holding in early 2009 when the shares traded at just above the company's cash balance and at a discount of over 60% to Net Asset Value per share (NAV). The low valuation ultimately led to a change in strategy in mid-2009 with the management team incentivised to liquidate the portfolio and return cash to shareholders by March 2014. At the start of 2009 the shares traded at just over 5p and the NAV was 15.4p. With 8.5p returned in dividends so far and a NAV of 11.4p as at September 2013, it's safe to say that the change in strategy has been a success. Disposals have typically been done at a premium to book value but in SPARK's most recent interim results they wrote down the values of some smaller investments. It is to be expected that in a disposal process like this some of the last assets will be those that are the hardest to sell and so the writedowns did not come as a major surprise to us, but they seemed to spook the market with the stock price falling around 30% in the last three months. At 8p a share today, with an estimated 4.6p in cash and the remaining portfolio already written down to 6.9p, we think SPARK is again very attractively valued and have been adding to our position.

The remaining investment portfolio consists of IMImobile (3.6p), a provider of software and services to mobile networks, Kobalt Music (1.3p), the world's largest independent music publisher, and a variety of smaller investments adding up to another 2p. Under the incentive scheme introduced in 2009 management will receive

15% of any future distributions above 2.5p per share, and 20% above 5.5p, provided they are made before the end of March 2014. They are clearly incentivised to dispose of as many investments as possible ahead of this deadline and, as such, we anticipate further sales in the near term. Kobalt has long been the standout business in SPARK's portfolio and, having already sold two-thirds of their stake in July last year, we expect them to shortly dispose of the remainder at NAV. We also believe that the recent writedowns probably reflect close to actual values offered in the secondary market and expect them to divest at least half of these smaller investments at around book value. That would leave approximately 6.9p per share in cash, 3.6p in IMImobile and 1p in some smaller investments. What happens with the remaining assets is less clear since there is so little time left before the management agreement expires at the end of March. IMImobile is a growing business with revenue of around USD 64m and, at NAV, is valued at an enterprise value of around seven times historic earnings before depreciation and amortisation. Given that the sale process has been ongoing for some time already, we think it is unlikely this valuation will be achieved before the deadline. Having met with one of the Non-Executive Directors recently we also think it is unlikely that management will pursue a fire-sale as all disposals require Board approval and this approach is probably not going to maximise shareholder value. However, even in this scenario if they achieve 50 cents on the dollar for the remaining assets, very much our worst case, SPARK investors will get all of the current share price back in cash in about six weeks. We think it is much more likely that after a dividend of perhaps 5.5p in March the disposal scheme will be extended for a limited period. Shareholders would retain a stub equity position with a NAV of around 5p at an implied cost of 2.5p, which gives upside on the remaining holding of close to 100% over the next twelve months.

Top Five Holdings as at 31 January 2014

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	4.5
2	Vib Vermoegen	Germany	Financials	4.5
3	Xing	Germany	Information Technology	4.0
4	Sto	Germany	Materials	4.0
5	Oslo Bors	Norway	Financials	3.7
				20.7

Exposures as at 31 January 2014

Longs %	Shorts %	Gross Exposure %	Net Exposure %
74.9 (78.3)	30.8 (32.9)	105.6 (111.2)	44.1 (45.4)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 31 January 2014

Country	Gross%	Net%
Austria	0.9	0.9
Belgium	2.1	0.5
Bermuda	1.7	0.7
Canada	1.9	-1.5
France	4.7	3.9
Germany	27.2	21.1
Ireland	1.2	1.2
Italy	5.6	2.1
Jersey	0.9	-0.9
Norway	5.8	5.8
Sweden	2.3	-0.7
Switzerland	6.0	-2.0
UK	35.1	14.2
US	5.3	-0.4
Other	4.9	-0.8

Market Cap	Gross%	Net%
>£2bn	6.8	0.8
£700m - £2bn	29.2	5.6
£200m - £700m	38.6	12.8
<£200m	31.0	24.9

Sector	Gross%	Net%
Consumer Discretionary	35.6	19.6
Consumer Staples	2.5	-0.2
Energy	1.0	-1.0
Financials	13.0	9.0
Health Care	2.8	0.8
Industrials	15.2	4.9
Information Technology	23.8	5.4
Materials	7.5	7.5
Telecommunication	2.8	-0.5
Utilities	1.4	-1.4
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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