Ennismore European Smaller Companies Fund

Investor Newsletter for the month of March 2014

Issued on 17 April 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 288m as at 31st March. Total assets under management by Ennismore Fund Management were GBP 350m. 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.

Notice

As many investors are aware, we limit the exposure to individual short positions to 4% of NAV at all times and have limited the exposure on initiation of a short position to 3% of NAV. Having reviewed these limits we have decided it is appropriate to increase the latter to 3.6% of NAV whilst maintaining the absolute limit of 4% of NAV.

Performance as at 31 March 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]	**91.18**	**110.29**	**15.40**	**15.66**	**15.73**			
Period			**% Change**				**% Change**	
March 14	**2.9**	**2.6**	**2.9**	**2.6**	**2.7**	**-0.2**	**-0.2**	**-0.7**
February 14	0.5	0.0	0.5	0.1	0.1	7.0	6.4	4.8
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
2014 to date	**4.5**	**5.2**	**4.5**	**5.0**	**5.1**	**6.8**	**7.7**	**1.8**
Annualised return[5]	**15.8**	**14.5**	**14.5**	**15.2**	**15.4**	**9.9**	**8.7**	**3.6**
Since launch[5]	**829.0**	**683.2**	**54.0**	**56.6**	**57.3**	**319.4**	**252.7**	**72.0**

[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 2.9% in March. Our long book contributed 2.0% while the Fund's short exposure added 1.9%. The main positives were Home Retail on the long side, contributing 0.4%, and our short position in Globo which added 0.5%. Home Retail reported continued good trading at both Argos and Homebase. Globo announced that it had replaced its auditor BDO, which had been appointed late last year. There were no significant negative attributions in the month.

Compugroup – German software developer (1.4% NAV)

We wrote on Compugroup three years ago and are highlighting it again now as we think it is a clear example of a company that has improved an already excellent competitive position, strengthening a business model with high barriers to entry and a lot of scope to scale. Since we invested in the company five years ago Compugroup has emerged as the leading developer of software solutions for healthcare service providers in Europe. The business has two main segments: Health Provider Services (HPS) offers workflow software solutions to its broad customer base of doctors, hospitals and pharmacies and generated revenue of around EUR 400m in 2013. The Health Connectivity Services (HCS) segment (with revenue of close to EUR 60m) capitalizes on Compugroup's access to more than 300,000 healthcare providers by selling advertising within the software to pharmaceutical companies and data to health insurance companies. The company has actively consolidated its market, establishing shares of over 40% with its core HPS offering in Germany, Scandinavia, France and Italy (with share in some markets now around 70%). Compugroup's business is attractive as an investment for several reasons. Firstly, it has strong pricing power - maintenance fees charged to customers (close to 70% of total revenue) represent only a small share of their budgets whereas switching costs are high (reflected in a low churn rate of only 2% a year). Second, its dominant market position in several European countries is unique, giving access to a large network of healthcare providers, allowing it to sell the HCS offering – and the bigger its share in a market the more attractive Compugroup's access to these customers, generating higher profitability. Third, the company is benefiting from positive long term trends as there is a need for all industrialised countries to curtail health care costs as their population ages. Last but not least competition is low in mature markets and it is likely to stay that way - high switching costs for customers and economies of scale are likely to be effective barriers to potential new entrants. The quality of its business model enables Compugroup to generate stable operating cash flows which have in turn funded its steady consolidation of the market. Return on capital employed (before tax) has been well above 10% historically and should increase significantly if the company starts scaling back acquisitions.

Compugroup had a fairly disappointing 2013 with revenue growing only modestly and operating profits down due to weak trading in its sub-scale US business and a change in regulation which meant that some of its HCS products could no longer be marketed. With these issues largely behind them – the US business is not material to company overall and the change in regulation is now complete, and partially offset by the introduction of a new fee structure - we forecast revenue will reach EUR 510m this year with earnings before depreciation and amortisation of around EUR 110m. The company is valued at a market capitalisation of EUR 905m and has net debt of EUR 300m. Reported profit includes a charge for amortisation of intangibles related to acquisitions and, stripping this out, the enterprise value for Compugroup is currently 12 times forecast operating profit and around three and a half times its recurring revenues from maintenance and other services. We believe that the current valuation does not reflect the potential for self-help to improve margins significantly from here, given increased scale in its established markets and synergies from the harmonization of the product offering and IT systems across markets. This will be a gradual process as the customer base is upgraded to new generations of the core software and we expect it to contribute materially to a doubling of operating profit over the next five years. The icing on the cake would be a contract to digitise and connect all medical records in Germany - Compugroup and T-Systems have been awarded two year pilot projects to do this – which would have a substantial impact on revenue in its core German market. Close to half of the company's shares are still under the control of the founder and CEO and we think it is very positive that this stake has been increased repeatedly over the past five years. Recent insider purchases by a member of the supervisory board seem to further support our view that Compugroup is undervalued. We think that the company's guidance for 2014 will prove to be conservative and expect the shares to increase by more than 30% in the next twelve months.

Top Five Holdings as at 31 March 2014

	Company	Country	Sector	% of NAV
1	Vib Vermoegen	Germany	Financials	4.6
2	Jd Sports	United Kingdom	Consumer Discretionary	4.2
3	Oslo Bors	Norway	Financials	4.2
4	Sto	Germany	Materials	4.1
5	Home Retail	United Kingdom	Consumer Discretionary	3.8
				20.9

Exposures as at 31 March 2014

Longs %	Shorts %	Gross Exposure %	Net Exposure %
70.5 (74.8)	30.9 (34.2)	101.4 (109.0)	39.6 (40.6)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 31 March 2014

Country	Gross%	Net%
Belgium	1.6	0.8
Bermuda	1.4	0.9
Canada	2.1	-1.8
Finland	0.8	-0.8
France	4.8	3.8
Germany	26.9	18.6
Italy	4.2	0.6
Jersey	0.9	-0.9
Norway	6.1	6.1
Poland	0.9	-0.9
Sweden	1.9	-0.5
Switzerland	3.8	-1.3
UK	38.4	12.8
US	3.9	0.4
Other	3.7	1.8

Market Cap	Gross%	Net%
>£2bn	9.3	-2.8
£700m - £2bn	28.3	6.0
£200m - £700m	36.5	15.7
<£200m	27.3	20.7

No. of Positions	Mar	Feb
Long	78	80
Short	56	58
Longs Opened	0	3
Longs Closed	2	4
Shorts Opened	3	4
Shorts Closed	5	3

Sector	Gross%	Net%
Consumer Discretionary	35.3	16.3
Consumer Staples	1.9	0.5
Energy	0.5	-0.5
Financials	13.6	9.6
Health Care	3.1	1.8
Industrials	14.2	4.2
Information Technology	21.8	2.3
Materials	6.8	6.8
Telecommunication	2.9	-0.1
Utilities	1.3	-1.3
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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