Ennismore European Smaller Companies Fund

Investor Newsletter for the month of April 2014

Issued on 19 May 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 292m as at 30th April. Total assets under management by Ennismore Fund Management were GBP 356m. 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 April 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]	**92.51**	**112.66**	**15.62**	**15.98**	**16.05**			
Period	**% Change**					**% Change**		
April 14	**1.5**	**2.1**	**1.4**	**2.0**	**2.0**	**-1.4**	**-0.9**	**1.8**
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
2014 to date	**6.1**	**7.5**	**6.0**	**7.2**	**7.2**	**5.3**	**6.7**	**3.6**
Annualised return[5]	**15.8**	**14.6**	**14.6**	**15.5**	**15.7**	**9.8**	**8.5**	**3.7**
Since launch[5]	**842.6**	**700.0**	**56.2**	**59.8**	**60.5**	**313.6**	**249.5**	**75.0**

[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 1.5% in April. Our long book cost 0.1% while the Fund's short exposure contributed 2.4%. The main positive on the long side was JD Sports, which reported very strong trading in its core business. On the short side our shorts in Quindell and a Swiss capital goods manufacturer contributed 1.0% and 0.5% respectively. Quindell shares fell by nearly a third in April after the release of a highly critical research report, despite a subsequent response issued by the company.

4imprint Group – UK promotional merchandise supplier (1.5% NAV)

We wrote on 4imprint back in January 2012 and the company has gone from strength to strength in this time growing profits in the core business from GBP 7.7m in 2011 to GBP 11m in 2013. The company recently sold off its final non-core division (SPS, a small UK manufacturer of promotional goods) leaving a pure promotional goods marketing business with over 90% of sales in the United States. In the US, 4imprint is the number one player in a large (c. USD 12bn) but highly fragmented market with revenue of GBP 228m. The company sells a broad range of products – over 100,000 different items - ranging from clothing to tools and, of course, stationery. The company acquires its customers via various sources including 20m catalogues, samples sent to existing customers, online search, and emails. Finished products are then customised by 4imprint's suppliers to meet the end customer's specifications. Customers are mostly smaller businesses with none accounting for a significant share of revenues, while the supplier base is well diversified (the ten largest make about half of the products they sell) and competitively tendered. This is essentially a sales business with marketing costs accounting for 80% of operating costs.

The impressive increase in the number of orders from existing customers has continued going from 226,000 in 2010 to 387,000 in 2013 and is key as prior customers have a much higher response rate (more than 30% repeat order in the first year) as opposed to less than 1% response rates for catalogues sent to potential new buyers. Therefore over time the same marketing spend will yield higher sales and profits and a larger marketing budget to reinvest in acquiring more direct customers, creating a virtuous circle. The company continues to grow revenues at about 15% a year, with only a small decline even in 2009 when the market for promotional products declined by about 20%, and we expect them be able to continue this for many years given their low market share combined with relative scale, at around twice the size of their nearest competitor. In the first quarter this year this trend continued with sales growing at 16%, and North America growing 23% in US dollars. The company, as is, has a track record of pretty consistent profit growth over the last eight years at almost 17% per annum and we see no reason why this can't continue into the medium term. Operating margins now sit at over 5%, however due to the very low capital requirement this converts to a post-tax return of around 100%. We expect margins to slowly increase due to better central cost coverage and some scale benefits.

At the current share price of 700p (versus 253p when we last wrote) 4imprint has rerated substantially however we are still a very enthusiastic shareholder. The stock now has an enterprise value of GBP 191m and we expect it to generate operating profit of around GBP 13.5m in 2014, a multiple of 17 times 2014 operating profit after tax. The stock still has a handy dividend yield of around 3% but we see no reason why the payout ratio shouldn't increase, due to the cash generative nature of the business, and move quickly towards a higher yield. We view 4imprint as a cash cow, with very little capital needs, but one that can grow at good double digit rates over the medium to long term in a huge market. The question is what multiple is fair for these unusual attributes. Due to these traits and continued evidence of the high quality execution from the US management we think a multiple of 20 times earnings for the core Direct Marketing business is conservative which, after taking out central costs, leaves upside of over 35% to the end of next year.

Top Five Holdings as at 30 April 2014

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	4.8
2	Vib Vermoegen	Germany	Financials	4.7
3	Oslo Bors	Norway	Financials	4.3
4	Sto	Germany	Materials	3.8
5	Home Retail	United Kingdom	Consumer Discretionary	3.6
				21.2

Exposures as at 30 April 2014

Longs %	Shorts %	Gross Exposure %	Net Exposure %
67.3 (70.5)	28.3 (30.9)	95.6 (101.4)	39.0 (39.6)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 30 April 2014

Country	Gross%	Net%
Belgium	1.2	1.2
Bermuda	1.4	0.8
Canada	2.2	-1.9
Finland	0.8	-0.8
France	4.6	3.5
Germany	25.0	16.5
Italy	3.6	0.0
Jersey	0.7	-0.7
Norway	6.3	6.3
Poland	0.8	-0.8
Sweden	1.8	-0.5
Switzerland	3.2	-0.9
UK	37.7	13.6
US	2.9	1.1
Other	3.3	1.6

Market Cap	Gross%	Net%
>£2bn	6.1	-0.7
£700m - £2bn	28.6	5.3
£200m - £700m	36.9	12.6
<£200m	23.9	21.8

Positions	
Long	79 (78)
Short	49 (56)
Longs Opened	2 (0)
Longs Closed	1 (2)
Shorts Opened	1 (3)
Shorts Closed	8 (5)

Sector	Gross%	Net%
Consumer Discretionary	35.6	17.5
Consumer Staples	1.9	0.5
Energy	0.3	-0.3
Financials	13.4	9.4
Health Care	2.7	2.3
Industrials	13.9	3.8
Information Technology	18.2	1.4
Materials	5.7	5.7
Telecommunication	2.6	-0.1
Utilities	1.2	-1.2
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.

For further information please contact:	Eleanor Scott, Ennismore Fund Management	+44 (0) 20 7368 4219	subs@ennismorefunds.com
For dealing please contact:	Northern Trust International Fund Administration Services (Ireland) Ltd	+353 (0) 1 434 5103	Ennismore_TA@ntrs.com