# Ennismore European Smaller Companies Fund

## Investor Newsletter for the month of May 2014

**Issued on 16 June 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 287m as at 30th May. Total assets under management by Ennismore Fund Management were GBP 349m. 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 May 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]** | **91.19** | **112.10** | **15.40** | **15.87** | **15.94** | | | |
| **Period** | | | % Change | | | | % Change | |
| **May 14** | **-1.4** | **-0.5** | **-1.4** | **-0.7** | **-0.7** | **1.0** | **2.0** | **2.2** |
| 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 |
| **2014 to date** | **4.6** | **6.9** | **4.5** | **6.4** | **6.5** | **6.3** | **8.8** | **5.9** |
| **Annualised return[5]** | **15.6** | **14.5** | **13.7** | **14.9** | **15.0** | **9.8** | **8.6** | **3.9** |
| **Since launch[5]** | **829.1** | **696.0** | **54.0** | **58.7** | **59.4** | **317.5** | **256.5** | **78.9** |

[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 fell by 1.4% in May. Our long book remained flat while the Fund's short exposure cost 1.4%. On the long side the main positive was Kongsberg Automotive, contributing 0.4%, while JD Sports cost 0.3%. The performance of our short book was dominated by the contributions from our two largest positions. While Quindell again contributed positively (adding 0.5%), this was more than offset by our short position in an online gambling firm which cost the Fund 1.6%. Late in the month rumours emerged that this company was about to buy out a much larger competitor, a deal which was completed early in June. While our concerns over the underlying business remain, the scale of this transaction and the company's ability to finance it with a large amount of cheap debt and an equity raise at a massive premium, make these largely irrelevant. We have closed the position with a further significant loss realised in June.

## Driver Group – UK engineering consultant (0.4% NAV)

Driver Group is a consultant specialising in Dispute & Advisory Services in Construction and Engineering Projects (60% of revenue), Project Services (18%), Project Management (10%), Expert Services (10%) and Corporate Services (3%). The vast majority of revenue is time rates not a percentage of production costs or lump sum which we see as important for risk control. The industry is fragmented although they are number one in the Middle East and Europe in their core business of Dispute and Advisory Services; this is where they represent the customer in tender processes, consortium formations and disputes within projects. The Project Services business helps with procurement, planning and programming and forecast of projects. Project Management will work on more specialist projects such as Public Private Partnership hospital projects in South Africa. Expert services are offered for the likes of arbitration support and forensic analysis. Gross margins are highest in Expert Services and lowest in Project Services.

In 2012 the management made a game changing acquisition, buying Trett Consulting from Grontmij. They paid GBP 3.6m for GBP 11m of sales bringing them improved scale and critical mass. They turned the company around from being loss making and we believe this to have been a very accretive deal.

Of Driver's GBP 37m turnover for the year to September 2013 over 50% is in Europe (mainly the UK) and around 30% in the Middle East. These core areas have good profitability with operating margins of 13% and

27% respectively last year. Overall the business has margins of around 7% due to lower margins in the rest of the business and central costs; however the medium term target operating margin is for more than 10%.

In the first half operating profits were down by 10%, as Europe and Africa were weaker than expected, however we are confident that this will be remedied in the second half. Asia and the US will cost a better than expected GBP 0.3m for this financial year with Asian trading improving and the US operations now downsized. For 2015 we also expect these areas to be at least breakeven as the US should turn profitable with a reduced cost base.

Management definitely understand the need for conservatism in people utilisation businesses when determining headcount growth and have meetings each Friday where every fee earner forecasts the next four weeks utilisation. We also see the recently opened offices in Hong Kong, Singapore, Australia and Malaysia as sensible taking the total to around 25. The management's key focus is on earnings, cash collection and various targets, such as cross selling, depending on region. Driver's balance sheet is solid with tangible equity of over GBP 7m and GBP 1m of net debt. We see Driver as a niche consultant undervalued by the market. We expect the company to generate flat operating profits this year but to grow next year by around 20%. Valuing the business on 13 times operating profits after tax for the 2015 financial year would lead to upside for the shares of over 35% over the next 18 months.

## Top Five Holdings as at 30 May 2014

| | Company | Country | Sector | % of NAV |
|---|---|---|---|---|
| 1 | Vib Vermoegen | Germany | Financials | 4.9 |
| 2 | Jd Sports | United Kingdom | Consumer Discretionary | 4.6 |
| 3 | Oslo Bors | Norway | Financials | 4.1 |
| 4 | Sto | Germany | Materials | 3.9 |
| 5 | Home Retail | United Kingdom | Consumer Discretionary | 3.3 |
| | | | | **20.8** |

## Exposures as at 30 May 2014

| Longs % | Shorts % | Gross Exposure % | Net Exposure % |
|---|---|---|---|
| 67.0 (67.3) | 32.5 (28.3) | 99.5 (95.5) | 34.5 (39.0) |

Figures in brackets refer to previous month end.

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

| Country | Gross% | Net% |
|---|---|---|
| Belgium | 1.2 | 1.2 |
| Bermuda | 1.4 | 0.9 |
| Canada | 4.4 | -4.1 |
| Denmark | 0.7 | 0.3 |
| Finland | 0.8 | -0.8 |
| France | 5.2 | 4.1 |
| Germany | 23.8 | 15.4 |
| Italy | 3.3 | 0.0 |
| Norway | 6.5 | 6.5 |
| Poland | 1.2 | -1.2 |
| Sweden | 2.7 | -1.6 |
| Switzerland | 3.4 | -1.1 |
| UK | 40.1 | 12.7 |
| US | 3.2 | 1.2 |
| Other | 1.6 | 1.0 |

| Market Cap | Gross% | Net% |
|---|---|---|
| >£2bn | 6.7 | -1.2 |
| £700m - £2bn | 29.6 | 2.7 |
| £200m - £700m | 39.1 | 12.5 |
| <£200m | 24.1 | 20.5 |

| Positions | |
|---|---|
| Long | 80 (79) |
| Short | 51 (49) |
| Longs Opened | 4 (2) |
| Longs Closed | 3 (1) |
| Shorts Opened | 5 (1) |
| Shorts Closed | 3 (8) |

| Sector | Gross% | Net% |
|---|---|---|
| Consumer Discretionary | 38.9 | 16.4 |
| Consumer Staples | 2.0 | 0.4 |
| Energy | 0.3 | -0.3 |
| Financials | 14.1 | 7.9 |
| Health Care | 4.2 | 1.2 |
| Industrials | 14.1 | 3.5 |
| Information Technology | 16.3 | 2.1 |
| Materials | 5.2 | 5.2 |
| Telecommunication | 3.1 | -0.6 |
| 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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