Ennismore European Smaller Companies Fund

Investor Newsletter for the month of June 2014

Issued on 9 July 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 279m as at 30th June. Total assets under management by Ennismore Fund Management were GBP 341m. 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 June 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]	**89.38**	**111.63**	**15.10**	**15.76**	**15.83**			
Period	% Change					% Change		
June 14	**-2.0**	**-0.4**	**-1.9**	**-0.7**	**-0.7**	**-2.1**	**-0.5**	**-0.9**
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
2014 to date	**2.5**	**6.5**	**2.5**	**5.7**	**5.7**	**4.1**	**8.3**	**4.9**
Annualised return[5]	**15.4**	**14.4**	**12.7**	**14.3**	**14.4**	**9.6**	**8.6**	**3.8**
Since launch[5]	**810.7**	**692.7**	**51.0**	**57.6**	**58.3**	**308.9**	**254.7**	**77.2**

[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 2.0% in June. Our long book cost 0.4% while the Fund's short exposure cost 1.5%. The most significant attributions came from the short book, with one position in an online gambling firm costing 2.9%. We highlighted in last month's newsletter that this company was acquiring a much bigger competitor, making our short case largely irrelevant. As a result we closed the position entirely. This loss was only partially offset by a positive contribution from the rest of the short book, and Quindell in particular (adding 0.6%).

IGE-XAO – French software developer (0.9% NAV)

IGE-XAO produces computer-aided-design (CAD) and product-lifecycle-management (PLM) software for electrical engineers. Its product suite is used to design, maintain and test complex electrical wiring systems within aircraft, cars, machines and buildings. For instance, Airbus used IGE-XAO's software to design the 530km of electrical wire that runs through the A380. The software is also used to manage workflow processes, such as finding the right parts and purchasing them. The company is based in France, with the French market accounting for around three quarters of revenue with the remainder mostly from other European countries.

IGE-XAO's business model has some enviable characteristics. Firstly, since there is limited interoperability between different competitors' software, when a firm like Renault chooses to use IGE-XAO's software its suppliers must also use the same software. As IGE-XAO is the choice of many of France's leading industrial firms, the ecosystems built around these firms must all use the same software. Moreover, any electrical engineer entering the market is naturally going to train on the most widely used product. These effects have helped IGE-XAO achieve a market share of around 70% in France and provide a meaningful barrier to entry. Furthermore, there are significant customer switching costs. These switching costs exist on several levels. Most important is that it is extremely hard to transfer data to a competitor's product, meaning that when a product is designed with IGE-XAO's software, the customer is tied in for the life of the product. Consider this in the context of, say, Airbus's A380, which will still be flying in many decades. In addition, many customers have had the software tailored to their internal systems, which requires significant investment and further imbeds the software into customers' design processes. It can also be time consuming and difficult for engineers to learn a new product, particularly for engineers that have been using it for many years. Finally, the annual cost of the software is small, so the commercial incentive to switch is minimal. All of this contributes to customer churn in the low single digits in percentage terms.

These positive business traits manifest themselves in attractive financial characteristics. A high proportion of revenue is recurring, with maintenance licenses accounting for nearly half of revenue. The company has delivered compounded revenue growth of 4% and earnings growth of 11% over the last ten years, with cash conversion over 100%. Earnings have increased in each of the last ten years. We believe it can maintain this sort of earnings growth by continuing to enter new markets, developing new products, furthering customer penetration and increasing prices. Senior management own more than 20% of the company and they have historically used excess cash to buy back the stock, creating additional value for shareholders. We estimate revenue this year will be close to EUR 27m with EUR 7m of operating profit. With a market capitalisation of EUR 90m and EUR 26m of cash, it trades at an enterprise value of just nine times our estimate of this year's operating profit, all of which is coming through in cash. This profit is generated after around 25% of revenue is spent on R&D, which is fully expensed. We believe a more appropriate valuation for such a strong business would be at least 11 times operating profit in 2016, implying upside of 50% over the next 18 months.

Top Five Holdings as at 30 June 2014

	Company	Country	Sector	% of NAV
1	Vib Vermoegen	Germany	Financials	5.0
2	Jd Sports	United Kingdom	Consumer Discretionary	4.7
3	Oslo Bors	Norway	Financials	4.2
4	Sto	Germany	Materials	4.1
5	Home Retail	United Kingdom	Consumer Discretionary	3.4
				21.4

Exposures as at 30 June 2014

Longs %	Shorts %	Gross Exposure %	Net Exposure %
69.7 (67.0)	28.1 (32.5)	97.8 (99.5)	41.6 (34.5)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Belgium	1.3	1.3
Bermuda	1.1	1.1
Denmark	0.7	0.3
Finland	0.8	-0.8
France	5.7	4.7
Germany	23.2	14.8
Italy	3.1	0.0
Jersey	0.7	-0.7
Norway	6.5	6.5
Poland	1.2	-1.2
Sweden	2.6	-1.5
Switzerland	3.3	-1.0
UK	42.3	15.2
US	3.6	1.4
Other	1.7	1.5

Market Cap	Gross%	Net%
>£2bn	6.1	0.0
£700m - £2bn	30.9	5.4
£200m - £700m	34.7	12.4
<£200m	26.1	23.8

Positions	Jun	May
Long	79	80
Short	50	51
Longs Opened	4	4
Longs Closed	5	3
Shorts Opened	2	5
Shorts Closed	3	3

Sector	Gross%	Net%
Consumer Discretionary	37.0	21.8
Consumer Staples	2.2	0.6
Energy	0.0	0.0
Financials	14.2	8.2
Health Care	4.8	1.0
Industrials	13.6	3.1
Information Technology	16.2	3.1
Materials	5.5	5.5
Telecommunication	3.2	-0.6
Utilities	1.1	-1.1
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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