Ennismore European Smaller Companies Fund

Investor Newsletter for the month of July 2014

Issued on 14 August 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 277m as at 31st July. Total assets under management by Ennismore Fund Management were GBP 339m. 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 July 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]	**89.52**	**112.96**	**15.12**	**15.92**	**15.98**			
Period	**% Change**					**% Change**		
July 14	**0.2**	**1.2**	**0.1**	**1.0**	**0.9**	**-3.8**	**-2.9**	**-1.8**
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	**2.6**	**7.7**	**2.6**	**6.8**	**6.7**	**0.2**	**5.2**	**3.0**
Annualised return[5]	**15.3**	**14.4**	**12.4**	**14.2**	**14.3**	**9.2**	**8.3**	**3.6**
Since launch[5]	**812.1**	**702.1**	**51.2**	**59.2**	**59.8**	**293.3**	**244.5**	**74.0**

[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 0.2% in July. Our long book cost 2.3% while the Fund's short exposure contributed 3.0%.

Card Factory – UK Retailer (2.5% NAV)

Card Factory is a recently listed UK value-for-money greeting cards and gifts retailer with a market capitalisation of £690m. In the year to January 2014, 59% of its £327m sales were in single card sales, 2% Christmas multi-pack cards and 39% non-card products. The company is the only focused, vertically integrated, greeting card player in the UK market, involved in designing (four thousand new designs per year), printing and retailing. However, they have had faster growth in non-card products (e.g. gifts, wrapping, party decorations etc.) and we expect this to continue as they broaden, improve and differentiate their range and also now design and own source the vast majority of their non-card products.

As of the half year Card Factory had 750 stores and plans to grow this by around 50 stores per annum, with an eventual target of 1200 stores. The company has successfully grown its estate from 480 stores in 2010 (and 130 stores in 2005).

The greeting cards market in the UK is serviced 42% via Specialist Chains (dominated c. 80% plus by Card Factory, Clinton Cards and Hallmark stores), 32% Grocers and 26% Variety stores, Independents etc. The market is characterised by two large US publishers, Hallmark and American Greetings, supplying around two thirds of the market (excluding Card Factory) via wholesalers into other retailers and through their own stores. Card Factory only supplies its own stores and is the number one chain with 37% of the Specialist segment, having overtaken Clinton Cards (now owned by American Greetings) in 2012 when that company downsized after going into administration.

The market structure is key to why Card Factory has done so well historically and will continue to do so going forward. Most importantly, the two main suppliers are not in a position to be able to bring prices down to the level that Card Factory sells at due to the profit margins they have to protect as incumbents. With much of the competition in the specialist chain segment being owned by the two large suppliers any price reduction would conflict with their business of supplying to other retailers. The grocers typically outsource their card offering to a large publisher and it is not an important focus for them, and the independents have less buying power and often rely on the large publishers, allowing for relatively high margins for the suppliers. A step change in pricing at the other specialist chains to adjust to Card Factory's price difference (of more than 40%) would be too risky to the suppliers' business as a whole and so we expect Card Factory to continue to take share from the rest of the market.

The greeting card market is dominated by females (around 85% of purchases) and we see it as being relatively protected from online penetration as a whole due to time restrictions and the preference for hand written cards, with personalised cards still being quite niche (although Card Factory does have a position in this via GettingPersonal.co.uk). We expect the card market to grow by around 2% per annum in value terms but we expect the company to grow considerably faster due to new stores, stronger growth in non-card sales and existing store maturity profile coming through. In the first half sales grew 9% (like for like 2.6%) and we expect similar growth in the 2nd half.

Card Factory has been very resilient historically with positive comparative store growth every year since inception, strong operating margins of over 20%, and a very good Return On Capital. Excluding goodwill linked to the ownership structure pre-listing, the Return on Net Operating Assets was over 70% in the last financial year. The payback period for new stores is less than two years, and we particularly like their short lease lengths (three years on average to break) which keep risk down and often enables them to keep rents low. This high return on capital leads to very good cash conversion which will bring the debt down, in our view very quickly, by over £60m per annum from £150m as at the half year and ultimately will enable a very generous dividend policy.

On our site visit to see the design and printing facilities of the company, the continued focus by senior management on taking market share by its disruptive market positioning and strategy stood out. In our view, this is much the same as Sports Direct did in the mass market sport goods sector (eventually resulting in the bankruptcy of the incumbent, JJB). We don't think the market is valuing correctly the structural advantage of the enterprise nor its strong capital returns and resilience. Placing the stock on a conservative multiple of 15 times expected Operating Profit after Tax for the year to January 2016 leads to upside of over 40% in the next 18 months.

Top Five Holdings as at 31 July 2014

	Company	Country	Sector	% of NAV
1	Vib Vermoegen	Germany	Financials	4.8
2	Jd Sports	United Kingdom	Consumer Discretionary	4.5
3	Oslo Bors	Norway	Financials	4.2
4	Home Retail	United Kingdom	Consumer Discretionary	3.9
5	Sto	Germany	Materials	3.8
				21.2

Exposures as at 31 July 2014

Longs %	Shorts %	Gross Exposure %	Net Exposure %
71.2 (69.7)	29.1 (28.1)	100.3 (97.8)	42.1 (41.6)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Belgium	1.5	1.5
Bermuda	1.0	1.0
Denmark	0.8	0.4
Finland	0.8	-0.8
France	6.4	5.5
Germany	23.8	10.9
Italy	3.1	0.0
Jersey	1.0	-1.0
Norway	6.4	6.4
Poland	1.2	-1.2
Sweden	2.5	-1.8
Switzerland	2.8	-0.5
UK	43.6	18.9
US	3.0	1.0
Other	2.4	1.8

Market Cap	Gross%	Net%
>£2bn	9.4	-0.8
£700m - £2bn	29.1	8.9
£200m - £700m	35.4	11.1
<£200m	26.4	22.9

Positions	Jul	Jun
Long	77	79
Short	52	50
Longs Opened	2	4
Longs Closed	4	5
Shorts Opened	5	2
Shorts Closed	3	3

Sector	Gross%	Net%
Consumer Discretionary	37.7	23.1
Consumer Staples	3.4	1.7
Energy	0.0	0.0
Financials	13.8	8.3
Health Care	5.8	1.0
Industrials	12.1	3.5
Information Technology	19.0	0.2
Materials	5.2	5.2
Telecommunication	2.4	0.0
Utilities	0.9	-0.9
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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