Ennismore European Smaller Companies Fund

Investor Newsletter for the month of August 2014

Issued on 12 September 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 282m as at 29th August. Total assets under management by Ennismore Fund Management were GBP 347m. 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 29 August 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]	**90.50**	**114.10**	**15.29**	**16.08**	**16.15**			
Period	% Change					% Change		
August 14	**1.1**	**1.0**	**1.1**	**1.0**	**1.1**	**1.2**	**1.2**	**1.8**
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
2014 to date	**3.8**	**8.8**	**3.8**	**7.8**	**7.9**	**1.4**	**6.4**	**4.9**
Annualised return[5]	**15.3**	**14.4**	**12.5**	**14.2**	**14.3**	**9.3**	**8.3**	**3.7**
Since launch[5]	**822.1**	**710.2**	**52.9**	**60.8**	**61.5**	**298.0**	**248.7**	**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 increased by 1.1% in August. Our long and short books contributed 1.4% and 0.1% respectively. The main positives were Home Retail (0.4% attribution), Kongsberg Automotive and Oslo Bors VPS (both 0.3%) on the long side and Quindell (0.3%) from the short book. There were no significant negative attributions during the month.

Oslo Bors VPS announced good second quarter results and a special dividend of NOK 4.50 (6%) in August. Early in the month it was reported that Quindell's much-hyped telematics joint venture with the RAC was going to be scrapped before it had even begun, a fact confirmed by the company at the start of September.

Cegedim – French healthcare software developer (1.0% NAV)

Cegedim is about to be transformed by the sale of its Customer Relationship Management and Strategic Data division to IMS Health. The division represents roughly half of the existing business and is being sold for EUR 385m, the same as Cegedim's current market cap. With net debt of EUR 462m, financially alone this is a game changer. More importantly Cegedim is disposing of a structurally challenged business dependent on marketing by the pharmaceutical industry, historically its core division, to focus on what we believe are much more attractive niches providing software for doctors, pharmacies and the insurance industry. After seven lean years, and with the deal expected to close end of this year, we expect seven fat years to be just around the corner.

Cegedim was founded in 1969 by Jean-Claude Labrune, who still controls the company. The core of the business was its database of doctors and CRM software to serve the marketing needs of pharmaceutical companies. The division supplying software to doctors and pharmacies started only in 1994, as medical records began to be computerised, with IT solutions for health insurance companies coming in 1999. With a long history of strong revenue growth, with sales above EUR 500m and operating profit of EUR 66m, in 2007 Cegedim made one big mistake. It acquired Dendrite, a US peer in pharmaceutical CRM, for EUR 560m - all financed by debt. For this they got a loss making business with revenue of EUR 336m. While the deal made Cegedim the global leader for these services, it was done with CRM business at a turning point as the declining profitability of its pharmaceutical customers lead to reductions in the number of sales representatives in the USA and Europe. Cegedim had to raise capital in 2009 and took years of restructuring to stabilize this business, with group revenue of EUR 902m and operating profit EUR 92m in 2013 still well below the pro forma figures for 2007 announced with the Dendrite acquisition.

By disposing of the CRM division Cegedim will focus instead on more niche businesses with better long growth prospects and some attractive characteristics. The bigger division, Healthcare Professionals provides software to doctors and pharmacies, mainly in France and the UK. It generates revenue of EUR 289m and an EBIT of EUR 35.5m. The beauty of this business is that it benefits from the urgent need to make the healthcare systems in developed nations more efficient. Doctors and pharmacists pay a monthly subscription, providing highly fragmented customer base with low churn. In the UK Cegedim competes with Emis and is the number two provider to doctors and number one for pharmacies with, we estimate, sales of close to EUR 60m. Most of its revenue (70%) is still in France where it is the number two behind subsidiaries of Compugroup (a long term holding of the Fund) in doctors' software and just behind Pharmagest in the pharmacies business. There is still substantial room to grow this business as penetration is still relatively low for the more sophisticated software solutions, particularly for doctors in France. Over the medium term we expect mid-single digit revenue growth from this division.

The other remaining division, Insurance and Services, provides IT services to insurance companies, human resource and electronic payment solutions. In total it generates revenue of EUR 160m and operating profit of EUR 24.7m. Although less attractive than the Healthcare Professionals business it is well positioned as the leading IT services provider for healthcare insurers, with all of the top ten as customers, and this is reflected by a good operating margin of 15%.

To make a long story short, after the deal closes Cegedim will be a much leaner company with a healthy balance sheet and management aligned with shareholders' interests. The two remaining divisions, Healthcare Professionals and Insurance & Services, generate revenues of EUR 449m (excluding EUR 29m related to the division being sold) and an estimated EBIT of EUR 56m (after central costs). This implies Cegedim is valued at just eight times its operating profit which we believe is too low. This is a good to high quality business with long term sustainable growth and a high level of recurring revenue. At what seems a very attractive valuation, post disposal, we see upside of more than 30% for the shares in the short term and attractive returns over the mid to long term.

Top Five Holdings as at 29 August 2014

	Company	Country	Sector	% of NAV
1	Vib Vermoegen	Germany	Financials	4.7
2	Jd Sports	United Kingdom	Consumer Discretionary	4.6
3	Home Retail	United Kingdom	Consumer Discretionary	4.4
4	Oslo Bors	Norway	Financials	4.1
5	Sto	Germany	Materials	3.6
				21.4

Exposures as at 29 August 2014

Longs %	Shorts %	Gross Exposure %	Net Exposure %
70.7 (71.2)	31.9 (29.1)	102.6 (100.3)	38.8 (42.1)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 29 August 2014

Country	Gross%	Net%
Belgium	1.4	1.4
Bermuda	1.0	1.0
Denmark	0.7	0.3
France	6.3	5.4
Germany	24.1	8.0
Italy	3.1	0.1
Jersey	1.2	-1.2
Norway	6.7	6.7
Poland	1.2	-1.2
Spain	0.8	0.5
Sweden	2.9	-2.3
Switzerland	3.8	-1.8
UK	44.0	20.3
US	3.0	0.9
Other	2.4	0.7

Market Cap	Gross%	Net%
>£2bn	10.4	-0.9
£700m - £2bn	32.3	6.7
£200m - £700m	35.7	13.2
<£200m	24.2	19.8

Positions	Aug	Jul
Long	74	77
Short	57	52
Longs Opened	0	2
Longs Closed	3	4
Shorts Opened	9	5
Shorts Closed	4	3

Sector	Gross%	Net%
Consumer Discretionary	37.4	21.1
Consumer Staples	3.8	2.3
Energy	0.0	0.0
Financials	15.1	6.6
Health Care	5.8	0.9
Industrials	13.1	4.5
Information Technology	18.7	-0.5
Materials	5.1	5.1
Telecommunication	2.4	0.0
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.

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