Ennismore European Smaller Companies Fund

Investor Newsletter for the month of October 2014

Issued on 7 November 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 280m as at 31st October. Total assets under management by Ennismore Fund Management were GBP 345m. 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 October 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]	**91.10**	**116.33**	**15.39**	**16.36**	**16.43**			
Period	% Change					% Change		
October 14	**0.8**	**0.3**	**0.9**	**0.4**	**0.4**	**-1.7**	**-2.4**	**-1.6**
September 14	-0.2	1.6	-0.2	1.3	1.3	-3.7	-1.9	-0.2
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
January 14	1.1	2.5	1.1	2.2	2.2	0.0	1.4	-2.2
2014 to date	**4.4**	**11.0**	**4.5**	**9.7**	**9.8**	**-4.1**	**1.9**	**3.0**
Annualised return[5]	**15.2**	**14.3**	**12.1**	**14.0**	**14.2**	**8.8**	**8.0**	**3.6**
Since launch[5]	**828.2**	**726.0**	**53.9**	**63.6**	**64.3**	**276.7**	**233.9**	**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 0.8% in October. Our long and short books contributed 0.3% and 0.9% respectively. The main positives were our long positions in ASOS (0.9% contribution), JD Sports and Home Retail (both 0.4%). On the short side APR Energy contributed 0.3%. The main negative was our short in Avanti Communications, which cost the Fund 0.4% in October. We explain our view on this company in the stock comment below.

Avanti Communications – UK satellite operator (-1.9% NAV)

Avanti operates ka-band satellites and wholesales their broadband capacity to customers in Europe, the Middle East and Africa. They currently have two satellites in service, Hylas-1 and Hylas-2, which they state have c.12 GHz of capacity. The company has a market capitalisation of GBP 320m (USD 505m) and net debt (including purchase commitments) of c.USD 400m, giving an enterprise value of around USD 900m. In the year to June 2014 Avanti reported revenue of USD 66m and an operating loss of USD 49m. Cash flow from operations was minus USD 34m with a further USD 26m invested in property, plant and equipment (of which only USD 11m related to incremental satellite capacity). Despite repeatedly under-delivering on revenue and profit expectations Avanti recently raised additional debt to fund a fourth payload, Hylas-4, that will more than triple its capacity. For the reasons outlined below we believe this strategy makes it highly likely that Avanti will be unable to service its 10% coupon USD 520m bond.

Prior to Avanti launching its first satellite, in 2010, we were very sceptical that there was sufficient demand to fill the planned capacity. We seem to have been right. For the year to June 2014 only around one third of Avanti's revenue appears to have come from wholesaling bandwidth. That is, of the USD 66m reported USD 5m related to a historic grant from the European Space Agency (ESA), USD 17m is disclosed as equipment sales and USD 10m is described as relating to an "infrastructure project". We estimate at least a further USD 9m was consultancy revenue (based on an accrued income balance of this amount) and that c.USD 2m relates to the German reseller Filiago. The remaining balance of USD 22m is, we assume, approximately the revenue Avanti earned from wholesaling broadband capacity in the year. The annual report discloses that the average price achieved was not less than USD

2,000 a month, which means that at most Avanti appears to have sold 900 MHz of capacity. This equates to average capacity utilisation for the year of less than 8%. In the past management guided for Hylas-1 to be fully utilised "three years from service launch" and for Hylas-2 to be full after four; Hylas-1 has been live for significantly longer than three years and Hylas-2 for more than two years. Guidance for the first quarter of the current financial year is for revenue "to be around the average of the last year", implying negative growth in overall revenue quarter on quarter. Backlog, an indicator of future revenue, has been declining in recent quarters and as at June was down year on year from USD 445m to USD 430m. Given the extremely low levels of capacity utilisation apparently achieved by the existing fleet, the weak backlog trend and the large debt burden carried by Avanti we believe it is extremely unlikely that these assets will generate any value for equity shareholders.

Avanti's reported revenue also raises others concerns. USD 10.4m is described as relating "to a customer who has initiated an infrastructure project which is of strategic importance to Avanti in a specific region". By year end the payment terms on USD 9.4m of this revenue had been extended to 2015-2019! The company also took a bad debt provision of USD 4.6m in the year ended June 2014 which is equivalent to nearly 20% of revenue reported the previous year (excluding the ESA grant). By the end of the financial year, of the USD 21m of trade receivables reported as unimpaired, USD 7.2m were overdue and a further USD 9.4m had received extended payment terms.

Avanti recently committed to building a fourth, much larger satellite, at a cost of c.USD 300m to be funded entirely by debt. Given the very poor performance of its existing assets we believe this makes it highly likely that Avanti will default on its bond leaving no value for equity investors.

Top Five Holdings as at 31 October 2014

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	5.4
2	Vib Vermoegen	Germany	Financials	4.8
3	Asos	United Kingdom	Consumer Discretionary	4.4
4	Oslo Bors	Norway	Financials	4.0
5	Home Retail	United Kingdom	Consumer Discretionary	3.9
				22.5

Exposures as at 31 October 2014

Longs %	Shorts %	Gross Exposure %	Net Exposure %
73.8 (70.7)	32.8 (29.5)	106.6 (100.2)	41.0 (41.3)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Belgium	1.3	1.3
Bermuda	1.1	1.1
France	7.1	6.3
Germany	22.9	7.1
Italy	3.0	0.4
Jersey	1.0	-1.0
Netherlands	0.7	0.5
Norway	7.0	6.4
Poland	1.2	-1.2
Spain	0.9	0.5
Sweden	2.7	-2.2
Switzerland	3.6	-2.2
UK	47.9	24.7
US	4.1	-1.0
Other	2.1	0.3

Market Cap	Gross%	Net%
>£2bn	14.6	2.8
£700m - £2bn	31.8	8.0
£200m - £700m	37.3	12.9
<£200m	22.9	17.3

Positions	Oct	Sep
Long	78	76
Short	60	60
Longs Opened	5	4
Longs Closed	3	2
Shorts Opened	9	6
Shorts Closed	9	3

Sector	Gross%	Net%
Consumer Discretionary	40.1	29.4
Consumer Staples	4.2	1.8
Energy	0.0	0.0
Financials	14.7	7.2
Health Care	5.9	1.5
Industrials	10.7	3.0
Information Technology	20.9	-4.6
Materials	5.1	5.1
Telecommunication	3.5	-0.9
Utilities	1.5	-1.5
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_Queries@ntrs.com