Ennismore European Smaller Companies Fund

Investor Newsletter for the month of November 2014

Issued on 9 December 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 28th November. Total assets under management by Ennismore Fund Management were GBP 352m. 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 28 November 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]	**92.94**	**116.75**	**15.70**	**16.47**	**16.54**			
Period	% Change					% Change		
November 14	**2.0**	**0.4**	**2.0**	**0.7**	**0.7**	**3.9**	**2.3**	**3.7**
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	**6.6**	**11.4**	**6.6**	**10.5**	**10.5**	**-0.3**	**4.2**	**6.9**
Annualised return[5]	**15.2**	**14.3**	**12.4**	**13.9**	**14.0**	**9.0**	**8.1**	**3.8**
Since launch[5]	**847.0**	**729.0**	**57.0**	**64.7**	**65.4**	**291.3**	**241.4**	**80.5**

[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 2.0% in November. Our long book contributed 2.8% and the Fund's short exposure cost 0.4%.

On the long side the main positives were UK retailers JD Sports and WM Morrison, both adding 0.5% to NAV.

Our short position in Quindell was the biggest contributor last month, adding 0.9% to NAV. Founder Rob Terry quit the company, which has since announced that cash flow is running below expectations and a review of its accounting by PwC. Our short positions in a German software company and Avanti Communications each cost the Fund 0.6% of NAV.

Precia Molen – French industrial scales manufacturer (0.3% NAV)

Precia Molen is a French manufacturer of industrial weighing equipment. With a market cap of only EUR 55m it offers a good example of one of our smaller investments: a hidden champion operating in an attractive niche, majority-owned by the founding family, almost no analyst coverage and trading at a very low multiple of current profit. Precia's products cover everything from small, commercial weighing scales - such as those used in a post office - to large, industrial weighing systems and weighbridges, used to weigh freight vehicles. The company generates two-thirds of its sales in France, and most of the remainder in Benelux and the UK.

The key attraction of Precia is its service business, which we estimate accounts for more than 50% of sales and 65% of operating profit. Industrial and commercial weighing machines in France must be calibrated every year, by law, which creates recurring demand. Precia is the dominant player there, with a 30-40% market share. Scale brings a significant advantage due to a dense network of service centres, allowing technicians to reach customers quickly and giving scope to provide larger customers with a national service offering. The product being serviced is often mission-critical - a weighbridge in a quarry, for instance, measures how much material a customer is purchasing - meaning clients tend to be very sticky. The next largest profit contributor is continuous weighing, where a complex system is integrated into an industrial site. Precia is one of only 5 global players in this segment and we believe that barriers to entry are reasonably high due to technology requirements and customer relationships. We visited a Lafarge facility in France where Precia has developed an automated solution that is integrated into the customer's ERP software, a system that took 10 years to develop. Lafarge is clearly delighted with the system and, besides, admitted it would be very difficult for it to switch to an alternative supplier. The remainder of the business is more commoditised but helps generate new service contracts.

The strength of Precia's business model is demonstrated by an average pre-tax return on capital employed of almost 25% over the last decade. It is highly cash generative and well financed, with a EUR 15m cash balance at the end of June 2014 - over a quarter of its current market cap. The enterprise value of EUR 40m compares to annual sales of c.EUR 90m and operating profit of EUR 7.4m in 2013, a multiple of only five and a half times. A comparable business owned by Sartorius is reportedly up for sale at a valuation of ten times operating profit. While Precia operates in mature markets there is scope for growth internationally and through winning share in the service market; operating profit was up 8% organically in the first half of this year. It has been very successful rolling up small service companies, extracting low-risk back-office synergies, which should continue. Management told us they target a purchase price of no more than 4 times operating profit and there is clearly scope to create a lot of shareholder value by acquiring businesses at such a low price. Taking a conservative multiple of eight times current operating profit, we believe our investment in Precia offers at least 60% upside over the next two years, with limited downside given the cash balance and resilient business model. If management can continue to grow profit by expanding the service activities and through small acquisitions, as we expect, the potential upside is much higher.

Top Five Holdings as at 28 November 2014

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	5.7
2	Vib Vermoegen	Germany	Financials	4.6
3	Oslo Bors	Norway	Financials	3.9
4	Wm Morrison	United Kingdom	Consumer Staples	3.4
5	Sto	Germany	Materials	3.3
				20.9

Exposures as at 28 November 2014

Longs %	Shorts %	Gross Exposure %	Net Exposure %
76.8 (73.8)	32.2 (32.8)	109.0 (106.6)	44.6 (41.0)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 28 November 2014

Country	Gross%	Net%
Belgium	1.3	1.3
Bermuda	1.1	1.1
France	8.3	7.4
Germany	23.5	6.0
Italy	2.9	0.9
Jersey	0.9	-0.9
Netherlands	0.7	0.5
Norway	6.8	6.2
Poland	1.3	-1.3
Spain	1.0	0.4
Sweden	2.8	-2.3
Switzerland	3.8	-2.8
UK	47.3	29.1
US	5.0	-2.0
Other	2.2	1.0

Market Cap	Gross%	Net%
>£2bn	14.6	1.7
£700m - £2bn	31.0	6.0
£200m - £700m	40.4	18.5
<£200m	22.9	18.4

Positions	Nov	Oct
Long	83	78
Short	59	60
Longs Opened	8	5
Longs Closed	3	3
Shorts Opened	3	9
Shorts Closed	4	9

Sector	Gross%	Net%
Consumer Discretionary	39.8	30.0
Consumer Staples	5.3	1.4
Energy	0.0	0.0
Financials	15.7	6.8
Health Care	6.1	1.9
Industrials	11.0	4.8
Information Technology	22.7	-4.5
Materials	5.0	5.0
Telecommunication	2.2	0.3
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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