Ennismore European Smaller Companies Fund

Investor Newsletter for the month of December 2014

Issued on 13 January 2015

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 286m as at 31st December. 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 31 December 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]	**92.79**	**119.57**	**15.68**	**16.79**	**16.86**			
Period	**% Change**					**% Change**		
December 14	**-0.2**	**2.4**	**-0.1**	**1.9**	**1.9**	**-1.5**	**1.0**	**-2.1**
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	**6.4**	**14.0**	**6.4**	**12.6**	**12.6**	**-1.8**	**5.2**	**4.7**
Annualised return[5]	**15.1**	**14.4**	**12.1**	**14.2**	**14.3**	**8.8**	**8.1**	**3.6**
Since launch[5]	**845.4**	**749.1**	**56.8**	**67.9**	**68.6**	**285.4**	**244.7**	**76.8**

[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 0.2% in December. Our long and short books contributed 0.2% and 0.4% respectively.

On the long side, the main positive came from Card Factory plc, which was up 17% in the month and added 0.5% to NAV. Our long position in Kongsberg Automotive cost the fund 0.4%. Our short position in Quindell added 0.4% to NAV.

Carpetright PLC – UK carpet retailer (-0.5% NAV) – Short

Carpetright is a European carpet retailer with a market cap of GBP 290m. In its April 2014 financial year, it generated sales of GBP 447m and an underlying operating profit of GBP 7m, with 84% of its sales coming from the UK and the rest coming from the Netherlands, Belgium and Ireland. At the end of October 2014, it had no net debt but lease commitments of around GBP 700m.

We believe the business is structurally challenged due to its huge shop size (average size per store is over 9k square feet) and uneconomic leases. The demand for carpets has declined significantly in its markets due to people's tastes shifting away from carpeted rooms since the mid-2000s and the cyclical reduction in housing transactions since 2007. From the peak in 2007, Carpetright believes the UK market has declined by 30% (although, interestingly, the distributor Headlam Group PLC believes the decline to be only 20%). As the biggest UK carpet retailer with a 25% market share, Carpetright does benefit from buying power and from having a larger range than its competitors. However, we believe this is more than offset by problems with its estate, with many of its stores currently loss-making. Although Carpetright is gradually reducing its store size and closing some of its stores, its long leases make this a slow process. The majority of its leases, signed in very different market conditions a decade ago, don't expire for another five years. Moreover, its huge range only benefits a minority of customers – over 70% of carpets sold are some form of beige – and much of their independent competition is owner-managed with smaller stores and no central corporate costs. We think the fact that Carpetright's operating profits peaked ten years ago is very telling of the overall problems it has and wonder whether it will have to go through a major restructuring to be better suited to the new market dynamics.

2014 was a good year for consumer facing and home improvement companies in the UK, helped by a strong housing market. However, Carpetright still only managed to attain an operating margin of less than four percent in the UK (and zero in Europe) in its first half results, despite over six percent like-for-like sales growth! This indicates how competitive and commoditised their market is currently. 2015 could also be more difficult due to election and house price uncertainty.

We have held a short position in the stock since 2011 and felt the share price seemed to defy gravity, probably because investors hoped the founder Lord Harris would try to take it private as he had attempted to do in 2007 for 1250p (GBP 850m). Things have obviously changed this year: he has relinquished his involvement in the company and sold down his holding, with the most recent sales at around the 320p level, which compares to the current share price of 433p. We are very comfortable to follow his lead and stay short, with the company trading on around 30 times our estimate for its operating profit, after tax, for the year to April 2015.

Top Five Holdings as at 31 December 2014

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	5.8
2	Vib Vermoegen	Germany	Financials	4.6
3	Oslo Bors	Norway	Financials	3.6
4	Wm Morrison	United Kingdom	Consumer Staples	3.5
5	Home Retail	United Kingdom	Consumer Discretionary	3.3
				20.8

Exposures as at 31 December 2014

Longs %	Shorts %	Gross Exposure %	Net Exposure %
75.6 (76.8)	32.5 (32.2)	108.1 (108.9)	43.1 (44.6)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Belgium	1.3	1.3
Bermuda	1.3	1.3
France	8.0	7.9
Germany	23.6	5.4
Italy	2.6	1.4
Jersey	1.0	-1.0
Netherlands	1.0	0.1
Norway	6.5	5.3
Poland	1.3	-1.3
Spain	1.1	0.6
Sweden	2.7	-2.2
Switzerland	3.1	-2.9
UK	46.9	28.2
US	5.2	-2.0
Other	2.5	1.0

Market Cap	Gross%	Net%
>£2bn	17.4	-0.9
£700m - £2bn	31.3	6.6
£200m - £700m	38.4	21.8
<£200m	21.0	15.6

Positions	Dec	Nov
Long	83	83
Short	56	59
Longs Opened	2	8
Longs Closed	2	3
Shorts Opened	3	3
Shorts Closed	6	4

Sector	Gross%	Net%
Consumer Discretionary	39.6	29.9
Consumer Staples	5.5	1.5
Energy	0.0	0.0
Financials	14.8	5.8
Health Care	6.2	1.9
Industrials	12.1	3.9
Information Technology	22.0	-4.4
Materials	4.8	4.8
Telecommunication	2.2	0.6
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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