Ennismore European Smaller Companies Fund

Investor Newsletter for the month of February 2015

Issued on 18 March 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 277m as at 27th February. Total assets under management by Ennismore Fund Management were GBP 340m. 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 27 February 2015

	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]	**89.31**	**123.05**	**15.09**	**17.19**	**17.25**			
Period	% Change					% Change		
February 15	**-3.1**	**0.3**	**-3.1**	**0.3**	**0.2**	**5.3**	**9.2**	**6.1**
January 15	-0.7	2.6	-0.7	2.1	2.1	2.5	5.9	3.9
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
2015 to date	**-3.8**	**2.9**	**-3.8**	**2.4**	**2.3**	**8.0**	**15.6**	**10.2**
Annualised return[5]	**14.7**	**14.4**	**10.5**	**14.2**	**14.3**	**9.3**	**9.0**	**4.2**
Since launch[5]	**810.0**	**773.8**	**50.9**	**71.9**	**72.5**	**316.2**	**298.6**	**94.8**
	Discrete 12 Month Rolling Performance - % Change							
To 28 February 15	0.8	14.5	0.8	12.6	12.6	-0.9	12.8	12.6
To 28 February 14	17.6	22.8	17.6	22.1	21.9	27.7	33.3	17.5
To 28 February 13	14.7	11.5	14.7	12.2	12.1	18.8	15.6	13.6
To 29 February 12	9.8	11.4	9.9	10.6	11.1	-9.8	-8.7	-6.0
To 28 February 11	17.8	24.3	N/A	N/A	N/A	21.7	28.3	14.8

[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. **Past performance is not a guide to future returns.**

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 3.1% in February. Our long book contributed 1.4% while the Fund's short exposure cost 3.6%.The main positive came from our investment in Asos, which added 0.6% to the NAV. The main negatives were our long position in bwin.party and our short position in a personal care company, both of which cost the fund 0.6%. bwin.party's shares fell on media reports that the sale process was close to falling through. The company has subsequently confirmed that it is ongoing.

We opened several new short positions in the month. Combined with price movements, our short exposure increased to 45% of NAV from 36%. We short to profit, not manage volatility, and are finding ample opportunities at the moment.

We do not hedge currency exposures. Significant moves in the exchange rate between the euro and the sterling explain the difference in performance between the euro share classes and the sterling share classes.

Renk AG – German equipment manufacturer (1.6% of NAV)

RENK is a manufacturer of specialist gears, bearings and transmissions, selling into a range of industries including shipbuilding, defence, aviation, rail, wind and power generation. While founded in 1873, it has been majority-owned by the German industrial giant MAN SE since 1923 and although the company has a market capitalisation of EUR 665m, the free float is only EUR 140m. We believe RENK is yet another overlooked European small-cap, highly regarded by its industry but completely neglected by ours – indeed, there is not one sell-side analyst covering this quality business. The business has, in our view, significant intellectual property, which it aims to protect. Take our visit to the company's headquarters: for the first time ever, we were obliged to have our phone cameras taped over and show personal identification cards before entering. This internal knowledge acts as an economic moat and goes a long way to explaining why the business has consistently earned double-digit operating margins and high returns on capital, which are currently around 30%post-tax. Margins are also helped by the strong market share it has in many of its niches, which exceeds 60% in some product areas. Although the business is cyclical, it proved itself to be resilient in the last recession with operating margins of at least 12% through the cycle, helped by a quarter of sales coming from its service and spare parts business.

RENK sells its products globally and has a balanced geographic split with Germany, its largest market, accounting for 35% of sales, followed by Asia (c. 25%), the rest of Europe (c. 25%) and the Americas (c. 15%). The business is divided into four segments: Special Gear Units (c. 35% of sales) sells stationary gears for various industrial applications and high performance gears for fast crafts and naval applications; Standard Gear Units (c. 25% of sales) sells gears used by commercial vessels, LNG tankers, ferries and turbines; Slide Bearings (c. 20% of sales) is the market leader for certain niche slide bearing segments for electric motors, pumps, blowers, water turbines, conveyors and marine applications; Vehicle Transmissions (c. 20% of sales) provides automatic transmissions into medium-weight and heavy-tracked vehicles (e.g. defence). Last year, RENK generated EUR 480m in revenues with operating profit up by 10% to EUR72m (based on preliminary numbers). Historically all segments have achieved double-digit operating margins, with Slide Bearings generating c. 20% margins, highlighting its technological qualities and strong market position.

We were impressed when we met the management in Augsburg and believe RENK ticks many of the boxes we like in an investment, with strong market shares and an economic moat. This is matched by a long-term cautious growth strategy, and management is incentivised the right way (i.e. return on capital targets). RENK has a solid balance sheet with a cash position of around EUR 150m, it owns 3% of its shares and intangibles account for less than 1% of its assets. This strong balance sheet allows it to make any value-creative bolt-on acquisitions, if they became available.

We think RENK is just too good a business to be ignored by the market indefinitely, especially with an enterprise value of less than seven times its operating profit. We are very happy to participate in the long-term development of the company and be rewarded, in the short-term, with a modest dividend yield of over 2%, with more than three times cover. For 2015, we expect RENK to deliver good revenue growth supported by an order backlog over EUR 800m and healthy operating profit margins, although we expect its margins to be lower due to product mix. We believe the current stock price does not reflect the intrinsic value of the company and comfortably see upside of more than 40% in the next twelve months.

Top Five Holdings as at 27 February 2015

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	5.8
2	Vib Vermoegen	Germany	Financials	5.2
3	Oslo Bors	Norway	Financials	3.4
4	Asos	United Kingdom	Consumer Discretionary	3.2
5	Sto	Germany	Materials	3.1
				20.7

Exposures as at 27 February 2015

Longs %	Shorts %	Gross Exposure %	Net Exposure %
70.6 (70.3)	45.0 (36.3)	115.6 (106.6)	25.6 (34.0)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 27 February 2015

Country	Gross%	Net%
Belgium	0.9	0.9
Bermuda	1.5	1.4
France	8.3	8.2
Germany	26.4	5.0
Italy	2.7	1.9
Luxembourg	1.5	-1.5
Netherlands	2.1	-0.9
Norway	6.9	6.2
Poland	2.0	-2.0
Spain	0.9	0.6
Sweden	3.9	-3.4
Switzerland	2.5	-2.5
UK	45.1	15.0
US	7.2	-4.1
Other	3.7	0.8

Market Cap	Gross%	Net%
>£2bn	20.6	-8.5
£700m - £2bn	27.3	2.3
£200m - £700m	42.9	12.1
<£200m	24.8	19.7

Positions	Feb	Jan
Long	81	81
Short	68	59
Longs Opened	4	2
Longs Closed	4	4
Shorts Opened	11	7
Shorts Closed	2	4

Sector	Gross%	Net%
Consumer Discretionary	34.4	22.2
Consumer Staples	6.6	-1.7
Energy	0.1	-0.1
Financials	18.8	7.3
Health Care	7.1	2.8
Industrials	13.6	0.6
Information Technology	27.4	-9.4
Materials	4.2	4.2
Telecommunication	2.4	0.7
Utilities	1.0	-1.0
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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For dealing please contact:	Northern Trust International Fund Administration Services (Ireland) Ltd	+353 (0) 1 434 5103	Ennismore_TA_Queries@ntrs.com

Appendix – Additional Information for Recipients in Switzerland

The Fund has not been approved for distribution in or from Switzerland by the Swiss Financial Market Supervisory Authority. As a result, the Fund's shares may only be offered or distributed to qualified investors within the meaning of Swiss law. The Representative of the Fund in Switzerland is Bastions Partners Office SA with registered office at Route de Chêne 61A, 1208 Geneva, Switzerland. The Paying Agent in Switzerland is Banque Heritage, with registered office at Route de Chêne 61, 1208 Geneva, Switzerland. The place of performance and jurisdiction for Shares of the Fund distributed in or from Switzerland are at the registered office of the Representative.

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