Ennismore European Smaller Companies Fund

Investor Newsletter for the month of May 2015

Issued on 10 June 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 291m as at 29th May. Total assets under management by Ennismore Fund Management were GBP 358m. 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 May 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]	**93.29**	**129.84**	**15.76**	**17.97**	**18.03**			
Period	% Change					% Change		
May 15	**2.2**	**3.8**	**2.2**	**3.2**	**3.1**	**1.3**	**3.1**	**0.8**
April 15	2.2	1.4	2.2	1.1	1.1	2.5	1.3	0.4
March 15	0.0	0.3	0.0	0.2	0.3	1.5	1.8	1.3
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
2015 to date	**0.5**	**8.6**	**0.5**	**7.0**	**6.9**	**13.9**	**23.1**	**12.9**
Annualised return[5]	**14.8**	**14.6**	**11.0**	**14.5**	**14.6**	**9.5**	**9.2**	**4.3**
Since launch[5]	**850.5**	**822.0**	**57.6**	**79.7**	**80.3**	**338.9**	**324.1**	**99.5**
	Discrete 12 Month Rolling Performance - % Change							
To 31 May 15	2.3	15.8	2.3	13.2	13.1	5.1	19.0	11.5
To 31 May 14	18.1	24.1	18.2	23.2	23.1	22.0	28.2	15.2
To 31 May 13	21.4	14.1	21.3	15.5	15.4	40.9	32.2	31.7
To 31 May 12	0.6	9.4	0.7	7.2	7.7	-24.0	-17.2	-14.5
To 31 May 11	22.7	19.8	N/A	N/A	N/A	30.3	26.2	16.2

[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. **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 increased by 2.2% in May. Our long and short books contributed 2.3% and 0.5% respectively. On the long side, our investments in JD Sports and bwin.party added 0.9% and 0.7% to NAV, respectively. Bwin's share price increased after news that a consortium of Amaya and GVC is expected to compete with 888 in bidding for the company. One of our short positions added 0.5% to NAV.

Brainjuicer – UK media company (0.2% of NAV)

Brainjuicer is a marketing research company that last year generated sales of GBP 25m and operating profit of GBP 4.3m. Since the end of the month, we have increased our position and it is now 0.8% of NAV. Great business franchises are typically born in the small cap space and identifying them early is the most financially rewarding part of our job. We believe we have found one in Brainjuicer. Its unique culture and innovative approach to marketing research makes it more effective than its larger competitors, who are struggling to change course and emulate Brainjuicer's successful recipe. This has allowed it to grow quickly, with an average organic sales growth of nearly 20% over the last five years. We think it can continue to grow strongly and profitably for a long time.

John Kearon, the CEO, founded Brainjuicer in 1999 with the aim of helping companies develop famous brands. He believed that traditional marketing research, which considered consumers as highly rational, didn't reflect real consumer behaviour. Over the last fifteen years, Brainjuicer has developed a series of products that measure people's emotional response to advertisements. It tests this in innovative ways such as simulating gameshows and getting people to reveal their emotions by picking pictures of people's faces, rather than the traditional method of getting people to fill out long questionnaires. Its products cover many areas of the marketing process, from helping companies test concepts to predicting how effective a TV ad will be. The classic example of why its methodology works better is an ad by Cadbury. This ad, which showed a gorilla playing the drums, had nothing to do with chocolate, and so failed the traditional measures of ad effectiveness. However, Brainjuicer gave it its top score. It found consumers loved the ad, they just didn't know why. The ad turned out to be the most effective in Cadbury's history.

We believe Brainjuicer has established an economic moat built upon three things. Firstly, our conversations with several large advertisers support our view that its products are more effective than traditional marketing research. Secondly, it is very difficult for competitors to replicate Brainjuicer's approach without undermining their own products and databases. Brainjuicer's results database gets bigger every year, improving its effectiveness. It would take competitors years to build a comparable database and they would need to avoid infringing upon Brainjuicer's intellectual property. Finally, Brainjuicer has built a tremendous brand despite its small size. As one advertiser put it to us, comparing Brainjuicer to its competitors is "like comparing a Harley Davidson to a Fiat 500". This brand means it can charge a premium and attract the best talent in the industry.

We think Brainjuicer's heavy investments will deepen its economic moat and deliver future growth. These investments are not capitalised and we estimate earnings would be 50% higher today without them. Moreover, we expect Brainjuicer to win more mandates from large advertisers, which will make customers stickier and revenue more predictable.

Management is just what we look for. They own over 30% of shares and act like owners. They pay a small dividend every year and any excess capital is used to either buy back shares if they're cheap or pay out special dividends if they're not. The most recent buybacks were made at the end of last year at a price slightly above the current level. They say their "time horizon is essentially forever" and don't mind lower earnings in the short-term if it creates value in the long-term. They have avoided acquisitions and promote senior managers from within, which may slow growth in the short-term but makes it more secure in the long-term. We wish more companies behaved this way.

Normally Brainjuicer's growth and quality comes at a high price. However, with a market capitalisation of GBP 56m and net cash of GBP 6m, it has an enterprise value of GBP 50m, just thirteen times our forecasted after-tax operating profit (NOPAT) for 2015. Most of its earnings come through in cash. Assuming sales growth of 10% per annum over the next couple of years and a NOPAT multiple of 15, we expect at least 40% upside by the end of 2016.

Top Five Holdings as at 29 May 2015

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	7.3
2	Vib Vermoegen	Germany	Financials	5.2
3	Sto	Germany	Materials	3.4
4	Oslo Bors	Norway	Financials	3.0
5	Bwin.Party	United Kingdom	Consumer Discretionary	2.7
				21.6

Exposures as at 29 May 2015

Longs %	Shorts %	Gross Exposure %	Net Exposure %
72.5 (73.5)	41.8 (43.8)	114.3 (117.4)	30.7 (29.7)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 29 May 2015

Country	Gross%	Net%
Austria	1.1	1.1
Bermuda	1.6	1.6
France	8.8	8.8
Germany	27.3	7.3
Italy	2.7	2.0
Luxembourg	2.0	-2.0
Netherlands	2.1	-1.0
Norway	6.2	6.0
Poland	1.5	-1.5
Spain	0.7	0.7
Sweden	3.6	-3.1
Switzerland	2.9	-2.9
UK	43.6	18.0
US	8.1	-4.6
Other	2.1	0.3

Market Cap	Gross%	Net%
>£2bn	13.2	-6.0
£700m - £2bn	36.0	3.7
£200m - £700m	40.6	11.8
<£200m	24.5	21.2

Positions	May	Apr
Long	81	80
Short	59	60
Longs Opened	4	3
Longs Closed	3	4
Shorts Opened	2	2
Shorts Closed	3	7

Sector	Gross%	Net%
Consumer Discretionary	36.1	22.2
Consumer Staples	6.4	-2.3
Energy	0.0	0.0
Financials	19.2	9.3
Health Care	7.8	2.4
Industrials	10.8	1.3
Information Technology	25.4	-6.7
Materials	4.8	4.8
Telecommunication	2.5	1.0
Utilities	1.3	-1.3
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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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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