Ennismore European Smaller Companies Fund

Investor Newsletter for the month of July 2015

Issued on 7 August 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 298m as at 31st July. Total assets under management by Ennismore Fund Management were GBP 367m. 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 July 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]	**95.77**	**135.27**	**16.18**	**18.67**	**18.73**			
Period	% Change					% Change		
July 15	**1.9**	**1.9**	**1.9**	**1.9**	**1.9**	**3.0**	**3.7**	**4.4**
June 15	0.8	2.2	0.8	1.9	1.9	-4.1	-2.9	-5.0
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
2015 to date	**3.2**	**13.1**	**3.2**	**11.2**	**11.1**	**12.4**	**24.0**	**12.0**
Annualised return[5]	**14.8**	**14.7**	**11.2**	**14.9**	**15.0**	**9.3**	**9.2**	**4.2**
Since launch[5]	**875.8**	**860.5**	**61.8**	**86.7**	**87.3**	**333.2**	**327.3**	**97.9**
	Discrete 12 Month Rolling Performance - % Change							
To 31 July 15	7.0	19.8	7.0	17.3	17.2	10.2	24.0	13.8
To 31 July 14	13.8	25.8	13.9	23.8	23.5	10.3	21.7	11.5
To 31 July 13	24.3	11.5	24.2	13.8	13.7	42.4	27.9	22.2
To 31 July 12	-3.4	7.6	-3.3	4.7	5.6	-15.7	-6.1	-1.5
To 31 July 11	24.5	18.3	N/A	N/A	N/A	17.6	11.8	5.8

[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 increased by 1.9% in July. Our long book contributed 2.6% while the Fund's short exposure cost 0.3%. Our largest position, JD Sports, continues to perform well and added 1.1% to NAV. Its first half trading update stated it now expects this year's profit to be 10% ahead of the market consensus. We find this very significant given last year it only earned around 20% of its profits in the first half and, given management's historic conservatism, we would be surprised if it didn't beat the new consensus level. Two other long positions, 4Imprint and SMA Solar, each added 0.4% to NAV. On the short side, two positions added 0.4% and 0.6% to NAV after their shares fell in the month; and two cost the fund 0.4% and 0.5% of NAV.

Vitec – UK Technology company (0.9% of NAV)

Vitec is an equipment supplier for the global broadcast and photography markets. In 2014, it generated GBP 300m of sales in the Americas (45%), Europe (35%) and Asia (20%), and operating profit was GBP 40m (excluding discontinued activities). The business has two divisions, Broadcast and Photographic, which are roughly equal in size and sell "everything but the camera" – camera pedestals and tripods, bags, auto prompters, LED lighting and camera batteries, etc. – into their respective markets. The products are often mission-critical for the customer - as a sports photographer if your tripod fails you can miss the image and a potential pay day.

Vitec dominates both of its markets, particularly the broadcast market where its market share is upwards of 80% in certain segments. At trade shows we've visited, camera manufacturers showcase their new offerings on Vitec tripods, and at sports events, we have found it hard to spot a non-Vitec camera support. Vitec's size in each segment is typically three to five times its nearest competitor, allowing it to spend more on marketing and R&D. Its size also means that it has control over distribution, which makes it easier to roll out new products and allows it to be a 'one-stop-shop'; in contrast, most competitors have just one or two products. The only segment in which Vitec has meaningful competition is camera bags, where it has a c. 5% market share compared to the incumbent (Lowepro), which has 30%. Vitec has been taking market share here, a trend we expect to continue.

For such a strong company, Vitec's average post-tax return on capital has been somewhat disappointing at 15% over the last decade. This is partially due to a severe downturn in the broadcast market in 2009, but also due to a variety of ill-advised acquisitions and strategic moves in the early 2000s. A new CEO was appointed in 2009 and he told us at the time that the business was 'like a tiger in chains'. Vitec has been completely transformed under his stewardship, divesting non-core loss-making assets, re-focusing R&D and moving manufacturing into low-cost countries.

This transformation doesn't yet show up in the results, principally due to weak photographic markets. Vitec largely sells to professional photographers and its end-customer demand has been robust. However, the distribution channel has been disrupted by the decline in the consumer 'point-and-shoot' market and the move towards online retail, which has led to a reduction in industry stock levels. Despite this, Vitec has held its operating profit in the Photographic division flat over the last five years, driven by new products and market share gains. With these headwinds abating and other positive drivers emerging, such as the explosion in online images and video, we expect growth to return to this division.

Vitec is just the sort of small-cap we like: it sells mission-critical, irreplaceable products that dominate their niche markets with strong brands and distribution; and it trades at an attractive price. We first invested in the company back in 2009 and the shares have increased nearly threefold since then, and around 50% since we last wrote about the company in 2010. However, we think it continues to be cheap. With a market capitalisation of GBP 270m and an enterprise value of GBP 345m, it trades at less than nine times Vitec's 2014 operating profit of GBP 40m. It has a current dividend yield of 3.8% that we expect will be more than twice covered by this year's earnings. We think that a business of this calibre should trade on at least eleven times operating profit, and on that basis see 55% upside over the next two years before considering the profit growth. We expect the actual upside to be much higher: we believe the business will grow and that margins should expand – the 2014 operating margin of 13% compares to the 20%-plus margins achieved in the past. It seems that the CEO agrees with us, having reinvested his bonuses and dividends into the shares over the last 24 months.

Top Five Holdings as at 31 July 2015

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	8.0
2	Vib Vermoegen	Germany	Financials	4.7
3	Cegedim	France	Health Care	2.9
4	4Imprint Group	United Kingdom	Consumer Discretionary	2.9
5	Sto	Germany	Materials	2.8
				21.3

Exposures as at 31 July 2015

Longs %	Shorts %	Gross Exposure %	Net Exposure %
68.5 (71.3)	42.1 (42.4)	110.6 (113.7)	26.4 (28.9)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 31 July 2015

Country	Gross%	Net%
Austria	1.1	1.1
Bermuda	1.1	1.1
Denmark	1.1	0.2
France	8.7	8.7
Germany	25.5	4.0
Italy	2.7	2.0
Netherlands	2.0	-1.0
Norway	5.8	5.3
Poland	1.1	-1.1
Spain	0.7	0.7
Sweden	3.1	-2.7
Switzerland	5.1	-4.3
UK	42.9	17.6
US	8.5	-5.3
Other	1.2	0.1

Market Cap	Gross%	Net%
>£2bn	15.0	-9.5
£700m - £2bn	28.5	-1.3
£200m - £700m	38.7	18.0
<£200m	28.4	19.2

Positions	Jul	Jun
Long	81	82
Short	59	62
Longs Opened	3	4
Longs Closed	4	3
Shorts Opened	6	7
Shorts Closed	9	4

Sector	Gross%	Net%
Consumer Discretionary	34.2	18.0
Consumer Staples	6.4	-1.2
Energy	0.1	0.1
Financials	19.0	9.6
Health Care	6.5	2.3
Industrials	10.0	1.7
Information Technology	26.6	-7.5
Materials	4.4	4.0
Telecommunication	2.0	0.8
Utilities	1.4	-1.4
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

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.

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