Ennismore European Smaller Companies Fund

Investor Newsletter for the month of August 2015

Issued on 7 September 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 300m as at 28th August. Total assets under management by Ennismore Fund Management were GBP 370m. 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 August 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]	**96.50**	**132.04**	**16.30**	**18.32**	**18.39**			
Period	% Change					% Change		
August 15	**0.8**	**-2.4**	**0.7**	**-1.9**	**-1.8**	**-2.5**	**-5.5**	**-7.1**
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	**4.0**	**10.4**	**4.0**	**9.1**	**9.1**	**9.6**	**17.1**	**4.0**
Annualised return[5]	**14.8**	**14.4**	**11.2**	**14.1**	**14.2**	**9.1**	**8.8**	**3.7**
Since launch[5]	**883.2**	**837.6**	**63.0**	**83.2**	**83.9**	**322.6**	**303.8**	**83.8**
	Discrete 12 Month Rolling Performance - % Change							
To 28 August 15	6.6	15.7	6.6	13.9	13.9	6.2	15.8	3.7
To 31 August 14	13.7	22.2	13.8	20.8	20.7	13.1	21.8	15.2
To 31 August 13	22.7	14.2	22.7	15.9	15.7	35.4	25.7	17.7
To 31 August 12	-0.8	10.5	-0.8	7.8	8.3	-3.6	7.7	11.4
To 31 August 11	26.1	17.9	N/A	N/A	N/A	9.0	1.8	-2.2

[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 0.8% in August. Our long book cost 0.7% while the Fund's short exposure contributed 1.1%. JD Sports was again our biggest contributor, adding 0.7% to NAV. Our shorts in a healthcare company and in RIB Software added 0.5% and 0.4%, respectively. Our short in a Swedish gaming company cost the fund 0.4% of NAV.

Creston – UK marketing and communications agency (0.4% of NAV)

Creston is a marketing and communications agency based in the UK. It is mainly involved in what the industry calls 'below the line' work, which refers to activities such as direct marketing and customer database management, as opposed to 'above the line' work such as creating TV commercials. It tends to be technology that differentiates you in this part of the marketing world, rather than creativity. Creston is particularly focused on digital marketing, such as managing customers' social media strategies and building their websites, with digital producing around 55% of sales. The UK accounts for 67% of sales, Europe is 17% of sales and the rest of the world, which is mainly the U.S., is 16% of sales.

Creston is a solid business, as demonstrated by its high returns on net operating assets and strong cash generation. Customers tend to be sticky – while their spend may go up or down depending on marketing campaigns or the economy, they tend to be loyal to their agency. This is mainly due to the close relationships that are formed with the account executives, and the need to present a consistent marketing message. Improving technology is increasing this stickiness – for example, the difficulty in moving your client database management from one agency to another has added to the cost of switching. Creston also benefits from scale. Scale reduces the dependence on key customers, supports investments into technology and new products, and helps attract talent. As one example, Creston has a panel of thousands of consumers, which it uses to track brands or changes in their media consumption. It is very hard for a small marketing agency to replicate something like this. Moreover, advertisers have started actively measuring their returns on their marketing spend, which requires robust technology. This has made it much more difficult for a small team of executives to leave and set-up a small competitor. We spoke to one small digital marketing agency who verified that, even after several years of operating, they are struggling to achieve profitability without the necessary scale.

Creston is benefitting from the structural shift towards digital spend. Digital spend has increased from 15% of UK marketing spend in 2007 to 47% in 2014 (source: eMarketer). Despite this structural growth, Creston's adjusted EBIT has been flat in recent years. This is largely down to cyclical pressures and the costs Creston has added to drive revenue growth. These headwinds are fading and in fiscal year 2015, which ended in March 2015, both revenue and operating profit grew. We expect growth to continue. Just as importantly, the old CEO left last year and we think his replacement (previously CFO) has added financial discipline to the company, particularly on capital allocation. We were encouraged when the company bought back 3% of its shares last year – while a relatively small amount we felt it signalled the company's shift towards greater financial discipline, as well as a willingness to take advantage of the low share price. Having followed and met Creston for many years, this change in management and return to growth triggered our decision to invest in the company earlier in the year.

We believe Creston is extremely cheap. Pro forma for a recent acquisition, we expect EBIT to be over GBP 12m in this fiscal year, which ends in March 2016. With a market capitalisation of GBP 87m and net debt of GBP 3m (again, pro forma for the acquisition), the enterprise value is GBP 90m. Creston thus trades at just nine times our estimate of this year's net operating profit, after tax. This profit should come through in cash, implying an equity free cash flow yield of 11%, and we expect a dividend yield of at least 3% next year. Over time we expect the dividend to increase and the company to make further buybacks. We think Creston is far too cheap and believe a more appropriate valuation is fourteen times net operating profit, after tax. Using this multiple gives Creston 70% upside over the next 12 months. We have added to our position recently and own nearly 2% of the company.

Top Five Holdings as at 28 August 2015

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	8.5
2	Vib Vermoegen	Germany	Financials	4.7
3	Cegedim	France	Health Care	2.9
4	Oslo Bors	Norway	Financials	2.7
5	Sto	Germany	Materials	2.7
				21.5

Exposures as at 28 August 2015

Longs %	Shorts %	Gross Exposure %	Net Exposure %
67.3 (68.5)	34.1 (42.1)	101.4 (110.6)	33.2 (26.4)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 28 August 2015

Country	Gross%	Net%
Austria	1.1	1.1
Bermuda	1.0	1.0
France	7.7	7.7
Germany	21.5	6.1
Greece	0.4	-0.1
Italy	2.7	2.1
Netherlands	2.3	-1.0
Norway	5.5	5.2
Poland	0.8	-0.8
Spain	0.6	0.6
Sweden	2.2	-1.8
Switzerland	5.7	-3.3
UK	41.9	19.1
US	7.0	-3.2
Other	1.0	0.5

Market Cap	Gross%	Net%
>£2bn	12.4	-6.5
£700m - £2bn	26.4	1.9
£200m - £700m	38.9	20.4
<£200m	23.7	17.4

Positions	Aug	Jul
Long	81	81
Short	54	59
Longs Opened	4	3
Longs Closed	4	4
Shorts Opened	4	6
Shorts Closed	9	9

Sector	Gross%	Net%
Consumer Discretionary	31.3	17.8
Consumer Staples	5.4	-0.6
Energy	0.0	0.0
Financials	17.7	8.8
Health Care	4.9	3.8
Industrials	9.6	2.3
Information Technology	25.2	-2.4
Materials	4.1	4.1
Telecommunication	2.0	0.6
Utilities	1.2	-1.2
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.

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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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