Ennismore European Smaller Companies Fund

Investor Newsletter for the month of September 2015

Issued on 6 October 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 301m as at 30th September. Total assets under management by Ennismore Fund Management were GBP 371m. 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 30 September 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]	**96.95**	**131.57**	**16.38**	**18.28**	**18.35**			
Period	**% Change**					**% Change**		
September 15	**0.5**	**-0.4**	**0.5**	**-0.2**	**-0.2**	**-1.9**	**-3.5**	**-4.1**
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	**4.5**	**10.0**	**4.5**	**8.9**	**8.8**	**7.6**	**13.0**	**-0.3**
Annualised return[5]	**14.7**	**14.3**	**11.1**	**13.8**	**13.9**	**8.9**	**8.5**	**3.5**
Since launch[5]	**887.8**	**834.3**	**63.8**	**82.8**	**83.5**	**314.6**	**289.6**	**76.3**
	Discrete 12 Month Rolling Performance - % Change							
To 30 September 15	7.3	13.5	7.3	12.2	12.2	8.1	13.9	-0.3
To 30 September 14	11.8	19.9	11.8	18.6	18.5	5.2	13.0	10.9
To 30 September 13	24.7	18.8	24.7	20.1	20.0	35.7	29.4	20.6
To 30 September 12	-0.7	7.4	-0.6	5.1	5.8	11.3	20.0	18.2
To 30 September 11	21.7	22.4	N/A	N/A	N/A	-11.7	-11.1	-11.4

[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 rose by 0.5% in September. Our long book contributed 0.1% while the Fund's short exposure contributed 0.9%. JD Sports was again our largest contributor, adding 0.8% to NAV in the month. The retailer announced strong half-year results, with revenue growth of 21% and operating profit growth of 80%. Like-for-like sales growth continued to exceed 10% in the half. On the short side, our short in a Swiss technology company added 0.4% to NAV after a broker reduced its profit forecasts for the company.

msg life – German software company (0.5% of NAV)

We first invested in msg life in August 2009 when it was still called COR & FJA AG, then named after the merger of the two companies. We have since experienced a textbook case of what can happen when you have the wrong management team in place with the wrong incentives and limited supervision. We were initially very bullish on the stock – we thought the merger of two major competitors in the standard software market for life insurance would deliver large synergies and improve the competitive position. Unfortunately, it all went wrong – instead of consolidating the business and harmonising the offering, reaping synergies and improving operating profits, the company instead went out to capture the world by expanding, through acquisitions, into new geographies and new product areas such as banking and other insurance software niches. In March 2013, we acknowledged our mistake and over the next year sold the majority of our position at a loss of nearly 40%. And msg life's management team, having over-expanded the company by some margin, eventually over-expanded the nerves of the major shareholder, msg systems AG, and by the end of 2013 most of them had been removed and their strategy reversed.

Things are very different today. The company is now run by a very conservative, cash-focused team. It has exited the banking business in which it lacked scale from the beginning. It now concentrates on only the better of its two software solutions instead of running the two in parallel. Its balance sheet is significantly stronger, having paid back all its debt and grown its cash pile to EUR 20m. It has moved to the conservative accounting policy of expensing all research and development costs. And the icing on the cake – unnoticed by many during the adventurous developments of the past five years – the long established FJA business in the US has more than doubled its revenues to EUR 20m, with operating profit of EUR 5m. We estimate this business alone is worth at least msg life's enterprise value of EUR 34m.

We observed the new management team for 18 months and were impressed with the results. With the divestments completed and the company performing well, we started to rebuild our position at the end of 2014 and now own over 4% of the company. 2015 is the first full year with msg's new streamlined set-up and, even though the company needs to invest in its core products, we believe it will achieve revenues of EUR 105m and operating profit of close to EUR 7m. In the first half of 2015 the company already generated revenues of EUR 52m and an operating profit of EUR 2.4m. Given the seasonal pattern of software companies producing a stronger second half, we are confident in our full year estimates. Based on a market cap of EUR 57m, a cash position of EUR 20m, no debt, an estimated net present value of EUR 11m for the tax loss carry forward and pension liabilities of EUR 8m, it has an enterprise value of EUR 34m, only five times our estimate for 2015 operating profit. This is despite the fact that the core life segment in Germany is still not yet contributing much to the group's operating profit. We are confident that investments into the core products will gradually decrease and estimate that msg life actually trades on just three times its operating profit for 2017. The company is expected to declare a dividend in 2016, taking advantage of its large cash balance and strong cash generation. We think that the upside is enormous once trust in the company returns. Using an operating profit multiple of ten times, more appropriate, yet still conservative, for a business of its characteristics, we see upside of 50% over the next 12 months, and the potential to at least double in two years' time as it reaps the benefits from its current investments.

Top Five Holdings as at 30 September 2015

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	8.6
2	Vib Vermoegen	Germany	Financials	5.0
3	Cegedim	France	Health Care	2.8
4	Sto	Germany	Materials	2.6
5	Oslo Bors	Norway	Financials	2.6
				21.6

Exposures as at 30 September 2015

Longs %	Shorts %	Gross Exposure %	Net Exposure %
71.8 (67.3)	34.0 (34.1)	105.8 (101.4)	37.8 (33.2)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 30 September 2015

Country	Gross%	Net%
Austria	1.5	1.5
Bermuda	0.9	0.9
France	8.0	8.0
Germany	24.1	7.7
Greece	0.5	-0.2
Ireland	0.8	0.6
Italy	2.9	2.2
Netherlands	2.3	-1.0
Norway	5.5	5.5
Spain	0.6	0.6
Sweden	1.7	-1.2
Switzerland	5.3	-2.7
UK	43.1	19.1
US	7.3	-3.4
Other	1.3	0.2

Market Cap	Gross%	Net%
>£2bn	11.5	-2.7
£700m - £2bn	29.5	0.3
£200m - £700m	40.1	22.9
<£200m	24.7	17.3

Positions	Sep	Aug
Long	85	81
Short	55	54
Longs Opened	6	4
Longs Closed	2	4
Shorts Opened	7	4
Shorts Closed	6	9

Sector	Gross%	Net%
Consumer Discretionary	31.7	20.0
Consumer Staples	5.7	0.1
Energy	0.0	0.0
Financials	17.5	10.2
Health Care	5.1	3.7
Industrials	10.4	2.7
Information Technology	28.1	-2.0
Materials	4.1	4.1
Telecommunication	2.0	0.2
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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For dealing please contact:	Northern Trust International Fund Administration Services (Ireland) Ltd	+353 (0) 1 434 5103	Ennismore_TA_Queries@ntrs.com