Ennismore European Smaller Companies Fund

Investor Newsletter for the month of October 2015

Issued on 10 November 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 303m as at October 30th. Total assets under management by Ennismore Fund Management were GBP 373m. 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 October 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]	**97.39**	**136.16**	**16.45**	**18.82**	**18.89**			
Period			**% Change**				**% Change**	
October 15	**0.5**	**3.5**	**0.4**	**3.0**	**2.9**	**2.9**	**6.6**	**7.3**
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	**5.0**	**13.9**	**4.9**	**12.1**	**12.0**	**10.7**	**20.5**	**7.0**
Annualised return[5]	**14.7**	**14.5**	**11.0**	**14.2**	**14.3**	**9.0**	**8.9**	**3.9**
Since launch[5]	**892.3**	**866.9**	**64.5**	**88.2**	**88.9**	**326.6**	**315.3**	**89.1**
	Discrete 12 Month Rolling Performance - % Change							
To 31 October 15	6.9	17.0	6.9	15.0	15.0	13.3	24.4	8.7
To 31 October 14	8.2	16.9	8.2	15.4	15.3	-2.6	5.3	4.6
To 31 October 13	26.3	20.1	26.3	21.4	21.3	41.2	34.0	24.5
To 31 October 12	-0.7	8.4	-0.7	6.0	6.6	2.8	12.3	7.8
To 31 October 11	22.4	21.2	N/A	N/A	N/A	-5.9	-6.9	-4.6

[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 October. Our long book contributed 0.2% and the Fund's short exposure contributed 1.0%. The main story in recent weeks has been the collapse into administration of one of our largest shorts, Globo plc. We pointed out back in January 2014 that this company was, to put it politely, not what it claimed. Late in October its CEO Costis Papadimitrakopoulos admitted to "the falsification of data and the misrepresentation of the Company's financial situation" and massive, undisclosed share sales. The fraud appears, as we suspected, to have included faking a cash balance of over EUR 100m and as a result the company is likely to be insolvent (as it owed a Barclays-led syndicate around EUR 60m). Globo's share price had already fallen by a quarter before being suspended and we wrote them down by another third once the fraud had been admitted, contributing a total of 1.5% to NAV in October. The remaining 1.3% position was largely written off this week following a statement from its Administrators that the shares would be delisted and that "No dividends are expected to be available for shareholders".

Premier Farnell – UK distributor (2.0% NAV)

Premier Farnell is a distributor of electrical components, mostly selling to engineering and manufacturing companies in the UK and the US. The products it sells are typically used for research and development, which means they are ordered in low volume as and when they are needed. We spoke to several customers that all said they use Farnell because of its huge range of available stock and the strong service from their relationship managers. This service offering allows Farnell to charge higher prices, and its gross margins have averaged 40% over the last decade, which compares to the 10-15% gross margin that most high-volume distributors generate. Barriers to entry are high as stocking half a million items only works if you have scale. It's a business model that has been successful for a long time: Farnell's average pre-tax return on net operating assets is 20% over the last decade. However, a series of profit warnings this year has seen the share price halve. We believe the market has overreacted, and that Farnell is a classic case of a fallen angel.

Internal and external factors have contributed to Farnell's recent problems. Its former CEO, Laurence Bain, was overly focused on driving top-line growth at the expense of margins and returns – Farnell added stock and lowered prices – and in the end, it failed on all counts. Over the last two years, sales were flat, gross margins declined from 39% to 35%, and inventory turns fell from 2.7 to 2.3 times. We expect operating profit to fall by 20% for fiscal year 2016 (ends January 2016). The CEO left in August and the former CFO is now the interim CEO. On the external front, some customers have been switching away from the one-day delivery service that Farnell offers to cheaper three and four-day alternatives from competitors such as Mauser and Digi-key. We believe these external factors are a small part of the story and, regardless, solvable. Firstly, Electrocomponents, which has a similar one-day offering to Farnell, has performed much better. Secondly, Farnell is restructuring its distribution model so it can offer two to four day delivery options. We believe that these changes, combined with the appointment of a permanent CEO, will lead to a recovery in operating profit. We're already seeing an improvement in stock turns and free cash flow, which increased from GBP 14m to GBP 42m in the first half of this year. We would also not be surprised if Electrocomponents acquired Farnell. It is rare for two businesses to overlap so directly and a tie-up would add significant value for shareholders.

Premier Farnell has a market cap of GBP 375m, less than ten times our estimate for this year's earnings. With net debt of GBP 235m and a pension deficit (tax adjusted) of GBP 45m, the enterprise value of GBP 655m is 8.5 times our estimate for this year's operating profit. We believe this is the trough and that operating profit will increase once the company has proper leadership. Net debt, at three times operating profit, is too high but the company is selling its manufacturing division, Akron Brass, and announced a cut in the dividend. These actions should allow the company to reduce its debt to two times pro forma operating profit, while still paying out a dividend yield of c. 6%, covered 1.7 times. We expect the shares to re-rate once profitability stabilises or, more obviously, a deal with Electrocomponents emerges. Using a multiple of thirteen times net operating profit after tax, we see upside of 30% in twelve months' time.

Top Five Holdings as at 30 October 2015

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	8.2
2	Vib Vermoegen	Germany	Financials	4.9
3	Oslo Bors	Norway	Financials	2.6
4	Cegedim	France	Health Care	2.5
5	Montupet	France	Consumer Discretionary	2.4
				20.6

Exposures as at 30 October 2015

Longs %	Shorts %	Gross Exposure %	Net Exposure %
70.8 (71.8)	31.1 (34.0)	101.9 (105.8)	39.7 (37.8)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Australia	0.4	0.2
Austria	1.6	1.6
Bermuda	0.8	0.8
France	8.3	8.3
Germany	22.5	9.1
Ireland	0.8	0.7
Italy	2.9	2.3
Netherlands	3.0	-1.7
Norway	5.8	5.8
Spain	0.7	0.7
Sweden	1.6	-1.1
Switzerland	5.6	-2.8
UK	40.6	18.2
US	6.2	-2.6
Other	1.1	0.2

Market Cap	Gross%	Net%
>£2bn	11.9	-3.8
£700m - £2bn	28.0	2.9
£200m - £700m	37.4	23.6
<£200m	24.6	17.0

Positions	Oct	Sep
Long	84	85
Short	54	55
Longs Opened	3	4
Longs Closed	4	0
Shorts Opened	3	9
Shorts Closed	4	8

Sector	Gross%	Net%
Consumer Discretionary	32.0	21.6
Consumer Staples	4.9	-0.6
Financials	17.1	9.6
Health Care	4.9	3.3
Industrials	10.7	3.3
Information Technology	25.4	0.0
Materials	3.7	3.7
Telecommunication	2.1	-0.1
Utilities	1.1	-1.1
Energy	0.0	0.0
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.

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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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