Ennismore European Smaller Companies Fund

Investor Newsletter for the month of November 2015

Issued on 9 December 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 305m as at 30th November. Total assets under management by Ennismore Fund Management were GBP 375m. 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 November 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]	**98.08**	**139.78**	**16.57**	**19.26**	**19.33**			
Period	**% Change**					**% Change**		
November 15	**0.7**	**2.7**	**0.7**	**2.3**	**2.3**	**1.5**	**3.1**	**1.9**
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	**5.7**	**16.9**	**5.7**	**14.7**	**14.7**	**12.3**	**24.2**	**9.1**
Annualised return[5]	**14.6**	**14.6**	**10.9**	**14.5**	**14.6**	**9.1**	**9.0**	**4.0**
Since launch[5]	**899.3**	**892.6**	**65.7**	**92.6**	**93.3**	**332.9**	**328.1**	**92.8**
	Discrete 12 Month Rolling Performance - % Change							
To 30 November 15	5.5	19.7	5.5	16.9	16.9	10.6	25.4	6.8
To 30 November 14	9.0	13.8	9.1	13.0	13.0	1.3	5.6	7.9
To 30 November 13	24.7	21.7	24.6	22.5	22.4	39.3	36.0	22.0
To 30 November 12	6.0	11.9	6.1	10.5	10.6	13.2	19.5	15.2
To 30 November 11	18.0	15.2	N/A	N/A	N/A	-9.1	-11.1	-5.3

[1]Source: Administrator, Net Asset Value. [2]Source: Administrator, Net Asset Value, net income reinvested. [3]Source: Bloomberg, Euromoney (formerly 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 0.7% in November. Our long book contributed 1.0% and the Fund's short exposure contributed 0.6%. As we discussed in last month's newsletter, one of our largest shorts, Globo, entered administration. After contributing 1.5% to NAV last month, the position was almost entirely written off this month and it contributed a further 1.2% to NAV. Kongsberg Automotive was the other main contributor, adding 0.4% to NAV, and we continue to believe that there is significant upside. Our short in Oriflame cost the fund 0.5%. Nothing in the month changed our view about Oriflame, which we continue to believe is a compelling short. We discuss our thesis below.

Oriflame Holding – Swiss Cosmetics Company (-2.5% of NAV) - Short

Oriflame is a manufacturer and retailer of cosmetics and personal care products, headquartered in Switzerland and listed in Sweden. It sells its products via its three million self-employed "consultants", mainly into developing markets. We believe Oriflame faces two key long-term issues – a poor competitive position and structurally weak distribution model – and we are short the company's shares. Oriflame competes against big branded global competitors, such as Wella and L'Oréal, which have huge marketing budgets, more buying power and much stronger brands. In order to avoid facing these competitors head-on, it focuses on politically and economically unstable, riskier or limited potential countries. This makes it vulnerable to changes in the fortunes of these countries. Even worse, the barriers to entry are low for its larger competitors – they already have strong brands in these markets – and so any success Oriflame does have just attracts more competition. This is not a good formula for generating good long-term returns on capital, which have been steadily decreasing from 52% pre-tax in 2008 to 20% in 2014. We believe these returns will continue to fall.

Oriflame's second big issue is its distribution model. Oriflame sells directly to its "consultants", self-employed people that buy its products at a discount and then sell them on to individual consumers. On top of the margin they get from selling the products, the consultants also receive a percentage of sales from the consultants they have recruited into Oriflame.

This model is attractive in emerging markets due to the low income per capita, but if the economy does develop then it is hard to retain consultants as normal job opportunities increase. Additionally, the direct selling model creates vulnerability in down cycles – consultants may quit when demand is falling, leading to a vicious cycle. We are seeing signs of this today, with the number of consultants down by 5% through the third quarter of 2015.

The company's performance over the last five years has been poor, with reported sales declining at a rate of four percent per annum to around EUR 1.2bn in 2015. Operating margins have fallen from 11.1% in 2010 to an expected 7.5% in 2015, having reached 14.2% in 2008. Through the third quarter of 2015, sales were down 4% and operating profit was down 12%. The CIS region – Russia and eight central Asian countries – accounts for 34% of sales, followed by Turkey, Africa and Asia (32%), Europe (20%), Latin America (11%) and Other (3%). Oriflame has been hurt by the Russia-Ukraine crisis, and currency depreciation in its end markets. Analysts tend to focus on its constant currency growth, which has been roughly flat over the last five years, but we believe this is a mistake because Oriflame's markets have high inflation. This inflation should eventually lead to weaker currencies, and so we view the long-term sales trend in euro as a truer reflection of the company's performance. To protect its profitability Oriflame has been increasing prices, but volumes are declining. The products are now much more expensive than Avon's, a direct selling competitor, and closer in price to L'Oréal. This price strategy may help sales and operating profits in the short-term, but we believe will lead to problems of price competitiveness longer term. Oriflame's brands just do not have the same cachet as L'Oréal's.

Oriflame's balance sheet is not in great shape, with net debt of EUR 231m as of the third quarter, compared to our expected operating profits of around EUR 90m this year. Given its operational risks, this increases the downside for the shares. Oriflame doesn't currently pay any dividends and we don't expect it to pay any next year. With a market capitalisation of EUR 870m, its enterprise value is EUR 1,101m. Given Oriflame sells into volatile, riskier, higher cost of capital geographies, its unstable distribution model and its poor track record, we believe the company shouldn't be valued at any more than eleven times enterprise value to operating profit after tax, compared to the current seventeen times. This leads to a fair value for the equity of EUR 580m and more than 30% downside.

Top Five Holdings as at 30 November 2015

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	8.2
2	Vib Vermoegen	Germany	Financials	4.8
3	Cegedim	France	Health Care	2.6
4	Oslo Bors	Norway	Financials	2.5
5	Kongsberg Auto	Norway	Consumer Discretionary	2.5
				20.6

Exposures as at 30 November 2015

Longs %	Shorts %	Gross Exposure %	Net Exposure %
70.5 (70.8)	34.9 (31.1)	105.4 (101.9)	35.6 (39.7)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Australia	0.5	0.3
Austria	1.7	1.7
Bermuda	0.8	0.8
France	8.4	8.4
Germany	23.4	6.6
Ireland	0.9	0.7
Italy	2.6	2.0
Netherlands	3.7	-2.3
Norway	6.4	6.4
Spain	0.5	0.5
Sweden	1.2	-0.9
Switzerland	6.0	-3.5
UK	41.5	17.3
US	6.4	-3.1
Other	1.4	0.7

Market Cap	Gross%	Net%
>£2bn	13.3	-6.6
£700m - £2bn	30.4	2.2
£200m - £700m	38.5	21.8
<£200m	23.2	18.2

Positions	Nov	Oct
Long	86	84
Short	53	54
Longs Opened	4	3
Longs Closed	2	4
Shorts Opened	7	4
Shorts Closed	8	5

Sector	Gross%	Net%
Consumer Discretionary	30.2	21.4
Consumer Staples	5.5	-1.9
Energy	0.0	0.0
Financials	17.8	9.2
Health Care	5.2	3.9
Industrials	10.6	2.3
Information Technology	28.0	-1.1
Materials	4.3	3.7
Telecommunication	2.6	-0.7
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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