Ennismore European Smaller Companies Fund

Investor Newsletter for the month of December 2015

Issued on 7 January 2016

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 315m as at 31st December. Total assets under management by Ennismore Fund Management were GBP 389m. 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 December 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]	**101.80**	**138.12**	**17.20**	**19.19**	**19.26**			
Period			**% Change**				**% Change**	
December 15	**3.8**	**-1.2**	**3.8**	**-0.4**	**-0.4**	**2.9**	**-2.0**	**-3.8**
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	**9.7**	**15.5**	**9.7**	**14.3**	**14.2**	**15.6**	**21.7**	**4.9**
Annualised return[5]	**14.8**	**14.4**	**11.6**	**14.2**	**14.3**	**9.2**	**8.8**	**3.7**
Since launch[5]	**937.2**	**880.8**	**72.0**	**91.9**	**92.6**	**345.4**	**319.5**	**85.4**
	Discrete 12 Month Rolling Performance - % Change							
To 31 December 15	9.7	15.5	9.7	14.3	14.2	15.6	21.7	4.9
To 31 December 14	6.4	14.0	6.4	12.6	12.6	-1.8	5.2	4.7
To 31 December 13	26.6	23.4	26.7	24.4	24.1	35.5	32.2	21.6
To 31 December 12	8.4	11.6	8.3	10.8	10.9	20.2	23.6	15.6
To 31 December 11	9.8	12.6	N/A	N/A	N/A	-20.7	-18.6	-9.3

[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 3.8% in December. Our long and short books contributed 2.7% and 1.2%, respectively. JD Sports was the biggest contributor after increasing by 7% in the month, adding 0.6% to NAV. As we expected, JD's strong performance has continued through the year and in its recent trading update it said that it would beat consensus for this fiscal year, which ends in January 2016.

Gruppo MutuiOnline – Italian Financial Services (0.6% of NAV)

MutuiOnline was founded in 2000 by the current Chairman Marco Pescarmona and CEO Alessandro Fracassi, who still own 32% of the company and haven't sold a share since its IPO in 2007. In 2014, it generated sales of EUR 70m across two divisions, Online Broking (40%) and Business Process Outsourcing (60%). In Online Broking, it owns a number of leading price comparison websites in Italy for mortgages, consumer loans, insurance products and e-commerce. The crown jewel is mutuionline.it, which has a market share of over 60% for mortgages. These businesses are similar to Moneysupermarket.com in the UK and check24.de in Germany, but Italy is in an earlier stage in the shift to online price comparison. They have wide economic moats because of their strong brands and scale-advantages, and the Online Broking division has operating margins above 20% and very high returns on capital. The BPO division provides front-end and back-end outsourcing solutions for Italian financial institutions. This may sound boring but this division also boasts operating margins above 20% and helps its clients cut their processing costs in half. Although it was dependent on a few customers in BPO, MutuiOnline has expanded into new verticals and broadened its customer base. Moreover, it is deeply embedded into its clients' workflows and has only ever lost clients when they left the market completely.

Up to 2011, MutuiOnline's business was largely made up of mutuionline.it and mortgage-related BPO, which meant around 70% of sales were driven by mortgage volumes. When the financial crisis hit Europe in 2011/2012 and Italian mortgages fell by over 50%, MutuiOnline's sales fell by nearly 50%. Management managed this decline well – operating margins were held above 10%, and they began expanding into other verticals. In 2012, they launched Segugio to compete against Facile in price comparison for insurance, and all the cash generated in Broking was reinvested into marketing Segugio. It is now the clear number two. In BPO, MutuiOnline acquired some small companies in other verticals such as asset management and insurance. Then in 2015 it used its strong balance sheet to buy a majority stake in the leading e-commerce price comparison site, Trovaprezzi. Today, thanks to an improving Italian economy, MutuiOnline is in rude health. The group is more diversified, with mortgages driving less than half of sales. Mortgage volumes have started to recover strongly and, even though the Italian mortgage market is still around 20% below its peak, 2015 will be by far the company's best. We estimate sales will increase from EUR 70m to over EUR 110m and operating profit will increase from EUR 14.5m to over EUR 30m, with acquisitions contributing EUR 17m to sales and EUR 8m to operating profit.
The company ticks many boxes for us. It is a leader in niche markets, is highly cash generative and has a high return on capital (42% pre-tax). It is operated by founders that have big stakes in the company and are cost conscious – when we travelled to the airport with the Chairman and CEO, they preferred to take public transport followed by a shortcut on foot, rather than taking a taxi – one of many signs that day of an intense cost culture. It has a solid balance sheet, with net debt of just EUR 20m. The market capitalisation is EUR 285m, which implies an enterprise value of EUR 305m, ten times our estimate for 2015 operating profit. We believe this is far too low given its quality and growth potential. It is still largely undiscovered by our industry, covered regularly by only one broker, which we expect will change given its increase in size in recent years. We think the historic dividend pay-out ratio of 100% will return once the Trovaprezzi acquisition is digested, which means the dividend yield would be nearly 6%. Having initially invested at the bottom of the cycle in 2012, we remain happy long-term owners. We believe a multiple of sixteen times our estimate of next year's operating profit, after tax, is appropriate, and see upside of more than 25% over the next year.

Top Five Holdings as at 31 December 2015

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	7.7
2	Vib Vermoegen	Germany	Financials	4.7
3	Kongsberg Auto	Norway	Consumer Discretionary	2.5
4	Cegedim	France	Health Care	2.5
5	Oslo Bors	Norway	Financials	2.5
				19.9

Exposures as at 31 December 2015

Longs %	Shorts %	Gross Exposure %	Net Exposure %
68.9 (70.5)	33.5 (34.9)	102.4 (105.4)	35.4 (35.6)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Australia	0.6	0.4
Austria	1.7	1.7
Bermuda	0.7	0.7
Canada	0.6	0.6
France	8.6	8.6
Germany	24.3	5.9
Ireland	0.9	0.7
Italy	1.7	1.1
Netherlands	3.6	-2.1
Norway	6.6	6.6
Sweden	1.2	-0.9
Switzerland	5.6	-3.5
UK	40.6	17.1
US	5.1	-1.8
Other	0.6	0.3

Market Cap	Gross%	Net%
>£2bn	19.7	2.7
£700m - £2bn	21.4	-7.5
£200m - £700m	39.4	22.2
<£200m	21.9	18.0

Positions	Dec	Nov
Long	84	86
Short	52	53
Longs Opened	2	4
Longs Closed	4	2
Shorts Opened	4	7
Shorts Closed	5	8

Sector	Gross%	Net%
Consumer Discretionary	29.6	20.5
Consumer Staples	5.8	-2.2
Energy	0.0	0.0
Financials	18.3	9.5
Health Care	4.9	4.0
Industrials	10.1	2.2
Information Technology	26.0	-0.9
Materials	4.5	3.9
Telecommunication	2.1	-0.5
Utilities	1.1	-1.1
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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