Ennismore European Smaller Companies Fund

Investor Newsletter for the month of January 2016

Issued on 5 February 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 325m as at 29th January. Total assets under management by Ennismore Fund Management were GBP 400m. 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 29 January 2016

	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]	**104.02**	**136.37**	**17.57**	**19.05**	**19.12**			
Period	% Change					% Change		
January 16	**2.2**	**-1.3**	**2.2**	**-0.7**	**-0.7**	**-5.3**	**-8.3**	**-4.9**
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
2016 to date	**2.2**	**-1.3**	**2.2**	**-0.7**	**-0.7**	**-5.3**	**-8.3**	**-4.9**
Annualised return[5]	**14.9**	**14.3**	**11.9**	**13.8**	**13.8**	**8.8**	**8.2**	**3.4**
Since launch[5]	**959.8**	**868.3**	**75.7**	**90.5**	**91.2**	**322.0**	**284.4**	**76.3**
	Discrete 12 Month Rolling Performance - % Change							
To 31 January 16	12.9	11.2	12.8	11.1	11.1	6.8	5.3	-4.0
To 31 January 15	4.5	14.1	4.6	12.5	12.5	0.6	9.8	11.2
To 31 January 14	20.1	25.3	20.2	24.6	24.4	23.5	28.8	13.0
To 31 January 13	14.8	11.3	14.7	12.0	11.9	22.3	18.6	17.5
To 31 January 12	7.3	10.8	7.4	9.2	9.9	-14.8	-12.3	-8.0

[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 increased by 2.2% in January. Our long book cost 0.3% while the Fund's short exposure contributed 2.6%. JD Sports added 0.8% to NAV after another good month. Three shorts each added 0.3% to NAV – Oriflame, RIB Software and an Irish-based technology company. There was no news of note for these companies.

Ipsos – French Market Research (1.6% of NAV)

Ipsos is one of the "Big Four" in market research, along with WPP, Nielsen and GfK. It conducts survey-based research across a number of different areas such as audience measurement, brand tracking and ad testing. In 2014, it generated sales of 1.7bn EUR across the EMEA (46%), Americas (38%) and Asia Pacific (16%) regions, with 35% of sales coming from emerging markets.

Market research companies have a number of attractive characteristics. Most importantly, they benefit from customer switching costs. Most customers just don't like switching their market research providers due to their need for a consistent methodology. For instance, a big consumer brand like Coke may have commissioned Ipsos years ago to conduct a monthly survey to track how its brand is performing in its various markets. If Coke switched providers to GfK, the new survey data may no longer be consistent and easy to compare across time. This makes customers very reluctant to switch, even if they could save money. Moreover, there typically isn't much of an economic incentive to switch – every contract has substantial start-up costs, which gives the incumbent a cost advantage over competitors. In total, Ipsos's repeat revenue accounts for around 85-90% of sales, and some contracts are five years or longer.

Ipsos is yet another fallen angel that we have found recently. Before the financial crisis in 2008, it routinely produced organic growth of 8-10%. Since then, organic growth has averaged just 2%, flat in the last two years. One cause is that the shift from in-person and telephone surveys to online surveys has been deflationary and led to the emergence of some low-cost operators. Other issues include the weak economy in emerging markets and the shift in consumer buying away from branded goods towards private label, which has led to rounds of cost cutting at consumer goods companies. The market's reaction has been severe – Ipsos's shares have halved over the last year. Its price-earnings multiple is now less than seven times and its free cash flow yield is around fourteen percent.

We think the reaction is overdone. Ipsos is a defensive business, whose worst organic sales performance in the last twenty years was a 4% decline in 2009. Its return on net operating assets has averaged over 50% for the last decade. It's true the shift to online has been deflationary, but it has also led to a big improvement in gross margins, which are up from 61.6% in 2007 to our estimate of 65% in 2015 (both figures pro forma for the Synovate acquisition). New entrants such as Survey Monkey have a lower-end, inferior offering and tend to compete for a different set of customers to Ipsos's. The current pressure in emerging markets is an issue, but it's a cyclical one, not a structural one. Besides, its emerging markets' worst half-year decline came this year: just two per cent organically. Ipsos has more debt than we would like, at roughly 2.8 times EBIT, but it is set to de-lever quickly. We think net debt to EBIT will fall to below two times over the next couple of years, even while paying out a 4% dividend yield. The CEO and founder, Didier Truchot, controls 26% of the company so is well aligned. His holding company last increased its stake in 2011 at a price above current levels.

We expect Ipsos to generate operating profit of around EUR 180m in 2015. Its operating margins are 10% and the company believes it can get to 15%. We're less optimistic, but do see margin upside over the long-term, even without much organic sales growth. Its market capitalisation is EUR 820m. Adding in our estimate for 2015 net debt of EUR 515m, plus the minorities and pension, the enterprise value is EUR 1,400m. This is ten times our estimate for operating profit, after tax, in 2015. We think this significantly undervalues it. We think a defensive, cash-generating business like Ipsos should trade at a multiple of net operating profit, after tax, of at least twelve times. This would give us a return of 40% over the next twelve months.

Top Five Holdings as at 29 January 2016

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	8.2
2	Vib Vermoegen	Germany	Financials	4.6
3	Oslo Bors	Norway	Financials	2.5
4	Kongsberg Auto	Norway	Consumer Discretionary	2.5
5	Cegedim	France	Health Care	2.2
				20.0

Exposures as at 29 January 2016

Longs %	Shorts %	Gross Exposure %	Net Exposure %
68.7 (68.9)	32.6 (33.5)	101.3 (102.4)	36.1 (35.4)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 29 January 2016

Country	Gross%	Net%
Australia	0.5	0.3
Austria	1.9	1.5
Bermuda	0.7	0.7
Canada	1.4	1.4
France	6.9	6.9
Germany	24.0	5.8
Ireland	0.9	0.6
Italy	2.0	1.6
Netherlands	4.4	-2.7
Norway	6.4	6.4
Sweden	1.2	-1.0
Switzerland	5.4	-3.8
UK	38.8	18.6
US	5.9	-0.1
Other	0.9	-0.1

Market Cap	Gross%	Net%
>£2bn	23.2	4.8
£700m - £2bn	21.2	-6.4
£200m - £700m	36.5	21.6
<£200m	20.4	16.1

Positions	Jan	Dec
Long	83	84
Short	54	52
Longs Opened	3	2
Longs Closed	4	4
Shorts Opened	8	5
Shorts Closed	6	6

Sector	Gross%	Net%
Consumer Discretionary	28.5	19.4
Consumer Staples	6.1	-1.8
Energy	0.9	-0.9
Financials	16.6	9.2
Health Care	4.8	3.7
Industrials	11.0	3.3
Information Technology	25.4	0.1
Materials	5.0	4.4
Telecommunication	2.0	-0.3
Utilities	1.0	-1.0
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.

For further information please contact:	Eleanor Scott, Ennismore Fund Management	+44 (0) 20 7368 4219	subs@ennismorefunds.com
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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