Ennismore European Smaller Companies Fund

Investor Newsletter for the month of March 2016

Issued on 13 April 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 338m as at 31st March. Total assets under management by Ennismore Fund Management were GBP 417m. 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.

Depositary Fees

With effect from 18 March 2016 amendments to the UCITS Regulations increased the legal responsibilities of the Depositary (formerly Custodian) of the Fund. In recognition of this, the Depositary fees have increased from 0.02% of net asset value per annum to 0.0225% per annum.

Performance as at 31 March 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]	**107.89**	**136.07**	**18.23**	**19.18**	**19.25**			
Period			**% Change**				**% Change**	
March 16	**0.9**	**-0.8**	**0.9**	**-0.5**	**-0.5**	**5.0**	**3.8**	**1.9**
February 16	2.8	0.6	2.8	1.2	1.2	1.6	-0.9	-1.9
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
2016 to date	**6.0**	**-1.5**	**6.0**	**-0.1**	**-0.1**	**1.1**	**-5.7**	**-4.9**
Annualised return[5]	**15.0**	**14.1**	**12.2**	**13.4**	**13.5**	**9.2**	**8.3**	**3.4**
Since launch[5]	**999.3**	**866.2**	**82.3**	**91.8**	**92.5**	**350.2**	**295.5**	**76.3**
	Discrete 12 Month Rolling Performance - % Change							
To 31 March 16	20.8	10.2	20.8	11.3	11.3	6.6	-2.6	-10.6
To 31 March 15	-2.1	11.9	-2.0	10.0	10.0	0.7	15.1	14.7
To 31 March 14	19.2	21.9	19.2	21.7	21.5	29.8	32.8	15.7
To 31 March 13	16.4	14.7	16.4	15.0	15.0	17.6	16.1	14.9
To 31 March 12	4.3	10.8	4.4	9.1	9.6	-13.1	-7.9	-4.5

[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 0.9% in March. Our long book contributed 2.0% while the Fund's short exposure cost 1.1%. Cegedim was the biggest contributor, adding 0.5% to NAV. It released its full year numbers for 2015 and confirmed its guidance for 2016, following a good Q1. A short in a German financial services company added 0.3% to NAV. These gains were partially offset by our short in Oriflame, which cost the fund 0.5% of NAV.

U & I Group – UK property developer (2.1% of NAV)

U & I Group, previously named Development Securities, is a property owner and developer with a bias to Greater London and the South East. The company has three segments: development & trading properties (valued at GBP 180m and GBP 80m, respectively), an investment portfolio (over GBP 200m) and investments in various small joint ventures (GBP 90m).

For its development assets, U & I targets returns of two to five times its equity over two to five years, with a maximum equity size of GBP 15m. For its shorter term trading assets, it targets a return on equity of 50%. It can generate these strong returns partially because it operates in an attractive niche: the GBP 50m to GBP 100m gross development projects are too big for individual investors and too small for many of its peers. After working through some less successful developments made before the financial crisis in 2008, it is now benefitting from strong investments made since then. Given the company's policy of valuing its investments at cost until a project completes, much of the profits from these investments are still to come, although the timing can be somewhat volatile. It expects GBP 55m of gains in the year ending February 2016, GBP 23m of which was recognised in the first half, and a further GBP 115m over the next two years. We assume a total gain of around GBP 150m, rather than GBP 170m, to be conservative.

Regeneration projects are a core part of U & I's development business. These involve developing areas in conjunction with public bodies, such as local government, to help regenerate an area. In 2014 it strengthened this division by acquiring 100% of Cathedral at just over net asset value for an implied GBP 40m. This added nine projects and a number of high quality managers, including Richard Upton who is now Deputy CEO. We like that U & I is not just focussed on maximising profits in the short-term but delivering on behalf of all stakeholders. This, we believe, will help it become a long-term winner and stand it apart from peers that come from a residential background with a more standardised approach. We also like the lower capital intensity, and therefore higher returns on capital of these projects, with the land typically being put in by the public partner. It is a market with huge potential: public bodies in the UK own over GBP 160bn of real estate, much of which needs to be redeveloped to help alleviate the housing shortage and have a positive regeneration effect.

The investment portfolio has a net rental yield of around seven percent. These assets are nationwide, heavily biased to retailers such as Waitrose and Matalan, and have occupancy rates of over 95%. The rental income gives a stable earnings stream to cover the operating costs of the development side of the business. Over the long term it wants to increase the return profile of this portfolio by recycling out of ex-growth assets and into assets which have more rental development potential. This makes complete sense to us.

We like that management's long term incentives are based on NAV per share growth, although the full pay out at 12% growth per annum over four years is on the low side to us. We also like that the Deputy CEO owns over 2% of the shares.

The company's net debt of circa GBP 215m implies a loan to value of around 45%. The average interest rate is currently 6% but we would expect this to move to below 5% over time. With a market capitalisation of GBP 230m, it trades at only 0.6 times book value, less than 10 times earnings and a healthy dividend yield of over 3%, all estimated for the year ending February 2016. This is far too cheap in our eyes, especially given the opportunities in public-private partnerships and the strong track record it has in this area. Putting the stock on 0.9 times book value, we see upside of over 90% in the shares over the next two years.

Top Five Holdings as at 31 March 2016

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	6.6
2	Vib Vermoegen	Germany	Financials	4.8
3	Kongsberg Auto	Norway	Consumer Discretionary	3.0
4	Oslo Bors	Norway	Financials	2.4
5	Cegedim	France	Health Care	2.4
				19.2

Exposures as at 31 March 2016

Longs %	Shorts %	Gross Exposure %	Net Exposure %
67.1 (68.1)	33.7 (32.0)	100.8 (100.1)	33.4 (36.1)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 31 March 2016

Country	Gross%	Net%
Austria	2.0	2.0
Bermuda	0.7	0.7
Canada	0.9	0.9
France	7.2	7.2
Germany	22.7	4.8
Ireland	0.8	0.8
Italy	2.6	2.1
Netherlands	5.0	-3.4
Norway	7.0	7.0
Spain	1.4	-1.4
Sweden	1.7	-1.2
Switzerland	6.0	-5.1
UK	37.4	17.3
US	4.6	1.1
Other	0.8	0.6

Market Cap	Gross%	Net%
>£2bn	25.2	0.7
£700m - £2bn	23.3	-6.5
£200m - £700m	34.3	25.7
<£200m	18.0	13.5

Positions	Mar	Feb
Long	84	87
Short	49	51
Longs Opened	2	5
Longs Closed	5	1
Shorts Opened	1	5
Shorts Closed	3	8

Sector	Gross%	Net%
Consumer Discretionary	27.1	17.7
Consumer Staples	7.7	-3.5
Energy	1.4	-1.4
Financials	16.8	11.1
Health Care	3.6	3.0
Industrials	12.7	1.9
Information Technology	24.3	1.4
Materials	4.7	4.0
Telecommunication	1.6	0.1
Utilities	0.9	-0.9
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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