Ennismore European Smaller Companies Fund

Investor Newsletter for the month of April 2016

Issued on 5 May 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 29th April. 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.

Performance as at 29 April 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]	**108.31**	**138.53**	**18.30**	**19.47**	**19.54**			
Period			**% Change**				**% Change**	
April 16	**0.4**	**1.8**	**0.4**	**1.5**	**1.5**	**0.4**	**1.5**	**1.5**
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
2016 to date	**6.4**	**0.3**	**6.4**	**1.5**	**1.5**	**1.5**	**-4.3**	**-3.5**
Annualised return[5]	**14.9**	**14.2**	**12.1**	**13.5**	**13.6**	**9.1**	**8.4**	**3.4**
Since launch[5]	**1003.6**	**883.7**	**83.0**	**94.7**	**95.4**	**352.0**	**301.3**	**79.0**
			Discrete 12 Month Rolling Performance - % Change					
To 30 April 16	18.7	10.7	18.7	11.8	11.7	4.3	-2.4	-9.6
To 30 April 15	-1.4	11.1	-1.3	9.0	9.0	4.7	17.7	13.2
To 30 April 14	22.0	25.9	22.0	25.4	25.3	26.0	29.8	15.5
To 30 April 13	17.0	12.5	16.9	13.4	13.4	23.4	18.7	20.1
To 30 April 12	2.4	11.9	2.4	9.6	10.0	-18.3	-10.9	-9.9

[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 0.4% in April. Our long book contributed 1.3% while the Fund's short exposure cost 0.1%. On the long side, JD Sports added 0.7% to NAV after releasing strong results for the year ending January 2016. We continue to be positive about our investment in JD and it remains our biggest position. Our second biggest contribution came from Ipsos, which added 0.4% to NAV, after a strong first quarter update. The biggest detraction from performance came from our short in a German financial services company, which cost us 0.4% of NAV in the month.

B&C Speakers - Italian manufacturer (0.4% of NAV)

B&C Speakers was founded in 1946 by Roberto Coppini and his brother-in-law Fernando Borrani. The founding family still runs it, and retains a 62% ownership stake. B&C manufactures high quality loudspeaker transducers for the professional audio market. It is still small, with revenues of EUR 37m, but it has grown for many years – averaging 9% over the last 20 years, twice the rate of the market, having taken market share from smaller players. It has sustained remarkably good profitability – returns on net operating assets have averaged over 40% and operating margins are around 20%. Given its limited need for capital, it has returned three quarters of its earnings to shareholders since its IPO in 2007. Today 90% of sales are international, sold from a newly built plant in northern Italy, with 72% of sales to OEMs, 26% to distributors and 2% direct. We first looked at B&C back in 2012 when it was faced with soaring raw material prices, a challenge it navigated impressively. We finally invested in it in 2013, and its good performance has continued. Today, we own close to 3% of the company and are excited about its prospects.

B&C is a hidden gem. It benefits from a dominant market position and substantial economies of scale, particularly from leveraging its R&D spend, which is 10% of sales. This gives B&C a sustainable competitive advantage, and acts as a substantial barrier to entry. Over time, B&C's market share has expanded, giving it further scale advantages – a virtuous circle. Today its global market share is 39%, and growing. Even Chinese box builders must buy from B&C as it's the only way they can compete with Western peers on sound quality. Moreover, the Chinese component manufacturers don't have the R&D budget to compete at the high-end where B&C operates. B&C manufactures a single component for loudspeakers, which means, unlike its competitor RCF, it does not compete with its OEM customers – yet another advantage. With no conflict of interest, B&C is a close partner to most OEMs. This does lead to higher customer concentration but we see this as reflective of B&C's strong products, as few can do without it. Besides, its products are highly customized and hard to replace. Even better, transducers only reflect 10% of the loudspeaker cost but are crucial for sound and quality. This explains why its customers are less price sensitive, as quality and reliability is paramount. This is proven by B&C's track record and consistently high margins. We also saw its pricing power in 2012, when raw material prices skyrocketed. B&C swiftly adjusted its prices, passing through the cost increase to its customers. In the 2008 financial crisis, its operating margins troughed at a still healthy 15%.

B&C believes it can leverage its know-how, built up over seventy years, and expand into adjacent markets. An example of this will be seen this year when B&C will start to sell specialized products for tunnelling. B&C is also in a JV working to develop a product to reduce noise pollution. In the meantime, the core business is robust. In 2015, revenue grew 8%, and the EUR 37m of sales and EUR 7.5m of operating profit were a record. While the stronger USD increased its raw material prices, this will ease in 2016. The market capitalisation is EUR 79m and the company has EUR 2m of net debt, implying an enterprise value of EUR 81m. We expect revenues to grow by 5% this year and profits to grow slightly faster, implying an enterprise value to 2016 operating profit of ten times. While this may not appear obviously cheap, and the small free float will keep it under the radar, we think that quality of the business deserves a much higher valuation. Given its superior and defensive business model, we think that B&C should be valued at 12 times its operating profit, which gives us – including the attractive dividend yield of nearly 5% – upside of 25% in the next 12 months. We see further upside if any of its new products prove successful.

Top Five Holdings as at 29 April 2016

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	7.3
2	Vib Vermoegen	Germany	Financials	4.4
3	Kongsberg Auto	Norway	Consumer Discretionary	2.7
4	Oslo Bors	Norway	Financials	2.6
5	U and I Group	United Kingdom	Financials	2.5
				19.5

Exposures as at 29 April 2016

Longs %	Shorts %	Gross Exposure %	Net Exposure %
68.2 (67.1)	34.4 (33.7)	102.6 (100.8)	33.8 (33.4)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Austria	2.0	2.0
Bermuda	0.8	0.8
Canada	0.8	0.8
France	8.0	8.0
Germany	22.9	2.9
Ireland	1.3	1.3
Italy	2.6	2.1
Netherlands	3.7	-2.2
Norway	6.6	6.6
Spain	1.7	-1.7
Sweden	1.6	-1.1
Switzerland	6.4	-5.5
UK	37.5	19.1
US	5.8	-0.1
Other	0.9	0.8

Market Cap	Gross%	Net%
>£2bn	25.1	2.2
£700m - £2bn	24.2	-7.8
£200m - £700m	33.9	25.4
<£200m	19.4	14.0

Positions	Apr	Mar
Long	86	84
Short	63	49
Longs Opened	4	2
Longs Closed	2	5
Shorts Opened	19	1
Shorts Closed	5	3

Sector	Gross%	Net%
Consumer Discretionary	28.9	19.1
Consumer Staples	8.6	-3.7
Energy	1.0	0.0
Financials	16.1	11.0
Health Care	3.1	2.5
Industrials	13.0	1.3
Information Technology	24.7	0.6
Materials	4.7	4.0
Telecommunication	1.5	0.0
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.

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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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