Ennismore European Smaller Companies Fund

Investor Newsletter for the month of May 2016

Issued on 6 June 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 334m as at 31st May. Total assets under management by Ennismore Fund Management were GBP 412m. 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 May 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]	**106.98**	**139.87**	**18.07**	**19.58**	**19.65**			
Period			**% Change**				**% Change**	
May 16	**-1.2**	**1.0**	**-1.3**	**0.6**	**0.6**	**1.5**	**3.5**	**1.8**
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
2016 to date	**5.1**	**1.3**	**5.1**	**2.0**	**2.0**	**3.0**	**-1.0**	**-1.8**
Annualised return[5]	**14.8**	**14.2**	**11.7**	**13.4**	**13.5**	**9.2**	**8.6**	**3.5**
Since launch[5]	**990.0**	**893.2**	**80.7**	**95.8**	**96.5**	**358.8**	**315.2**	**82.2**
	Discrete 12 Month Rolling Performance - % Change							
To 31 May 16	14.7	7.7	14.7	9.0	9.0	4.5	-2.1	-8.7
To 31 May 15	2.3	15.8	2.3	13.2	13.1	5.1	19.0	11.5
To 31 May 14	18.1	24.1	18.2	23.2	23.1	22.0	28.2	15.2
To 31 May 13	21.4	14.1	21.3	15.5	15.4	40.9	32.2	31.7
To 31 May 12	0.6	9.4	0.7	7.2	7.7	-24.0	-17.2	-14.5

[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 fell by 1.2% in May. Our long book contributed 1.0% while the Fund's short exposure cost 1.6%. JD Sports added 0.4% to NAV. There was no news to note. The biggest negative attribution came from our short in Oriflame, which cost us 0.6% of NAV. It released its Q1 results in the month, and nothing in those results changes our negative view of the stock.

Origin Enterprises – Irish agricultural services (1.1% of NAV)

Origin Enterprises is an agri-services business, with EUR 1.5bn of sales split between the UK & Ireland (67%) and Central & Eastern Europe (33%). Over the last five years, the current CEO has reshaped Origin through divestments and acquisitions so that it is now entirely focussed on agriculture, with substantial amounts of cash being returned to shareholders in the process. Today, Origin provides agronomy services and sells farm inputs such as crop protection (56% of gross profit), fertiliser (19%) and seeds (12%). It employs over 400 agronomists – otherwise known as "crop doctors" – experts that advise famers on what they should plant and when, and what crop protection and fertiliser they need. Through the agronomist, Origin sells a bundle of crop protection, fertiliser and seeds direct to the farmer. Origin also sells branded fertiliser and feed to wholesalers and buying groups (B2B). The direct-to-farmer model accounts for 62% of operating profit and the B2B channel accounts for 38%.

Origin is an excellent business. Firstly, an agronomist helps farmers make crucial decisions. Once a farmer has started working with a certain agronomist, and built trust in them, they rarely switch. Many relationships go back decades. Secondly, Origin has significant scale. Its market share in the UK is 38% in crop protection and 18% in fertiliser. As one of the biggest buyers, it can buy at a discount and pass on some of these savings to the farmer. It also invests in weather and soil data in a way that its competitors can't match. Its R&D budget is EUR 5-7m, including 55,000 trial plots in the UK – many times bigger than its nearest rivals. Its scale means it can support a dense distribution network that can guarantee next day delivery, which can be crop-saving. Thirdly, Origin's agronomists act independently, whereas agronomists from a producer will only recommend their own products. Finally, Origin has strong brands in its B2B business, particularly Goulding in Ireland, which is by far the market leader.

Having built a strong business in the UK and Ireland, Origin is trying to establish a similar business in Eastern Europe. It has bought several of the market leaders in Poland, Ukraine and Romania over the last five years, and we expect it to consolidate the market further. These markets are huge, with collectively nine times the cropping area of the UK. While less sophisticated, farms there are modernising, with more and more using agronomists. This will drive higher long-term revenue growth for agronomists there. There is also potential to expand margins. At 2%, the margins in Eastern Europe are well below the group average of 5%. Integrating its most recent acquisitions will help this process.

The decline in commodity prices has led to farmers trading down to cheaper fertiliser and crop protection. Farmers can do this one year out of several, but they must go back to investing in better products or risk damaging their farm. The performance has been further exacerbated by the terrible weather in April – a one-in-twenty-year event that has impacted demand for all of Origin's products. We think the subsequent share price decline has provided us with a great opportunity to invest in a high quality business at a modest price. The market capitalisation is EUR 775m. We think the average net debt will be around EUR 110m in the year (we adjust for the working capital seasonality). Including the pension and excess property, the enterprise value is EUR 910m. We forecast operating profit, after tax, of EUR 62m for this fiscal year, which ends in July 2016. Profit should improve markedly in the following two years as market conditions improve. It is very cash-generative, with an average return on net operating assets of 50% over the last five years, and the dividend yield is over 3%. Management is impressive, with skin in the game – the CEO owns around EUR 10m of stock. We think a cash-generative business of this quality, with significant opportunity to expand long-term, deserves a multiple of sixteen times operating profit, after tax. This implies 45% upside over the next two years.

Top Five Holdings as at 31 May 2016

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	7.8
2	Vib Vermoegen	Germany	Financials	3.9
3	Kongsberg Auto	Norway	Consumer Discretionary	2.6
4	Oslo Bors	Norway	Financials	2.4
5	Cegedim	France	Health Care	2.4
				19.1

Exposures as at 31 May 2016

Longs %	Shorts %	Gross Exposure %	Net Exposure %
70.3 (68.2)	34.9 (34.4)	105.2 (102.6)	35.4 (33.8)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Austria	2.1	2.1
Bermuda	0.8	0.8
Canada	1.0	0.6
France	8.5	8.2
Germany	21.6	2.9
Ireland	1.6	1.6
Italy	2.6	2.1
Netherlands	3.6	-2.0
Norway	6.2	6.2
Spain	1.9	-1.9
Sweden	1.6	-1.0
Switzerland	7.0	-6.1
UK	38.1	20.0
US	7.0	1.2
Other	1.6	0.7

Market Cap	Gross%	Net%
>£2bn	26.6	1.2
£700m - £2bn	24.5	-5.0
£200m - £700m	34.7	23.9
<£200m	19.4	15.3

Positions	May	Apr
Long	88	86
Short	55	63
Longs Opened	5	4
Longs Closed	3	2
Shorts Opened	4	19
Shorts Closed	12	5

Sector	Gross%	Net%
Consumer Discretionary	31.1	21.8
Consumer Staples	9.7	-5.0
Energy	0.1	0.1
Financials	15.7	10.7
Health Care	3.1	2.5
Industrials	13.0	1.7
Information Technology	25.2	0.7
Materials	4.7	3.9
Telecommunication	1.5	0.1
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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