Ennismore European Smaller Companies Fund

Investor Newsletter for the month of June 2016

Issued on 11 July 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 343m as at 30th June. Total assets under management by Ennismore Fund Management were GBP 423m. 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 30 June 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]	**109.49**	**131.75**	**18.50**	**18.63**	**18.70**			
Period			**% Change**				**% Change**	
June 16	**2.3**	**-5.8**	**2.4**	**-4.9**	**-4.8**	**0.1**	**-7.9**	**-2.0**
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
2016 to date	**7.6**	**-4.6**	**7.6**	**-2.9**	**-2.9**	**3.1**	**-8.9**	**-3.7**
Annualised return[5]	**14.8**	**13.7**	**12.0**	**12.2**	**12.3**	**9.1**	**8.0**	**3.4**
Since launch[5]	**1015.6**	**835.5**	**85.0**	**86.3**	**87.0**	**359.4**	**282.3**	**78.5**
	Discrete 12 Month Rolling Performance - % Change							
To 30 June 16	16.5	-0.7	16.5	1.7	1.7	9.2	-7.2	-5.8
To 30 June 15	5.2	18.9	5.2	16.2	16.1	2.9	16.1	7.0
To 30 June 14	16.8	25.0	16.9	23.7	23.6	24.0	32.7	20.2
To 30 June 13	18.4	11.8	18.4	13.1	13.1	31.0	23.4	18.8
To 30 June 12	-2.1	9.2	-2.1	6.3	7.0	-20.5	-11.0	-8.5

[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.

We normally don't mention currency in our commentary, but the 8% drop in sterling versus the euro in the month had a big impact on the Fund's performance (sterling exposure was 36% of NAV on 30 June 2016). Given that we do not hedge currencies between share classes, this also explains the difference in performance between the EUR and GBP share classes. Moreover, it explains some of our largest contributors in the month – Vib Vermogen, for instance, added 0.4% to the NAV of the sterling class, largely because of the sterling depreciation. Cegedim also added 0.4% to NAV, after the stock was up 6% in the month, and Premier Farnell added 0.3% to NAV, up 40% in the month after being bid for by Swiss company Datwyler Holding. On the negative side, Servelec cost us 0.8%, JD Sports cost 0.8% and U&I Group cost 0.4%. Servelec disappointingly issued a profit warning on June 15th; however, we still have strong conviction in this holding. The shares of all three companies were impacted by Britain's vote to exit the EU, and this was further exacerbated by the sterling depreciation. We still believe they're attractive investments regardless of the outcome of the vote. We continue to believe the best way to deal with negative macro events – of which Brexit is just one of many we have experienced – is to already own a collection of high quality businesses purchased at reasonable prices, and be short the structurally disadvantaged. We are well positioned in this regard.

Oslo Bors VPS – Norwegian equity market and central securities depositary (2.6% of NAV)

Oslo Bors VPS is the combination of two Norwegian financial services businesses – the national stock exchange, Oslo Bors, and the central securities depository (CSD), VPS. Oslo Bors is the main securities market in Norway. Although its monopoly position in equity trading was eroded after European markets were liberalised by MiFID legislation in 2008, leading to a period of lost market share, revenue and profitability has now stabilised. Its market share is also now steady, with it taking nearly two-thirds of value traded, a similar level to other primary exchanges across Europe. Like all marketplaces, Oslo Bors benefits from network effects, with both buyers and sellers attracted to its superior liquidity. This is a hard competitive position to break. Trade fees are also only a small part of the sales mix, with most revenue coming from fixed fees charged to issuers, member brokers and for access to market data. The technology platform is now supplied by the London Stock Exchange which makes the investment needed by Oslo Bors itself predictably low and may even allow them to reduce their own cost base somewhat. Overall we expect Oslo Bors to make stable operating profit of around NOK 200m a year for the foreseeable future.

Most of VPS's revenue is very stable, with Norwegian law requiring public companies to be registered with a CSD and private individuals to hold shares in a CSD account. Although not mandated by law many private firms and funds also use the service. Altogether fees from maintaining shareholder registers and accounts, where VPS is effectively a monopoly supplier, generate more than three quarters of the division's revenue, and should grow steadily over time. With a relatively fixed cost base, we also expect VPS to make a profit of close to NOK 200m a year.

In the first quarter the company wrote off NOK 34m of development costs for a new CSD system. The wasted investment is disappointing but we think the decision is a positive one that may reflect management's realisation that VPS is more valuable as part of a larger group that can share IT development costs across more markets. The planned merger of LSE and Deutsche Borse highlights this, and explains why there are few independent national markets remaining in Europe. The other Nordic exchanges are owned by Nasdaq, making it the most natural buyer of Oslo Bors.

Oslo Bors VPS is overlooked by many investors because it trades on the over-the-counter (OCT) market in Norway. This is due to a restriction imposed by a previous Norwegian government which blocked the company's attempt to list on Oslo Bors due to perceived conflicts of interest. A current market cap of NOK 3,650m values the company at around twelve times free cashflow. The company has no debt. Other than c. NOK 500m of regulatory capital Oslo Bors VPS has low capital needs and so it can pay out a high dividend equivalent to most, if not all, of its net profit, giving a high single digit dividend yield. Having owned Oslo Bors since early 2013, we have already collected dividends that equate to 58% of our initial purchase price. We forecast it will maintain its 2015 level of profitability for the foreseeable future and think it is too cheap for a business with such a strong competitive position. Applying a fifteen times free cash flow multiple, we believe it is worth at least 25% more than the current NOK 85 share price on a standalone basis, and significantly more to potential acquirers.

Top Five Holdings as at 30 June 2016

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	5.9
2	Vib Vermoegen	Germany	Financials	4.2
3	Cegedim	France	Health Care	2.7
4	Oslo Bors	Norway	Financials	2.6
5	4Imprint	United Kingdom	Consumer Discretionary	2.2
				17.6

Exposures as at 30 June 2016

Longs %	Shorts %	Gross Exposure %	Net Exposure %
69.6 (70.3)	33.4 (34.9)	103.0 (105.2)	36.2 (35.4)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 30 June 2016

Country	Gross%	Net%
Austria	2.7	1.8
Canada	1.3	0.6
France	9.0	8.8
Germany	20.0	7.5
Ireland	1.7	1.7
Italy	2.5	1.1
Luxembourg	1.7	0.1
Netherlands	3.4	-1.9
Norway	6.3	6.3
Spain	1.9	-1.9
Sweden	1.4	-1.0
Switzerland	7.2	-6.3
UK	35.6	19.0
US	6.1	-0.6
Other	2.1	1.0

Market Cap	Gross%	Net%
>£2bn	23.8	4.6
£700m - £2bn	22.2	-7.6
£200m - £700m	32.4	19.5
<£200m	24.5	19.7

Positions	Jun	May
Long	95	88
Short	62	55
Longs Opened	9	5
Longs Closed	2	3
Shorts Opened	10	4
Shorts Closed	3	12

Sector	Gross%	Net%
Consumer Discretionary	28.0	18.5
Consumer Staples	10.4	-5.9
Energy	0.7	0.7
Financials	16.4	11.6
Health Care	3.3	2.7
Industrials	13.0	1.6
Information Technology	23.4	3.7
Materials	4.9	3.7
Telecommunication	1.7	0.7
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.

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

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