Ennismore European Smaller Companies Fund

Investor Newsletter for the month of July 2016

Issued on 4 August 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 346m as at 29th July. Total assets under management by Ennismore Fund Management were GBP 428m. 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 July 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]	**110.96**	**131.74**	**18.74**	**18.69**	**18.76**			
Period			**% Change**				**% Change**	
July 16	**1.3**	**0.0**	**1.3**	**0.3**	**0.3**	**6.7**	**5.6**	**4.0**
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	**9.0**	**-4.6**	**9.0**	**-2.6**	**-2.6**	**10.1**	**-3.8**	**0.1**
Annualised return[5]	**14.9**	**13.6**	**12.0**	**12.0**	**12.1**	**9.5**	**8.3**	**3.6**
Since launch[5]	**1030.6**	**835.5**	**87.4**	**86.9**	**87.6**	**390.3**	**303.7**	**85.6**
			Discrete 12 Month Rolling Performance - % Change					
To 31 July 16	15.9	-2.6	15.8	0.1	0.2	13.2	-5.5	-6.2
To 31 July 15	7.0	19.8	7.0	17.3	17.2	10.2	24.0	13.8
To 31 July 14	13.8	25.8	13.9	23.8	23.5	10.3	21.7	11.5
To 31 July 13	24.3	11.5	24.2	13.8	13.7	42.4	27.9	22.2
To 31 July 12	-3.4	7.6	-3.3	4.7	5.6	-15.7	-6.1	-1.5

[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 1.3% in July. Our long book contributed 3.9% while the Fund's short exposure cost 2.3%. JD Sports was the biggest contributor, adding 0.5% to NAV, making up some of the declines that followed Brexit. Premier Farnell added a further 0.3% to NAV after a second bid came in for the company. The biggest detractor came from a short in a Swiss financial services company, which cost us 0.3% of NAV.

Strabag – Austrian Builder (1.7% of NAV)

Strabag, which dates back to 1835, is the largest builder in Central Europe. It went public in 2007 with a hot equity story – and price tag that matched – when it told investors that Russia would prove a bounty. When it fell short of these ambitions (revenue in Russia reached an eighth of its target), the share price fell with it – today's share price of EUR 28 is nearly 50% below the 2007 peak. This history has left Strabag somewhat of an "orphan stock" – it is not well covered and, despite a market capitalisation of EUR 2.9bn, the liquidity is just a few hundred thousand euros a day. Within this lack of interest, we believe, lies an opportunity.

Strabag has been a consolidator for many years and today is the largest builder in Germany (44% of sales), Austria (14%), Slovakia, Croatia and Romania, and a key player in other Eastern European markets. After Germany and Austria, the CEE region accounts for 26% of sales, the rest of Europe accounts for 10% and the rest of the world accounts for 6%. It works across the construction industry, with infrastructural projects – think motorways and subway systems – being most important (38% of sales), along with building construction and civil engineering (also 38% of sales). The rest of the business is split between services (10%), materials (5%), tunnelling (4%) and other (5%). It builds motorways in Italy, hydroelectric plants in Chile, underground stations in Germany and bridges in Switzerland, employing 73,000 people while it's at it.

After seven modest years of low sales growth, we expect Strabag to profit hugely from the rollout of the Bundesverkehrswegeplan 2030 – a EUR 270bn investment plan in Germany – which should provide good demand for its transportation infrastructure business and help drive solid long-term growth. Even more important though is its focus on expanding margins. After a trough year in 2012, when operating margins fell from 2.4% to 1.6% due to cost overruns in several projects, the company initiated the 2013ff program to improve profitability. The goal is to increase operating margins to 3% by focussing on operational efficiency, risk management and prioritising profit before growth. The strategy is bearing fruit. It achieved 2.6% margins in 2015 and we think it will pass the 3% mark in 2016.

Most important is the price Strabag is available for. It trades at a discount to its conservative book value. Based on its current market capitalisation of EUR 2.9bn and a net cash position of EUR 1.1bn at year end, Strabag's enterprise value of EUR 1.8bn is just 4.5 times its operating profit. Estimating maintenance capital expenditures to be EUR 250m, it has a 15% free cash flow yield to the equity. We think the operating margins can continue to grow beyond 3%, driving further profit growth. The stock is tightly held by the former CEO Haselsteiner 28%, Rasperia 28% and Uniqa Raiffeisen 29%, leaving a small free float of just 15%. We would not be surprised if this tight shareholding paved the way for the company being taken private in the next few years. Indeed, the shareholders' syndicate agreement ends next year, which allows them to sell independently for the first time since the IPO. Failing that, we may see one of the shareholders sell into the market, thereby improving liquidity and investor appetite. We expect the increasing dividend to reach close to EUR 1 next year, implying a dividend yield of 3.5%. Using an EBIT multiple of seven times, we see upside of 30% on a one year basis. But we frankly wouldn't be surprised if it returned to its initial IPO price of EUR 47 if it continues to improve profitability and its capital efficiency.

Top Five Holdings as at 29 July 2016

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	6.3
2	Vib Vermoegen	Germany	Financials	4.1
3	Oslo Bors	Norway	Financials	2.6
4	Cegedim	France	Health Care	2.6
5	4Imprint	United Kingdom	Consumer Discretionary	2.4
				18.0

Exposures as at 29 July 2016

Longs %	Shorts %	Gross Exposure %	Net Exposure %
72.0 (69.6)	36.3 (33.4)	108.3 (103.0)	35.7 (36.2)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Austria	2.8	2.0
Canada	1.3	0.6
France	7.2	6.9
Germany	19.6	7.5
Ireland	2.0	2.0
Italy	2.5	0.5
Luxembourg	1.8	0.1
Netherlands	3.4	-2.0
Norway	6.4	6.4
Spain	2.1	-2.1
Sweden	2.0	-1.8
Switzerland	7.5	-6.7
UK	40.8	22.5
US	6.6	-1.0
Other	2.2	0.8

Market Cap	Gross%	Net%
>£2bn	25.6	3.6
£700m - £2bn	24.0	-7.8
£200m - £700m	36.1	22.2
<£200m	22.5	17.7

Positions	Jul	Jun
Long	91	95
Short	63	62
Longs Opened	4	9
Longs Closed	8	2
Shorts Opened	4	10
Shorts Closed	3	3

Sector	Gross%	Net%
Consumer Discretionary	26.9	16.7
Consumer Staples	10.7	-6.3
Energy	0.7	0.7
Financials	17.4	12.7
Health Care	3.4	3.0
Industrials	15.4	1.3
Information Technology	25.7	4.5
Materials	5.1	3.7
Telecommunication	1.8	0.5
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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