Ennismore European Smaller Companies Fund

Investor Newsletter for the month of October 2016

Issued on 8 November 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 366m as at 28th October . Total assets under management by Ennismore Fund Management were GBP 564m. The Fund is 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 28 October 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]	**117.50**	**130.61**	**19.85**	**18.80**	**18.87**			
Period			% Change				% Change	
October 16	**1.9**	**-2.0**	**1.9**	**-1.5**	**-1.5**	**1.2**	**-2.3**	**0.3**
September 16	1.6	-0.1	1.6	0.3	0.3	3.4	1.4	0.4
August 16	2.3	1.3	2.3	1.9	1.9	1.9	1.2	1.2
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	**15.4**	**-5.4**	**15.4**	**-2.0**	**-2.0**	**17.3**	**-3.5**	**2.0**
Annualised return[5]	**15.0**	**13.4**	**12.6**	**11.6**	**11.7**	**9.8**	**8.2**	**3.7**
Since launch[5]	**1097.2**	**827.4**	**98.5**	**88.0**	**88.7**	**422.5**	**304.7**	**89.2**
	Discrete 12 Month Rolling Performance - % Change							
To 31 October 16	20.6	-4.1	20.7	-0.1	-0.1	22.5	-2.6	0.0
To 31 October 15	6.9	17.0	6.9	15.0	15.0	13.3	24.4	8.7
To 31 October 14	8.2	16.9	8.2	15.4	15.3	-2.6	5.3	4.6
To 31 October 13	26.3	20.1	26.3	21.4	21.3	41.2	34.0	24.5
To 31 October 12	-0.7	8.4	-0.7	6.0	6.6	2.8	12.3	7.8

[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 1.9% in October. Our long book contributed 1.2% while the Fund's short exposure contributed 0.4%. The biggest contributors were our long positions in JD Sports and Kongsberg Automotive, which each added 0.3% to NAV.

Pfeiffer Vacuum – German Engineering Company (1.2% of NAV)

Pfeiffer Vacuum is the leading manufacturer of turbo pumps and the global number two in vacuum pumps. We think Pfeiffer is an excellent business, particularly its core business selling high-end turbo pumps, which we estimate makes up around 70% of operating profit. This business generates operating margins well above 20% and returns on capital above 30%. It has a moat built on decades of R&D and manufacturing know-how, and its products are considered superior to competitors'. In 2010, Pfeiffer Vacuum acquired Adixen from Alcatel Lucent. We think Adixen is a lower quality business than Pfeiffer's core turbo pumps business but, having followed the company for a long time, we are beginning to see improvements here. It seems we were not the only ones to notice: in 2015, an industry insider acquired 27% of Pfeiffer. Having waited for the takeover speculation to calm down, we think Pfeiffer will prove to be a very attractive investment given its very modest valuation and high quality.

In 2015, revenue was EUR 451m and operating profit was EUR 68m. There is a vast array of uses for Pfeiffer's products. Around 60% of sales are highly stable and come from uses in industrials (e.g. freeze drying), R&D applications (e.g. renewable energy research) and analytics markets (e.g. leak detection). Pfeiffer is the dominant player in these segments, with a market share of around 30% and in some cases much higher. The other 40% of sales are more cyclical. These largely come from the acquired Adixen, and are lower margin products for the semiconductor industry and for coating materials such as LED screens and architectural glass. Given high-end, industrial pumps is a relatively small niche which requires a vast amount of technology and know-how to compete effectively, there have been no new entrants for many years and the market is fairly concentrated amongst a handful of players. We struggle to see how a new entrant would manage it. In Asslar, Germany, we watched Pfeiffer take a block of aluminium and turn it into a high performance turbo pump, with almost no third party components. The Adixen business is more competitive and it performed poorly when the industry entered a down cycle a few years ago. However, with Atlas Copco acquiring Edwards in 2014 and Leybold in 2015, we expect to see a more rational pricing environment. Pfeiffer had been targeting a 20% group operating margin after the Adixen integration. Clearly this hasn't happened – in 2015, group margins were 15%, depressed by the cyclical pressure in Adixen. However, we think there is still upside to the margins and that getting to 16-17% is achievable as it benefits from the more rational pricing environment, improvements to the supply chain, a focus on key accounts and the rebranding of Adixen to Pfeiffer.

Pfeiffer has a market cap of EUR 830m with net cash of around 100m by year end. It trades at a modest valuation of eleven times 2015 operating profit and around ten times its target for 2016. The company is highly cash generative and can easily pay out 75% of its net profits, while still growing its cash. The dividend yield is 4%. On top of that comes the strategic owner, Busch Holding, which has one Board seat and a 27% stake. At the very least, we believe Busch's strong management will help Pfeiffer improve growth and profitability (Busch is roughly the same size as Pfeiffer but with better margins and growth despite operating in more commoditised products). But we would not be surprised to see Busch making an offer for the shares it doesn't own. We estimate Busch will have EUR 190m of net cash by the end of the year (excluding its shares in Pfeiffer), making the remaining shares easily financeable. Regardless, we think Pfeiffer's shares are cheap and see upside of at least 30% in the next twelve months, using a multiple of operating profit after-tax of seventeen times.

Top Five Holdings as at 28 October 2016

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	7.2
2	Vib Vermoegen	Germany	Financials	4.3
3	Oslo Bors	Norway	Financials	2.7
4	Kongsberg Auto	Norway	Consumer Discretionary	2.5
5	Cegedim	France	Health Care	2.4
				19.1

Exposures as at 28 October 2016

Longs %	Shorts %	Gross Exposure %	Net Exposure %
77.9 (77.6)	42.1 (39.8)	120.0 (117.4)	35.8 (37.8)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 28 October 2016

Country	Gross%	Net%
Austria	2.6	2.2
Canada	2.0	0.4
Finland	1.7	-1.7
France	7.5	7.1
Germany	22.7	7.9
Ireland	2.4	2.0
Italy	3.4	1.5
Netherlands	3.5	-2.4
Norway	7.5	7.5
Spain	2.4	-2.4
Sweden	2.3	-2.0
Switzerland	6.4	-6.4
UK	44.0	22.3
US	7.6	-1.7
Other	3.9	1.5

Market Cap	Gross%	Net%
>£2bn	31.0	5.9
£700m - £2bn	25.4	-7.2
£200m - £700m	43.4	18.9
<£200m	20.1	18.2

Positions	Oct	Sep
Long	91	91
Short	76	76
Longs Opened	2	5
Longs Closed	2	6
Shorts Opened	2	17
Shorts Closed	2	7

Sector	Gross%	Net%
Consumer Discretionary	30.9	15.7
Consumer Staples	11.4	-3.3
Energy	1.4	0.9
Financials	18.3	12.2
Health Care	4.3	3.2
Industrials	17.6	3.0
Information Technology	23.9	0.6
Materials	7.0	4.3
Telecommunication	3.8	0.5
Utilities	1.3	-1.3
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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