Ennismore European Smaller Companies Fund

Investor Newsletter for the month of November 2016

Issued on 9 December 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 354m as at 30th November. Total assets under management by Ennismore Fund Management were GBP 573m. 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 30 November 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]	**114.32**	**134.64**	**19.31**	**19.23**	**19.30**			
Period			**% Change**				**% Change**	
November 16	**-2.7**	**3.1**	**-2.7**	**2.3**	**2.3**	**-4.1**	**1.3**	**-0.6**
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	**12.3**	**-2.5**	**12.3**	**0.2**	**0.2**	**12.4**	**-2.2**	**1.4**
Annualised return[5]	**14.8**	**13.5**	**11.9**	**11.9**	**11.9**	**9.4**	**8.2**	**3.6**
Since launch[5]	**1064.8**	**856.1**	**93.1**	**92.3**	**93.0**	**400.8**	**310.1**	**88.0**
			Discrete 12 Month Rolling Performance - % Change					
To 30 November 16	16.6	-3.7	16.5	-0.2	-0.2	15.7	-4.2	-2.5
To 30 November 15	5.5	19.7	5.5	16.9	16.9	10.6	25.4	6.8
To 30 November 14	9.0	13.8	9.1	13.0	13.0	1.3	5.6	7.9
To 30 November 13	24.7	21.7	24.6	22.5	22.4	39.3	36.0	22.0
To 30 November 12	6.0	11.9	6.1	10.5	10.6	13.2	19.5	15.2

[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 2.7% in November. Our long book cost 2.8% while the Fund's short exposure contributed 1.0%. Our short in Oriflame was our biggest contributor, adding 1.0% to NAV after the stock fell c. 30% in the month following a disappointing Q3. Our long position in JD Sports had another strong month returning 0.6% to NAV. Our largest negative contributions came from our long book. Kongsberg Automotive cost us 0.6% after a poorly received three year business plan. VIB Vermoegen cost the fund 0.5%, and Sto also cost us 0.5% following a reduction in profit guidance. Currency exposure had a significant impact in the month, after the sterling appreciated strongly against the Euro.

Conviviality – UK drinks distributor and franchiser (2.3% of NAV)

When Conviviality came to the stock market in July 2013 it was just a UK, alcohol-biased, convenience store franchiser and supplier. Since then the business has been transformed through two large acquisitions of drinks distributors, Bibendum and Matthew Clarke, totalling GBP 290m. To put these acquisitions into perspective, the enterprise value today is GBP 440m. While this new business of alcohol distribution is certainly low margin (c. 3% operating margin), there are many things to like about it. Scale allows you to deliver to customers at a lower cost (due to network effects), to buy cheaper and to support a wider product range. Customer relationships tend to be sticky and long-term, with the company even advising its customers on menu choices and pricing. This leads to predictable sales, helped by the fact the demand for alcohol is very stable. Conviviality has plenty of scale: it is the largest independent UK drinks distributor with 23,000 customers, most of which are hotels, restaurants and bars. Its market share is 11%, five times that of the next largest player. We think this transformation has largely been missed by the market, and with a forecast free cash flow yield of nine percent for the next financial year, it is cheap.

Combining the number one and number two in the distribution business made a lot of strategic sense. Each player gained scale, improving both operating efficiency and product range. The opportunity for cross selling is significant. For instance,

Bibendum only sells to 10% of the total distribution division's customers. Even better, the acquisitions were done at a good price. The trailing multiple of each was around 10 times operating profit. After our expected cost savings of GBP 9m and growth this year, we think this will end up being closer to seven times. We estimate sales in the distribution business will be GBP 1.1bn and operating profit will be GBP 37m this year.
The retail division is positioned at the value end of the market. It has over 700 mainly franchised stores, with the main brand being Bargain Booze. Conviviality makes the bulk of its profits from the supply of products to its franchisees rather than franchise fees, and we expect sales will be GBP 370m and operating profit will be more than GBP 13m this year. Management has in recent years helped the franchisees through 'best practice' sharing, advising on shelf layout and by rewarding franchisees with shares if certain targets are met. Whilst we expect the retail business to be broadly stable in the long-term, this is a tougher business dependent on keen pricing. Recent organic growth was down more than one percent.
We think the company has a high quality CEO in Diana Hunter. She previously developed the convenience fascia for Waitrose. New management has also been brought in to strengthen all three divisions including Mark Aylwin from the successful wholesaler Booker Plc. Although there is much integration still to do, we think they are the right team for it. Post tax return on invested capital is around 11%. However, part of the acquired intangibles came from the change of control before listing. Adjusting for that the return on capital post tax is closer to 15%, and the acquisitions we believe will show to be clearly value accretive. Cash generation is good – there are limited fixed assets and working capital is only around 2% of sales. Overall we expect the business to generate around GBP 55m of operating profit in the year to April 2018, which will enable a 5% dividend yield and the ability to pay down some of its GBP 100m of net debt. We value the company on a sum of the parts basis, valuing the distribution business at 15 times operating profit after-tax and the retail division at 8 times. This leads to a potential upside of at least 45% over the next 18 months.

Top Five Holdings as at 30 November 2016

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	7.6
2	Vib Vermoegen	Germany	Financials	4.0
3	Oslo Bors	Norway	Financials	2.6
4	Renk	Germany	Consumer Discretionary	2.3
5	Conviviality	United Kingdom	Consumer Staples	2.3
				18.8

Exposures as at 30 November 2016

Longs %	Shorts %	Gross Exposure %	Net Exposure %
77.9 (77.9)	36.9 (42.1)	114.8 (120.0)	41.0 (35.8)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Austria	2.5	2.3
Belgium	1.2	0.1
Canada	2.0	0.7
Finland	1.6	-1.6
France	7.1	6.6
Germany	22.6	7.9
Italy	3.1	1.4
Netherlands	3.4	-2.2
Norway	5.5	5.5
Spain	2.0	-2.0
Sweden	1.5	-1.2
Switzerland	4.1	-4.1
UK	45.8	25.4
US	8.7	-0.2
Other	3.7	2.4

Market Cap	Gross%	Net%
>£2bn	31.5	10.1
£700m - £2bn	18.6	-5.8
£200m - £700m	47.3	20.0
<£200m	17.4	16.7

Positions	Nov	Oct
Long	92	91
Short	72	76
Longs Opened	5	2
Longs Closed	4	2
Shorts Opened	4	2
Shorts Closed	8	2

Sector	Gross%	Net%
Consumer Discretionary	32.5	18.4
Consumer Staples	8.6	-2.3
Energy	1.0	0.5
Financials	17.4	10.5
Health Care	4.3	3.7
Industrials	16.5	5.3
Information Technology	23.7	1.5
Materials	5.8	4.2
Telecommunication	3.7	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.

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

Risk Warning

This document is issued by Ennismore Fund Management Limited ("Ennismore", "the Company") which is authorised and regulated by the Financial Conduct Authority.

This document is for information purposes only and is not an offer to sell or an invitation to buy shares in Ennismore European Smaller Companies Fund. In particular, it does not constitute an offer or solicitation in any jurisdiction where it is unlawful or where the recipient may not lawfully receive any such offer or solicitation. It is the responsibility of any person in possession of this document to inform themselves of, and to observe, all applicable laws and regulations of relevant jurisdictions.
Content in this document is provided for information only and is not intended for trading purposes. Any information and opinion in this document is subject to change by the Company without prior written notice. Content in this document is not an invitation or inducement to engage in any investment activity and is not appropriate for the purposes of making a decision to carry out a transaction or trade in any of the companies mentioned in this document. Nor does it provide any form of advice amounting to investment advice, or make any recommendations regarding particular financial instruments or investment products. Use of this document is no substitute for obtaining proper investment advice from an authorised investment professional.
We hereby disclose that we currently hold positions in the companies discussed in this report and we are thus subject to conflicts of interest in respect of these companies. The analysis presented on these companies has not been prepared in accordance with legal requirements regarding the independence of investment research and as such is considered non-independent research, as defined by COBS 12.3.2R of the FCA Handbook, and as a marketing communication.
Although the Company considers the content of this document to be accurate at the time it was written, we do not guarantee the accuracy of the information presented or of our opinions. The factual information contained in this document may become inaccurate as a result of the passage of time and should therefore be read for historical information only. Future expectations are the opinion of the Company at the time of writing and are subject to change without notice, and the Company does not undertake to provide information concerning changes to its opinions and expectations in any way. All forecasts are subject to risks and uncertainties that may cause actual results to differ materially from those which were expected.

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.

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