Ennismore European Smaller Companies Fund

Investor Newsletter for the month of December 2016

Issued on 12 January 2017

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 30th December. Total assets under management by Ennismore Fund Management were GBP 602m. 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 December 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]	**116.52**	**136.51**	**19.69**	**19.53**	**19.59**			
Period	% Change					% Change		
December 16	**1.9**	**1.4**	**2.0**	**1.6**	**1.5**	**6.0**	**5.2**	**5.8**
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	**14.5**	**-1.2**	**14.5**	**1.8**	**1.7**	**19.2**	**2.9**	**7.2**
Annualised return[5]	**14.8**	**13.5**	**12.1**	**12.0**	**12.0**	**9.8**	**8.5**	**3.9**
Since launch[5]	**1087.2**	**869.3**	**96.9**	**95.3**	**95.9**	**431.0**	**331.6**	**98.8**
	Discrete 12 Month Rolling Performance - % Change							
To 31 December 16	14.5	-1.2	14.5	1.8	1.7	19.2	2.9	7.2
To 31 December 15	9.7	15.5	9.7	14.3	14.2	15.6	21.7	4.9
To 31 December 14	6.4	14.0	6.4	12.6	12.6	-1.8	5.2	4.7
To 31 December 13	26.6	23.4	26.7	24.4	24.1	35.5	32.2	21.6
To 31 December 12	8.4	11.6	8.3	10.8	10.9	20.2	23.6	15.6

[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 December. Our long book contributed 4.3% while the Fund's short exposure cost 1.6%. Our biggest contribution came from Mediaset, which added 0.7% to NAV. The shares increased 80% in the month when Vivendi built a 30% stake in the company. Cegedim added 0.4% after robust Q3 results. Our short in Oriflame cost us 0.4% despite no news of note.

Henry Boot – UK property and land developer (0.6% of NAV)

Henry Boot was founded 130 years ago and long term value creation is its key mantra. The company has three divisions: two high return divisions, construction and property development, which help to fund its more capital-intensive land development division. The property development business is appealing to us thanks to a healthy pipeline of projects that are progressing well and have been significantly de-risked through pre-selling and funding. However, the real upside is found in its sizeable land bank. We estimate there is currently c. GBP 150m of hidden value in the land bank compared with its market capitalisation of GBP 255m and our expected tangible book for 2016 of GBP 230m.

Henry Boot's land development division, Hallam Land Management, operates across the UK, excluding Greater London. It buys land, seeks planning approval and then sells it to housebuilders to develop. Over its 26 year history, the business has established an outstanding record in getting planning permissions for its land. This, combined with its long term outlook, has enabled it to grow through the economic cycle. This approach differs from housebuilders, who prefer to buy plots at the end of the planning process and in downturns are often quick to cut headcount, losing valuable in-house knowledge. Hallam's land bank of 11k acres includes 25k plots in the planning process at H1 2016, of which more than 15k already have planning permission. The planning process has become more reliable and so we expect permitted plots to grow at a good pace over the next few years. The company has averaged around GBP 15k gross profit per plot over the last six years and we believe this will continue, leading to our conservative estimate of around GBP 20m profit per year after GBP 4m in overhead. Clearly this business is tied into the housing cycle. In the financial crisis this division made a loss when housebuilders stopped buying land. However, it quickly returned to profit as housebuilders' land banks eventually had to be replenished. Even though planning is getting easier, the UK remains structurally short of housing and land and so we think there is long term value in an experienced land developer, even with the uncertainty surrounding Brexit.

Henry Boot's property investment and development division owns a portfolio of around GBP 100m of mixed retail, industrial and commercial assets which generates GBP 6m of net rent, more than covering the division's overhead. It also has over GBP 70m invested in various development projects. The pipeline has a construction value of GBP 850m and management are confident they will realise a margin of 10-12% over the next 3-4 years. The biggest asset, at GBP 333m – a fully de-risked new exhibition centre, four star hotel and energy centre project in Aberdeen – is progressing well.

The construction division provides a blend of various services and has three parts – the largest being a joint venture with the Highways Agency to operate and maintain the A69 trunk road until 2026, with other activities in plant hire and construction. Whilst margins are low, the division requires little capital and consistently generates c. GBP 8m of profit p.a.

We like that the founding family still holds around 40% of the company's shares as it helps foster long term thinking and a strong eye on shareholder value. The return on capital is held back by its investment portfolio's low but reliable net return, leading to a group post-tax return of 10%. Overall we expect it to generate GBP 40 – 45m of operating profit per annum over the next couple of years, compared to its enterprise value of GBP 315m. With the cash it generates, we think it will pay down some of its net debt of around GBP 60m (including pension liabilities), pay a decent dividend yield of over 3% for 2016 and reinvest back into the business, mainly in land development. We value the equity on a sum of the parts basis, conservatively valuing the land development business based only on its current permitted land bank at GBP 230m, and the property development division using profits expected from just its current pipeline at GBP 235m. In reality it should be worth more, yet our valuation still gives upside of 60% over the next two years.

Top Five Holdings as at 30 December 2016

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	7.1
2	Vib Vermoegen	Germany	Financials	4.1
3	Oslo Bors	Norway	Financials	2.7
4	Cegedim	France	Health Care	2.6
5	Conviviality	United Kingdom	Consumer Staples	2.3
				18.8

Exposures as at 30 December 2016

Longs %	Shorts %	Gross Exposure %	Net Exposure %
77.8 (77.9)	35.8 (36.9)	113.6 (114.8)	42.0 (41.0)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Austria	2.2	2.1
Belgium	1.4	-0.1
Canada	1.6	1.0
Finland	1.9	-1.9
France	7.4	7.3
Germany	23.3	9.2
Ireland	1.1	1.1
Italy	2.5	0.8
Netherlands	2.9	-2.0
Norway	5.3	5.3
Spain	1.7	-1.7
Switzerland	4.1	-4.1
UK	45.4	26.0
US	9.3	-1.4
Other	3.5	0.4

Market Cap	Gross%	Net%
>£2bn	29.7	9.3
£700m - £2bn	24.3	-3.9
£200m - £700m	42.3	19.9
<£200m	17.3	16.7

Positions	Dec	Nov
Long	90	92
Short	70	72
Longs Opened	1	5
Longs Closed	3	4
Shorts Opened	6	4
Shorts Closed	8	8

Sector	Gross%	Net%
Consumer Discretionary	30.9	18.5
Consumer Staples	8.4	-1.9
Energy	0.8	0.6
Financials	17.2	10.8
Health Care	5.0	4.2
Industrials	16.7	4.7
Information Technology	23.1	1.6
Materials	6.1	4.1
Telecommunication	3.9	0.4
Utilities	1.5	-1.5
Other	0.0	0.5

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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