Ennismore European Smaller Companies Fund

Investor Newsletter for the month of January 2017

Issued on 13 February 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 370m as at 31st January. Total assets under management by Ennismore Fund Management were GBP 612m. 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 31 January 2017

	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]	**117.91**	**137.27**	**19.92**	**19.66**	**19.72**			
Period	% Change					% Change		
January 17	**1.2**	**0.6**	**1.2**	**0.7**	**0.7**	**1.8**	**1.4**	**-0.3**
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
2017 to date	**1.2**	**0.6**	**1.2**	**0.7**	**0.7**	**1.8**	**1.4**	**-0.3**
Annualised return[5]	**14.8**	**13.5**	**12.1**	**11.9**	**12.0**	**9.8**	**8.5**	**3.9**
Since launch[5]	**1101.4**	**874.7**	**99.2**	**96.6**	**97.2**	**440.6**	**337.6**	**98.2**
	Discrete 12 Month Rolling Performance - % Change							
To 31 January 17	13.4	0.7	13.4	3.2	3.1	28.1	13.8	12.4
To 31 January 16	12.9	11.2	12.8	11.1	11.1	6.8	5.3	-4.0
To 31 January 15	4.5	14.1	4.6	12.5	12.5	0.6	9.8	11.2
To 31 January 14	20.1	25.3	20.2	24.6	24.4	23.5	28.8	13.0
To 31 January 13	14.8	11.3	14.7	12.0	11.9	22.3	18.6	17.5

[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 1.2% in January. Our long book contributed 2.5% while the Fund's short exposure cost 1.0%. The largest contribution came from JD Sports, which added 0.7% to NAV. The company issued a strong trading update, guiding that profits for the current year would exceed market expectations by up to 15%. Brainjuicer added 0.4% after updating the market that operating profit increased nearly 40% in 2016, well ahead of expectations. Finally, Conviviality added 0.4% to NAV after releasing robust results, in line with our expectations.

Hornbach Holding & Hornbach Baumarkt – German DIY retailer (combined 1.0% of NAV)

We first wrote about Hornbach Holding back in August 2013. What we said back then still holds – we believe Hornbach continues to be the best run DIY operator in Germany, delivering 'everyday low prices' with the most knowledgeable staff in the market and great marketing, a mix that drives market share gains almost every year. This growth is financed extremely conservatively, with the company owning the vast majority of its stores, which are on the balance sheet well below their fair value. We think now is a good time to write about it again for several reasons. Firstly, we expect profits to grow over the next several years. After years of investing in its online business, these investments are set to stabilise in 2017. Secondly, the shares continue to trade at a discount to tangible book value, despite the conservative valuation given to its properties. Finally, the dividend payout was increased to 30% in 2016, so the shares now yield 2.5%.

We sold most of our position in 2014 after the shares increased 40% and we became increasingly wary that online would put pressure on margins. As it turned out, despite healthy revenue growth from 2012 to 2015, profits remained flat at around EUR 138m, as investments into its online shop increased from EUR 22m in 2013 to around EUR 60m in the current year. The good news is that we think Hornbach will have a market share that's even higher online than in physical stores, so it will benefit from the continued channel shift. Even better, management is confident that the cost of these investments will stabilise in 2017 which, given all key regions are now supported, we think is realistic. With the shares back at the level we originally bought at in 2013, we were recently able to rebuild our position. We believe operating profit will return to sustainable growth going forward and that Hornbach will continue to take market share for many years to come. Indeed, the company has delivered a strong first nine months in 2016, and we expect the company to generate revenues of around EUR 3,900m and operating profit of around EUR 160m for the full year. While the competitive environment in Germany remains tough, we wouldn't be surprised to see another player exit the market (Praktiker exited in 2013), which would further benefit Hornbach. While the pre-tax return on capital, at 7-8%, is lower than most of our investment companies, this largely reflects the decision to own most of its own stores. If it had a similar store ownership mix to most of its peers, its return on capital would be a good deal higher.

We believe that the market significantly undervalues Hornbach's real estate. The Hornbach Holding entity has a market capitalisation of EUR 1.0bn and net debt of EUR 440m. Its shares trade at a 10% discount to the tangible book value of EUR 1.1bn. However, its owned stores are on its balance sheet at a large discount to their market value. Two recent real estate transactions involving Hornbach DIY stores valued them at 16 times and 21 times its rent. Whilst 21 times is too high (this relates to properties in Switzerland), we think the 16 times paid by Hahn Group for six stores in Germany and one in Sweden is a good benchmark for the overall portfolio. If the owned property on the balance sheet was valued at this ratio of 16 times, Hornbach's tangible book value would be EUR 2.2bn. In other words, given the market cap is EUR 1bn, we think investors can buy Hornbach for less than half of the fair value of its tangible assets.

The shares fell 25% when the company issued a profit warning in December 2015, just two months after it placed some shares. Whilst we understand shareholders' disappointment, we think the reaction was excessive. We believe Hornbach is extremely cheap and that the negative sentiment towards it will fade away as profits expand again. Based on our forecast for 2017, Hornbach is valued at eight and half times its operating profit. This is far too low considering the significant hidden value in the asset base and the improved growth outlook. We think a multiple of ten times its expected 2018 operating profit of around 180m is reasonable and see upside of more than 30% for the next twelve months.

Top Five Holdings as at 31 January 2017

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	7.0
2	Vib Vermoegen	Germany	Financials	3.9
3	Conviviality	United Kingdom	Consumer Staples	2.7
4	Oslo Bors	Norway	Financials	2.7
5	Cegedim	France	Health Care	2.6
				18.9

Exposures as at 31 January 2017

Longs %	Shorts %	Gross Exposure %	Net Exposure %
76.7 (77.8)	38.3 (35.8)	115.0 (113.6)	38.4 (42.0)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 31 January 2017

Country	Gross%	Net%
Austria	2.3	1.8
Belgium	1.4	0.0
Canada	1.6	1.0
Finland	1.8	-1.8
France	6.4	6.3
Germany	22.7	8.1
Ireland	1.2	1.2
Italy	2.5	0.9
Netherlands	2.9	-1.9
Norway	5.2	5.2
Spain	1.7	-1.7
Switzerland	4.3	-4.3
UK	47.2	25.9
US	10.2	-2.6
Other	3.6	0.3

Market Cap	Gross%	Net%
>£2bn	32.0	8.3
£700m - £2bn	22.3	-4.5
£200m - £700m	44.9	21.1
<£200m	15.8	13.5

Positions	Jan	Dec
Long	92	90
Short	76	70
Longs Opened	5	1
Longs Closed	3	3
Shorts Opened	9	6
Shorts Closed	3	8

Sector	Gross%	Net%
Consumer Discretionary	30.9	17.8
Consumer Staples	8.8	-1.6
Energy	0.2	-0.2
Financials	16.6	10.0
Health Care	5.2	4.3
Industrials	17.3	4.9
Information Technology	23.6	1.3
Materials	6.0	3.8
Telecommunication	4.9	-0.4
Utilities	1.5	-1.5
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