Ennismore European Smaller Companies Fund

Investor Newsletter for the month of February 2017

Issued on 8 March 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 369m as at 28th February. Total assets under management by Ennismore Fund Management were GBP 615m. 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 February 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]	**117.67**	**137.81**	**19.88**	**19.71**	**19.78**			
Period			% Change				% Change	
February 17	**-0.2**	**0.4**	**-0.2**	**0.3**	**0.3**	**2.5**	**3.0**	**2.8**
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
2017 to date	**1.0**	**1.0**	**1.0**	**0.9**	**1.0**	**4.4**	**4.4**	**2.4**
Annualised return[5]	**14.7**	**13.4**	**11.9**	**11.8**	**11.9**	**9.9**	**8.7**	**4.0**
Since launch[5]	**1098.9**	**878.6**	**98.8**	**97.1**	**97.8**	**454.3**	**350.6**	**103.6**
	Discrete 12 Month Rolling Performance - % Change							
To 28 February 17	10.1	0.5	10.1	2.3	2.3	29.2	18.2	17.7
To 29 February 16	19.7	11.5	19.7	12.1	12.1	3.1	-4.4	-11.2
To 28 February 15	0.8	14.5	0.8	12.6	12.6	-0.9	12.8	12.6
To 28 February 14	17.6	22.8	17.6	22.1	21.9	27.7	33.3	17.5
To 28 February 13	14.7	11.5	14.7	12.2	12.1	18.8	15.6	13.6

[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 fell by 0.2% in February. Our long book contributed 2.0% while the Fund's short exposure cost 1.7%. Cello Group added 0.4% to NAV following a well-received capital raise, partly to fund an acquisition. Conviviality also contributed 0.4% to NAV. Our short position in Oriflame detracted 0.9% of NAV after its capital markets day pushed the valuation up further.

MTU Aero Engines Gmbh (1.0% of NAV)

MTU Aero Engines Gmbh ("MTU") does what it says on the tin. It makes aeroplane engines. These are usually built by a consortium of manufacturers, led by one of the big three (GE, Rolls Royce and Pratt & Whitney), with each member contributing specialist capabilities and owning a percentage of the economics. MTU is present on a number of engine platforms but we can get a very good idea of its value looking at only two. The first is the well-established V2500 engine, which mostly powers Airbus's A320 family of narrow body planes. The second is its replacement, the PW1000G. One is nearing the end of commercial production. From here maintenance and spare parts business will be a very predictable and hugely profitable cash cow for at least 20 years. The other is just starting but for a number of reasons looks set to be much larger and more profitable over its lifetime. This combination of predictable cashflow from one and significant growth potential from the other, combined with a c. 50% pre-tax return on operating assets, makes MTU attractive.

Successful engine models have attractive economics over the long run but they burn cash while they are being developed (a new engine can cost USD 2-3bn to develop). Once in production they are sold at close to zero margin. It is only several years on, as they come into shop for maintenance and spare parts in particular, that the engine makers generate positive cash flow. The V2500 is a very successful engine. There are around 6,000 flying today and this is expected to peak at around 7,000 in the next couple of years. The average remaining life of those engines is close to 20 years. Most have yet to have their first shop visit and may make four over their lifetime. MTU ended 2016 with about EUR 2bn in maintenance revenue ("MRO"), mostly from this engine. They make an 8-10% margin on this. This income – around EUR 150m a year pre-tax from V2500 MRO work - will grow for most of the next decade then decline slowly. It is highly predictable, mostly under fixed price contracts. That is nice work but the real profits come from spares. MTU has spare parts sales today of about EUR 1.5bn, of which we estimate around EUR 650m is for this engine. The company has guided for this revenue to grow materially up to 2025, implying a peak of over EUR 1.5bn. The margin on spares is very high – around 50%. The V2500 will generate a huge amount of cash over the next ten years and a lot more for at least another ten after that. We estimate it could be worth EUR 4-5bn in today's money.

The V2500's success is closely linked to Airbus's A320 which has become the dominant single aisle aircraft used for short-haul flights. Its replacement, the PW1000G, should be much more profitable for MTU over its life time for several reasons. Firstly, air travel is forecast to grow at a mid-single digit rate for the next 20 years. Secondly, narrow body planes will deliver more of this growth than long-haul planes, because increased demand is more from flights within continents and because narrow bodies are being used more for long haul. Thirdly, Airbus's A320 is expected to take more like 60% share of the narrow body duopoly this generation, compared to a more even split during the V2500's production life. So far the A320neo has 5,069 orders to 3,449 for Boeing's 737 MAX. You can already see this growth in MTU's order book – in October 2016 they had more PW1000G engines on order than there are installed V2500s. By 2020 they forecast production will be double the peak V2500 run rate. Fourthly, MTU expects 70-80% of the PW1000G fleet to be under OEM maintenance contracts compared to 60% for the V2500 so it will make more service margin per engine. And finally, MTU owns an 18% stake in the PW1000G platform compared to 16% for its predecessor (economically even less as they have an earn-out on a 5% stake acquired from Rolls Royce in 2011). For all of these reasons PW1000G engines on the A320 look set to provide MTU with significant growth over the lifetime of the platform.

MTU's total market capitalisation is around EUR 6bn with net debt about EUR 850m (including deferred payments) and a pension deficit of similar size. The dividend yield is c. 2%. 2017 guidance is for operating profit of about EUR 550m, up nearly 10%, with similar stable, predictable growth expected for most of the next decade. By 2025 we think operating profit could be EUR 1.5bn. That is not a forecast. We can't predict the future that accurately, but we don't need to. If we are only half right about the rate of MTU's profit growth we should still make a good return on our investment.

Top Five Holdings as at 28 February 2017

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	6.2
2	Vib Vermoegen	Germany	Financials	4.1
3	Conviviality	United Kingdom	Consumer Staples	3.0
4	Oslo Bors	Norway	Financials	2.8
5	Cegedim	France	Health Care	2.6
				18.7

Exposures as at 28 February 2017

Longs %	Shorts %	Gross Exposure %	Net Exposure %
77.8 (76.7)	40.7 (38.3)	118.5 (115.0)	37.1 (38.4)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 28 February 2017

Country	Gross%	Net%
Austria	2.8	1.3
Belgium	1.6	0.2
Canada	1.5	1.0
Finland	1.6	-1.6
France	5.7	5.6
Germany	23.9	8.0
Italy	3.1	1.4
Luxembourg	1.3	0.4
Netherlands	2.9	-1.8
Norway	5.5	5.5
Spain	1.8	-1.8
Switzerland	4.9	-4.9
UK	48.0	26.4
US	9.8	-3.6
Other	4.1	1.0

Market Cap	Gross%	Net%
>£2bn	31.9	7.4
£700m - £2bn	22.3	-4.6
£200m - £700m	47.0	19.0
<£200m	17.3	15.3

Positions	Feb	Jan
Long	93	92
Short	74	76
Longs Opened	5	5
Longs Closed	4	3
Shorts Opened	0	9
Shorts Closed	2	3

Sector	Gross%	Net%
Consumer Discretionary	31.9	17.5
Consumer Staples	10.1	-2.2
Energy	0.2	-0.2
Financials	17.6	10.7
Health Care	4.9	4.0
Industrials	18.0	5.2
Information Technology	23.9	0.6
Materials	5.7	2.8
Telecommunication	5.2	-0.3
Utilities	1.0	-1.0
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