Ennismore European Smaller Companies Fund

Investor Newsletter for the month of June 2017

Issued on 7 July 2017

Fund Details

Daily dealing UCITS and Irish Central Bank regulated open-ended investment company with Financial Conduct Authority recognition and registered in Ireland. The Fund size was GBP 381m as at 30th June. Total assets under management by Ennismore Fund Management were GBP 632m. Our funds are 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 June 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]	**121.90**	**138.83**	**20.60**	**19.97**	**20.03**			
Period			**% Change**				**% Change**	
June 17	**-0.6**	**-1.4**	**-0.5**	**-1.2**	**-1.2**	**-1.8**	**-2.4**	**-2.3**
May 17	2.2	-1.2	2.2	-0.6	-0.6	5.5	1.9	2.6
April 17	1.0	2.7	1.0	2.4	2.4	3.1	4.5	1.5
March 17	0.9	0.7	0.9	0.8	0.7	2.3	2.5	3.5
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
2017 to date	**4.6**	**1.7**	**4.6**	**2.3**	**2.2**	**14.1**	**11.1**	**7.9**
Annualised return[5]	**14.7**	**13.2**	**11.9**	**11.4**	**11.4**	**10.3**	**8.9**	**4.2**
Since launch[5]	**1142.0**	**885.8**	**106.0**	**99.7**	**100.3**	**506.1**	**379.7**	**114.6**
			Discrete 12 Month Rolling Performance - % Change					
To 30 June 17	11.3	5.4	11.4	7.2	7.1	31.9	25.5	20.2
To 30 June 16	16.5	-0.7	16.5	1.7	1.7	9.2	-7.2	-5.8
To 30 June 15	5.2	18.9	5.2	16.2	16.1	2.9	16.1	7.0
To 30 June 14	16.8	25.0	16.9	23.7	23.6	24.0	32.7	20.2
To 30 June 13	18.4	11.8	18.4	13.1	13.1	31.0	23.4	18.8

[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 fell by 0.6% in June. Our long book cost 1.3% while the Fund's short exposure contributed 0.6%. JD Sports detracted 1.3% of NAV as the shares fell despite issuing a solid trading update confirming the company was on track to meet full year expectations. We believe JD Sports is undervalued and have been adding to our position. Kongsberg Automotive added 0.3% to NAV and our short position in Oriflame also contributed 0.3%.

Piteco – Italian software provider (1.3% of NAV)

Piteco is the leader in treasury management software (TMS) for corporate cash management and financial planning in Italy, where it has achieved a high market share in a relatively unpenetrated market. The company recently entered the US, another under penetrated market, via an acquisition. Piteco listed in July 2015 and with a market cap of EUR 95m, goes largely unnoticed by most investors. We believe this is the main reason why the shares are modestly valued for a company with undisputed market leadership, a superior product offering which translates into virtually zero customer churn and sizeable additional growth opportunities both domestically and overseas.

Piteco's proprietary software suite is composed of more than 20 modules, can be integrated with many software platforms (e.g. Oracle, SAP, Microsoft etc.) and can be customized according to customer needs. Customers typically buy between 4 and 6 modules initially, adding more after becoming more familiar with the product and usually achieve a payback on their investment in Piteco's products in under a year. Customers are typically companies with over EUR 100m in revenues and within this customer base, churn is very low at about 1%. This is mainly driven by customers being acquired or bankruptcies, rather than a switch to competition. Piteco's main competitors are spreadsheets: many companies do not use a TMS, and Piteco currently only works with about a quarter of the circa 2500 potential target customers they have identified in Italy. The company's market share in Italy within corporates using a TMS is about 70-80%. This very strong market position has deterred international competitors; some have tried to enter the space but were only able to acquire a very small number of customers. The strength of its competitive positioning is clearly reflected in the financials of the company: in 2016 Piteco reached an operating profit margin of 38% and a free cash flow conversion on operating profit of 78%. In addition its capital light model allows the company to generate excellent returns, with a reported 78% pre-tax return on invested capital excluding the goodwill created when Dedagroup originally acquired the business. The company's dividend for 2016 implied a pay-out of 60% and a yield of circa 3%. In April 2017 Piteco acquired Juniper Payments, a company that offers a proprietary digital payment network to 3,500 US banks. The acquisition price was set to USD 13m for a 55% interest, which implies a multiple of 12.4x last year's profits before tax. Juniper is a high recurring revenue business with interesting growth opportunities both in terms of new customer and the range of services it offers, which we think will translate in significantly higher profits thanks to the operating leverage of the business. We believe the acquisition is a major strategic move as it will also allow Piteco to use this platform to sell its cash management and financial planning software to the corporate customers of the US banks that are part of the network. Furthermore, the company is currently setting up a network of overseas distributors, and should be able to benefit from the distribution network of its main shareholder Dedagroup, a software conglomerate linked to the Podini family.

We like the fact that Piteco is a family-owned business with the Podini family holding 64% of the equity. Management is well aligned with shareholders, with top management holding 9% of the equity. When we initially met the company one year ago, we were very impressed by the business but wary about the targeted expansion in the US through an acquisition. This concern has eased dramatically post the Juniper acquisition, with a high quality business acquired at a reasonable price. We participated in the recent share placement when the Podini family sold circa 9% of the company. With an increased free float of over 27%, Piteco now meets the requirements to move to the main market, which we think will provide a good catalyst for many investors to start looking at this undiscovered story. After the acquisition of Juniper, we expect Piteco to move from a net cash position of about EUR 2m at the end of 2016 to a small net debt position of around EUR 3m by the end of 2018E. With a market cap of only EUR 95m, the shares are trading on 15x 2018E enterprise value to operating profits after tax and on a 6.5% 2018E free cash flow yield. Given the recurring revenue profile of Piteco and the strong profitability, cash flow and returns the company generates, we believe a more appropriate multiple for the shares would be 20x 2018E enterprise value to operating profits after tax. This would imply an upside of more than 35% over the next 18 months.

Top Five Holdings as at 30 June 2017

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	4.7
2	Vib Vermoegen	Germany	Real Estate	3.8
3	Oslo Bors	Norway	Financials	3.1
4	Cegedim	France	Health Care	3.0
5	Cello Group	United Kingdom	Consumer Discretionary	2.8
				17.4

Exposures as at 30 June 2017

Longs %	Shorts %	Gross Exposure %	Net Exposure %
79.4 (83.7)	46.1 (46.4)	125.5 (130.1)	33.3 (37.3)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 30 June 2017

Country	Gross%	Net%
Australia	1.4	0.7
Austria	3.0	0.5
Belgium	1.5	-0.3
Canada	1.3	0.5
France	6.5	6.4
Germany	29.9	9.0
Italy	5.2	4.2
Netherlands	3.9	-3.0
Norway	6.8	5.9
Spain	1.9	-1.9
Sweden	1.3	0.2
Switzerland	5.5	-5.0
UK	45.4	19.3
US	10.1	-3.9
Other	1.8	0.7

Market Cap	Gross%	Net%
>£2bn	34.3	-1.3
£700m - £2bn	22.6	-2.1
£200m - £700m	50.6	21.0
<£200m	18.0	15.7

Positions	Jun	May
Long	91	93
Short	84	82
Longs Opened	2	4
Longs Closed	4	5
Shorts Opened	7	6
Shorts Closed	5	5

Sector	Gross%	Net%
Consumer Discretionary	35.2	15.8
Consumer Staples	10.4	-3.4
Energy	0.1	-0.1
Financials	7.0	1.8
Health Care	6.5	3.2
Industrials	18.6	7.0
Information Technology	27.2	1.0
Materials	5.1	3.8
Real Estate	8.4	5.2
Telecommunication	6.2	-0.2
Utilities	0.8	-0.8
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