

Ennismore European Smaller Companies Fund

Investor Newsletter for the month of July 2017

Issued on 4 August 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 389m as at 31st July. Total assets under management by Ennismore Fund Management were GBP 645m. 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 31 July 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	125.23	140.03	21.16	20.21	20.27			
Period	% Change					% Change		
July 17	2.7	0.9	2.7	1.2	1.2	2.8	0.7	0.6
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	7.5	2.6	7.5	3.5	3.5	17.3	12.0	8.6
Annualised return ⁵	14.7	13.2	12.2	11.4	11.5	10.4	8.9	4.2
Since launch ⁵	1175.9	894.3	111.6	102.1	102.7	523.1	383.2	115.9
Discrete 12 Month Rolling Performance - % Change								
To 31 July 17	12.9	6.3	12.9	8.1	8.0	27.1	19.7	16.3
To 31 July 16	15.9	-2.6	15.8	0.1	0.2	13.2	-5.5	-6.2
To 31 July 15	7.0	19.8	7.0	17.3	17.2	10.2	24.0	13.8
To 31 July 14	13.8	25.8	13.9	23.8	23.5	10.3	21.7	11.5
To 31 July 13	24.3	11.5	24.2	13.8	13.7	42.4	27.9	22.2

¹Source: Administrator, Net Asset Value. ²Source: Administrator, Net Asset Value, net income reinvested. ³Source: Bloomberg, Euromoney (formerly HSBC) Smaller European Total Return Index. ⁴Source: Bloomberg, MSCI Europe Index, local currencies, total return. ⁵Since 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 2.7% in July. Our long book contributed 3.5% while the Fund's short exposure was flat. Kongsberg Automotive added 0.4% to NAV as Q2 results showed good revenue and profit growth. Renk also contributed 0.4% following speculation that VW and MAN SE were progressing on plans to divest the business. There were no significant detractors over the period.

JD Sports – European Sports Fashion Retailer (5.2% of NAV)

We have owned shares in JD Sports since 2008 and since then the company has been a stellar performer with operating profits up over 350% and the stock rising 700%. The share price has recently come down, as after a long period of consistently upgrading earnings management issued an inline trading statement. In reality we think this still means the business is seeing a healthy mid-single digit like-for-like growth in sales and good profit growth. As we took advantage of this recent fall to add to our position in the fund for the first time for circa three years we thought it was worth reaffirming why we own the stock.

JD Sports is the dominant UK retailer in the sports fashion segment, and is now building on a strong operating model and excellent supplier relationships to expand internationally. Sports fashion accounts for around 90% of revenue and all of the company's profit. The chain is very well positioned at the premium end of the market and benefits from increasing demand for athleisure products. In recent years this has become a broad based trend but most importantly for JD Sports, younger people consistently want the must-have athleisure clothes and trainers, perhaps reinforced by the rise of social media. This has helped JD to achieve double digit like-for-like growth over the last three years in stores and even stronger growth online.

JD Sports' early decision to focus on the higher end of the market has led to strong relationships with the dominant brands such as Nike & Adidas, who provide them with a significant amount of exclusive product as well as access to new products ahead of other retailers. As a result JD Sports has become the go-to chain for customers seeking high-fashion sports footwear and clothing. Most importantly, its premium positioning means JD Sports does not suffer from aggressive discounting by mass market operators, notably Sports Direct, or online discount retailers who offer a very different product range. This creates a virtuous circle as product differentiation has helped JD Sports to grow, encouraging key suppliers to favour them more. Although the big brands do sell direct to consumers we believe their key focus is on

product development as opposed to retailing, and partners such as JD are crucial to that strategy. This strong relationship has also formed the basis for a strong international business which is now around 25% of sales. JD Sports is the preferred retail partner for many suppliers to grow in new geographies, and they are rolling out stores in most parts of Europe with the aim to dominate the sports fashion category in the same way as in the UK. Recently they have also opened a few stores in Malaysia with a local partner as well as entering Australia. We would hope they enter a larger, more developed Asian market over the next 12 months. Last financial year the sports fashion division delivered like-for-like growth of over 10% and grew operating profits by around 50% to circa GBP 245m. Over the next few years we believe that JD Sports has significant profit growth potential as it strengthens its position within Europe, and lays the foundations for further international expansion.

The remaining 10% of revenue comes from the outdoor division. This is showing signs of improvement and the GBP 125m acquisition of Go Outdoors combined with the Blacks chain makes JD Sports the UK market leader with revenue of around GBP 350m. We are unsure whether this segment can be turned into a high single digit margin business, but see the potential as well as the benefits of access to certain outdoor brands for the main division.

The company is led by a stable team of Executive Chairman Peter Cowgill and Finance Director Brian Small. Peter Cowgill has been instrumental in the strategic positioning of JD and has a material shareholding in the company. We were happy to see both add to their holdings following the recent share price weakness.

JD Sports's market valuation now sits at GBP 3.5bn with around GBP 215m of net cash at January 2017. This compares to our expectation of revenues of c. GBP 2.9bn, operating profit of GBP 285m for the year to January 2018 and a post-tax return on invested capital of circa 30%. We value the business at 18 times operating profits after tax, given its unique offering, increasing competitive moat plus the potential to expand into other markets, and see upside of over 40% in the next 18 months.

Top Five Holdings as at 31 July 2017

Company	Country	Sector	% of NAV
1 Jd Sports	United Kingdom	Consumer Discretionary	5.2
2 Vib Vermoegen	Germany	Real Estate	3.8
3 Oslo Bors	Norway	Financials	3.2
4 Cegedim	France	Health Care	3.2
5 Kongsberg Auto	Norway	Consumer Discretionary	2.8
			18.2

Exposures as at 31 July 2017

Longs %	Shorts %	Gross Exposure %	Net Exposure %
77.4 (79.4)	50.5 (46.1)	127.9 (125.5)	26.9 (33.3)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%	Market Cap	Gross%	Net%	Sector	Gross%	Net%																			
Australia	1.2	0.5	>£2bn	35.2	-3.4	Consumer Discretionary	37.5	16.9																			
Austria	3.0	0.5	£700m - £2bn	31.4	-0.1	Consumer Staples	8.3	-6.7																			
Belgium	1.4	-0.2	£200m - £700m	42.3	12.6	Energy	0.1	-0.1																			
Canada	1.1	0.3	<£200m	19.0	17.8	Financials	7.1	1.9																			
France	6.6	6.5	<table><tr><th>Positions</th><th>Jul</th><th>Jun</th></tr><tr><td>Long</td><td>88</td><td>91</td></tr><tr><td>Short</td><td>86</td><td>84</td></tr><tr><td>Longs Opened</td><td>2</td><td>2</td></tr><tr><td>Longs Closed</td><td>5</td><td>4</td></tr><tr><td>Shorts Opened</td><td>5</td><td>7</td></tr><tr><td>Shorts Closed</td><td>3</td><td>5</td></tr></table>	Positions	Jul	Jun	Long	88	91	Short	86	84	Longs Opened	2	2	Longs Closed	5	4	Shorts Opened	5	7	Shorts Closed	3	5	Health Care	7.1	2.7
Positions	Jul	Jun																									
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Shorts Closed	3	5																									
Germany	31.1	8.8	Industrials	18.0	7.2																						
Italy	5.1	4.6	Information Technology	29.9	-2.7																						
Netherlands	3.9	-2.9	Materials	4.9	3.6																						
Norway	7.4	6.2	Real Estate	8.2	5.2																						
Spain	2.0	-2.0	Telecommunication	6.0	-0.3																						
Sweden	1.2	0.3	Utilities	0.8	-0.8																						
Switzerland	7.6	-7.1	Other	0.0	0.0																						
UK	45.1	15.7																									
US	9.4	-4.9																									
Other	1.8	0.6																									

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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For dealing please contact:	Northern Trust International Fund Administration Services (Ireland) Ltd	+353 (0) 1 434 5103	Ennismore_TA_Queries@ntrs.com

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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.

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