Ennismore European Smaller Companies Fund

Investor Newsletter for the month of February 2018

Issued on 8 March 2018

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 376m as at 28th February. Total assets under management by Ennismore Fund Management were GBP 620m. 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 28 February 2018

	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]	**124.15**	**140.25**	**20.98**	**20.21**	**20.27**			
Period	**% Change**					**% Change**		
February 18	**-0.8**	**-1.8**	**-0.8**	**-1.8**	**-1.8**	**-2.0**	**-3.2**	**-3.5**
January 18	-2.0	-0.7	-2.0	-0.7	-0.7	0.5	2.0	1.1
December 17	2.6	1.8	2.6	2.0	1.9	3.1	2.1	1.0
November 17	0.4	-0.1	0.3	0.0	0.0	-1.7	-2.1	-1.7
October 17	-1.2	-0.8	-1.2	-0.9	-0.8	1.0	1.6	2.1
September 17	-1.2	3.4	-1.3	2.6	2.5	-0.2	4.3	2.7
2018 to date	**-2.8**	**-2.5**	**-2.7**	**-2.5**	**-2.5**	**-1.5**	**-1.2**	**-2.5**
Annualised return[5]	**14.2**	**12.8**	**11.0**	**10.5**	**10.5**	**10.2**	**8.8**	**4.2**
Since launch[5]	**1164.9**	**895.9**	**109.8**	**102.1**	**102.7**	**539.9**	**401.8**	**119.2**
	Discrete 12 Month Rolling Performance - % Change							
To 28 February 18	5.5	1.8	5.5	2.5	2.5	15.4	11.4	7.7
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

[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 0.8% in February. Our long and short books cost 0.4% and 0.2% respectively. Etsy contributed 0.4% to NAV, after reporting a continued acceleration in revenue growth for Q4. Integrafin added 0.4% following its stock market debut during the month. UP Global Sourcing detracted 0.3% after warning that profits would fall short of expectations. Our short positions in a German software company and UK semiconductor company both detracted 0.5%.

Gesco – German investment holding company (0.9% of NAV)

Gesco is an investment company which acquires and owns small German-based industrial businesses. It currently has 18 subsidiaries organised across 4 segments and generated revenues of EUR 483m and operating profits of EUR 22m for the fiscal year ending March 2017. We have followed the company for a number of years but aside from a small investment in 2011 which was sold in 2012, we remained on the side-lines as we believed operating issues in different subsidiaries persistently hampered profit progression. The arrival of new management in early 2016 however, signalled to us that Gesco was taking clear steps to reinvent itself. When the company sought a capital increase to partly finance an acquisition in March 2017, we took the opportunity to invest in the business once again. We now believe the combination of operational improvement and further acquisitions could yield substantial upside for shareholders.

Gesco's strategy has been consistent since its foundation in 1989. Put simply, it acquires excellent companies in the German Mittelstand that are "hidden champions" with proven market and technological leadership in their respective niche areas. For example, in 2004, Gesco bought Setter, the global leader in paper sticks used for lollipops and cotton buds which has grown its market share from 25% to 80% since acquisition. A more recent purchase, Pickhardt & Gerlach, is the cost leader in strip steel processing, which is reinvesting its superior returns to gain share in a fragmented market. For vendors of target companies, a sale to Gesco offers a solution to management succession issues and with its reputation for being a good long-term owner, Gesco is an attractive acquirer versus a trade buyer or private equity. As a result, Gesco is often the preferred buyer and can purchase assets at very attractive prices, typically paying around 8 times operating profits.

Since new management arrived in 2016, we have seen their more proactive approach beginning to improve shareholder returns. The disposal of Protomaster in 2017 shows that Gesco is more actively managing its portfolio and willing to exit when companies have weaker prospects. There is also a clear shift in management style, from a hands-off approach to one which allows for initiatives to improve the performance of individual subsidiaries, whilst not compromising their independence and entrepreneurialism. So far, this has led to a more controlled approach to business strategy and investment and a greater emphasis on cash generation and returns. The company is targeting a sustainable operating margin of 8% over a business cycle by 2022 and with margins already at 7.3%, we are confident this will be achieved ahead of schedule and could well be exceeded. Gesco has also increased transparency to external shareholders and increased efforts to identify and acquire two to three companies per year. This in turn will benefit from the greater focus on cash generation, making the company less dependent on equity issuance to finance acquisitions. After paying out 40% of net profits in dividends, we expect the business to be able to internally finance EUR 20m of acquisitions and add circa 5% to profits annually. Although we were somewhat disappointed by the recent announcement regarding the departure of the current CEO Dr. Bernhard, we are excited about the prospects of Gesco and communications from the company suggest that a successor with a strong industrial background has already been found to ensure this continues.

Management guidance for the fiscal year ending March 2018 has been conservative and after upgrading guidance twice this year, we expect Gesco will report numbers ahead of expectations. For the fiscal year ended March 2019, we expect modest organic growth, translating to revenues (excluding those from acquisitions) of more than EUR 560m and operating profit of circa EUR 45m, surpassing the company's target margin of 8%. Based on our assumptions, with a market capitalisation of EUR 320m and net debt of EUR 90m, Gesco has an enterprise value of nine times operating profits for March 2019. We think this is too cheap and valuing the company on eleven times operating profit for March 2019, we see 30% upside over the next 12 months. This excludes acquisitions and provided Gesco can continue to source excellent acquisition opportunities in the German Mittlestand, there is clear scope for further upside.

Top Five Long Holdings as at 28 February 2018

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	6.3
2	Cegedim	France	Health Care	3.9
3	Costain	United Kingdom	Industrials	3.4
4	Kongsberg Auto	Norway	Consumer Discretionary	3.4
5	Oslo Bors	Norway	Financials	3.1
				20.1

Exposures as at 28 February 2018

Longs %	Shorts %	Gross Exposure %	Net Exposure %
80.5 (74.7)	51.7 (49.8)	132.2 (124.5)	28.8 (24.9)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 28 February 2018

Country	Gross%	Net%
Australia	1.6	0.6
Austria	3.9	-0.6
Belgium	1.2	-0.3
France	6.5	4.2
Germany	33.0	6.0
Hong Kong	1.4	-1.4
Italy	3.9	3.5
Netherlands	3.2	0.3
Norway	7.6	7.6
Spain	0.7	-0.7
Sweden	1.5	1.1
Switzerland	5.3	-5.3
UK	50.4	14.4
US	9.6	0.1
Other	2.4	-0.7

Market Cap	Gross%	Net%
>£2bn	39.6	4.7
£700m - £2bn	33.2	-10.0
£200m - £700m	41.1	19.8
<£200m	18.3	14.3

Positions	Feb	Jan
Long	94	86
Short	82	81
Longs Opened	8	3
Longs Closed	0	3
Shorts Opened	9	11
Shorts Closed	8	5

Sector	Gross%	Net%
Consumer Discretionary	38.8	15.8
Consumer Staples	8.0	0.5
Energy	0.8	-0.8
Financials	11.1	4.3
Health Care	6.2	3.7
Industrials	21.4	5.0
Information Technology	28.7	-6.9
Materials	4.3	3.4
Real Estate	9.8	2.5
Telecommunication	3.1	1.3
Utilities	0.0	0.0
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