

Ennismore European Smaller Companies Fund

Investor Newsletter for the month of August 2013

Issued on 10 September 2013

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 246m as at 30th August. Total assets under management by Ennismore Fund Management were GBP 299m. 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 August 2013

	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	79.58	93.35	13.44	13.31	13.38			
Period	% Change					% Change		
August 13	1.2	4.0	1.2	3.5	3.4	-1.3	1.2	-1.5
July 13	2.8	0.6	2.8	0.9	1.0	8.1	5.8	5.9
June 13	-0.9	-1.2	-0.8	-1.1	-1.1	-3.6	-3.8	-5.0
May 13	1.8	0.9	1.8	1.1	1.1	4.2	3.2	2.5
April 13	-0.9	-1.1	-0.9	-1.0	-1.1	1.7	1.4	1.9
March 13	1.5	3.4	1.5	3.0	3.0	-1.8	0.2	0.9
2013 to date	15.5	9.9	15.6	11.0	10.9	21.4	15.6	10.7
Annualised return ⁵	15.4	13.8	12.0	11.7	11.9	9.0	7.5	3.0
Since launch ⁵	710.8	562.9	34.4	33.1	33.8	251.8	186.4	53.8

¹Source: Administrator, Net Asset Value. ²Source: Administrator, Net Asset Value, net income reinvested. ³Source: Bloomberg, 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.

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 August. Our long book contributed 2.7% while the Fund's short exposure cost 0.8%.

The share price of our largest holding, German professional network Xing, went up 37% in August adding 2.0% to NAV. The company reported second quarter results which showed faster top line growth coming from both its core paying membership and the increasingly significant recruitment subscriptions. Towards the end of the month Bloomberg also reported rumours of an imminent bid from US peer LinkedIn. We have no idea whether there is anything to this but have always thought that a buyout would eventually make sense for both companies.

Portfolio Activity

Figures in brackets refer to previous month end; * = positions > 0.5% of NAV.

As at 30th August the Fund was invested in 77 (79)* stocks.

Hornbach Holding - German DIY retailer (0.9% NAV)

Hornbach is a leading European DIY retailer with operations in Germany (c.60% of revenue) and several other European markets including Austria, the Netherlands and the Czech Republic. It was the first DIY retailer in Europe to adopt the big box megastore, over 40 years ago, and today it has the largest average store size of all European DIY retailers. It is still controlled and run by the founding family who think long-term. To quote CEO Albrecht Hornbach: "we do not think in terms of quarters, but rather on a timescale of generations". The long view has paid off with annual revenue growing from EUR 132m at the IPO in 1987 to EUR 3,239m last year, all organically. Despite operating in a very competitive German DIY market, which has been oversupplied with DIY retail space for many years, Hornbach has been able to generate a decent pre-tax return on net operating assets of around 15% on average (excluding its freehold real estate). This is, we believe, the product of scale across a very homogenous store network and integrated logistics, providing a sustainable cost advantage, and a clear value proposition to customers (including us) with an everyday low price guarantee on all products in store and online. Consumer surveys reflect the loyalty the Hornbach brand has built and like for like sales ahead of the market by an average of 2% a year speak for themselves. As a result, Hornbach has the highest sales per square metre of all the German DIY retailers. There are some signs

that the competitive environment in Germany will improve in future, with one of the largest players (Praktiker) filing for insolvency this year, but it seems clear that Hornbach can continue to deliver for shareholders even without this.

We think the market is substantially underestimating the intrinsic value of Hornbach, probably in part due to its complex capital and ownership structure (it has multiple share classes to protect family control and a listed subsidiary for the operating business that is partially owned by Kingfisher, the largest European DIY retailer). With a market capitalization of EUR 870m and an enterprise value EUR 1,240m, the company is valued at nine times last year's operating profit, in what was a relatively weak year for end demand. We estimate underlying cash earnings (after tax), adjusted for expansion and exceptional costs, were more like EUR 117m putting the shares on a multiple of seven and a half times. Assuming some improvement in its main markets from here, we expect the underlying cash earnings yield to increase above 15%. Looking at the balance sheet Hornbach's low valuation is even more obvious. On stated tangible book value the shares trade at a small discount but if we adjust the real estate assets (most of their stores are owned) to fair value, which is estimated in the annual report, the discount to tangible book increases above 30%. Valuing the freehold assets on a reasonable commercial yield of 7% implies a discount of more like 40%. While we don't expect a change in Hornbach's shareholder structure we are happy to be invested in a high quality company, with such a long track record of organic growth, at a reasonable valuation of earnings and a large discount to tangible book value. We believe fair value is at least ten times our forecast 2014 operating profit of EUR 160m - which would only value the company at its underlying tangible book value - giving the shares upside of close to 40% over the next 12 months.

Top Five Holdings as at 30 August 2013

Company	Country	Sector	% of NAV
1 Xing	Germany	Information Technology	7.2
2 Vib Vermoegen	Germany	Financials	4.9
3 Sto	Germany	Materials	4.4
4 Home Retail	United Kingdom	Consumer Discretionary	3.6
5 Oslo Bors	Norway	Financials	3.4
			23.5

Exposures as at 30 August 2013

Longs %	Shorts %	Gross Exposure %	Net Exposure %
88.1 (91.2)	30.7 (29.4)	118.8 (120.6)	57.4 (61.8)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 30 August 2013

Country	Gross%	Net%	Market Cap	Gross%	Net%	Sector	Gross%	Net%
Austria	1.6	1.6	>£2bn	2.5	-1.6	Consumer Discretionary	35.0	16.6
Belgium	2.3	1.1	£700m - £2bn	32.0	5.0	Consumer Staples	1.4	-1.4
Bermuda	2.0	0.7	£200m - £700m	45.4	20.8	Energy	4.1	1.2
Denmark	2.0	1.7	<£200m	38.9	33.2	Financials	15.2	12.1
France	5.5	5.0				Health Care	3.8	0.6
Germany	32.0	26.6				Industrials	17.7	12.4
Ireland	2.2	2.2				Information Technology	26.4	9.1
Italy	6.2	2.7				Materials	9.7	9.7
Norway	4.0	4.0				Telecommunication	3.6	-1.0
Spain	1.2	-1.2				Utilities	1.9	-1.9
Sweden	3.1	-0.8				Other	0.0	0.0
Switzerland	7.3	0.5						
UK	40.8	14.6						
US	4.8	-1.1						
Other	3.8	-0.2						

Geographic analysis relates to country of incorporation or listing. This may not represent the underlying economic exposure of the operating business. Sector analysis is based on the Global Industry Classification Standard ("GICS"). Source: Bloomberg.

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