

# Ennismore European Smaller Companies Fund

## Investor Newsletter for the month of March 2015

Issued on 14 April 2015

### 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 278m as at 31<sup>st</sup> March. Total assets under management by Ennismore Fund Management were GBP 341m. 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 March 2015

	Share Class <sup>2</sup>					HSBC Index <sup>3</sup>		MSCI Index <sup>4</sup>
	GBP A £	GBP A €	GBP B	EUR A	EUR B	GBP	EUR	(local)
NAV per Share <sup>1</sup>	89.31	123.44	15.09	17.23	17.30			
Period	% Change					% Change		
March 15	0.0	0.3	0.0	0.2	0.3	1.5	1.8	1.3
February 15	-3.1	0.3	-3.1	0.3	0.2	5.3	9.2	6.1
January 15	-0.7	2.6	-0.7	2.1	2.1	2.5	5.9	3.9
December 14	-0.2	2.4	-0.1	1.9	1.9	-1.5	1.0	-2.1
November 14	2.0	0.4	2.0	0.7	0.7	3.9	2.3	3.7
October 14	0.8	0.3	0.9	0.4	0.4	-1.7	-2.4	-1.6
2015 to date	-3.8	3.2	-3.8	2.6	2.6	9.6	17.8	11.6
Annualised return <sup>5</sup>	14.6	14.4	10.3	14.0	14.1	9.3	9.0	4.3
Since launch <sup>5</sup>	810.0	776.5	50.9	72.3	73.0	322.5	305.9	97.3
	Discrete 12 Month Rolling Performance - % Change							
To 31 March 15	-2.1	11.9	-2.0	10.0	10.0	0.7	15.1	14.7
To 31 March 14	19.2	21.9	19.2	21.7	21.5	29.8	32.8	15.7
To 31 March 13	16.4	14.7	16.4	15.0	15.0	17.6	16.1	14.9
To 31 March 12	4.3	10.8	4.4	9.1	9.6	-13.1	-7.9	-4.5
To 31 March 11	21.5	22.4	N/A	N/A	N/A	16.1	17.0	5.4

<sup>1</sup>Source: Administrator, Net Asset Value. <sup>2</sup>Source: Administrator, Net Asset Value, net income reinvested. <sup>3</sup>Source: Bloomberg, HSBC Smaller European Total Return Index. <sup>4</sup>Source: Bloomberg, MSCI Europe Index, local currencies, total return. <sup>5</sup>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 didn't change in the month. Our long book contributed 1.8% while the Fund's short exposure cost 1.3%. The main contributions came from Sto and Asos, with both adding 0.5% to NAV, and a short in a UK payments company, which added 0.4% to NAV. Sto announced a capital return and increased guidance, and Asos released a positive trading update. The worst performer was our short in Quindell, which cost the fund 1.3% after it was reported that Slater & Gordon would acquire its legal services business. While the performance of this short has been extremely disappointing this year, overall it was profitable for the fund with Quindell's shares down over 75% from where we initially sold them a year ago.

### Non-Standard Finance - UK financial services (1.0% of NAV)

Non-Standard Finance is an acquisition vehicle whose strategy is to expand into the UK specialist lending sector. It recently raised GBP 98m (net of fees) by listing on the London Stock Exchange, giving us the opportunity to back a quality management team that includes Chairman John van Kuffeler, who led Provident Financial for 22 years as CEO and Chairman. Under van Kuffeler's tenure, Provident Financial's share price increased by 4400%, an annualised return of 19%. van Kuffeler believes there is a large opportunity in the specialist consumer lending market at the moment, partially because increased regulation is creating a need for more reputable companies in the sector. Specialist consumer lending can be highly and sustainably profitable when it is run in an organised, ethical way with a sensible business model. Mainstream lenders typically avoid the segment due to the number of small niches, each with its own risk profile and characteristics. This means good quality companies can earn supernormal profits by lending in these niches without attracting a lot of competition. This is evident in Provident Financial, which has generated an average return on equity of more than 30% over the last 10 years.

The management's reputation gives Non-Standard Finance an important advantage: regulation is key to the sector and the company will be seen as a good owner by the Financial Conduct Authority. This is particularly important as any change in ownership of an FCA-authorised company requires its approval, which acts as a barrier to entry for some prospective entrants. The company's board has already identified around 20 interesting companies and is targeting

businesses which can grow loans by 20% per annum, charge average annual interest rates of 50-100% and a lean cost base (50% cost to income ratio maximum). It is targeting a return on equity of 20% to 30%, which we believe is achievable by enhancing the operations of any acquisition, for example by improving management information systems and accelerating growth in capital constrained companies. Based on its current capital base this implies a net profit of around GBP 20m to GBP 30m in the future, which should allow regular dividends.

The initial focus for the company is likely to be on four subsectors within non-standard unsecured lending, a GBP 70bn market: 1) guaranteed consumer loans, whereby a borrower's loan is typically guaranteed by a friend or family member who is generally a home owner; 2) unsecured, low value loans of GBP 200 to GBP 600 to low income or sub-prime borrowers over one to three years; 3) rent to own, a facility that allows individuals, who wouldn't be able to finance the purchase through traditional means, to buy durables via weekly instalments; 4) home collected credit - low value loans with weekly instalments that are physically collected (a segment Provident Finance currently leads with around two-thirds of the market).

The executive management team is aligned with shareholders through a 2.5% stake, which will grow if certain targets are met. After the IPO, the net cash on the balance sheet is GBP 98m and costs are budgeted to be GBP 1m in the first year, before any acquisitions have been made. We are happy for management to be patient for the right opportunities. With a market capitalisation of GBP 114m, it trades on a price to earnings ratio of just four to six times its targeted future profits, giving the stock significant upside.

### Top Five Holdings as at 31 March 2015

Company	Country	Sector	% of NAV
1 Jd Sports	United Kingdom	Consumer Discretionary	5.6
2 Vib Vermoegen	Germany	Financials	5.2
3 Sto	Germany	Materials	3.5
4 Oslo Bors	Norway	Financials	3.3
5 4Imprint Group	United Kingdom	Consumer Discretionary	2.6
			<b>20.2</b>

### Exposures as at 31 March 2015

Longs %	Shorts %	Gross Exposure %	Net Exposure %
72.3 (70.6)	43.1 (45.0)	115.4 (115.6)	29.2 (25.6)

Figures in brackets refer to previous month end.

### Exposures by Country, Market Cap & Sector as % NAV and Positions as at 31 March 2015

Country	Gross%	Net%	Market Cap	Gross%	Net%	Sector	Gross%	Net%
Austria	1.0	1.0	>£2bn	18.9	-9.5	Consumer Discretionary	35.1	21.7
Bermuda	1.7	1.7	£700m - £2bn	29.3	2.5	Consumer Staples	6.9	-2.1
France	8.5	8.4	£200m - £700m	43.4	18.5	Energy	0.0	0.0
Germany	27.3	5.6	<£200m	23.8	17.7	Financials	18.9	7.7
Italy	3.2	2.4				Health Care	7.9	2.2
Luxembourg	1.5	-1.5				Industrials	13.0	1.7
Netherlands	2.1	-0.9				Information Technology	25.1	-6.6
Norway	6.6	6.6				Materials	4.7	4.7
Poland	1.4	-1.4				Telecommunication	2.6	1.1
Spain	1.0	0.6				Utilities	1.2	-1.2
Sweden	4.6	-3.2				Other	0.0	0.0
Switzerland	2.9	-2.9						
UK	42.1	18.5						
US	8.6	-5.5						
Other	2.9	-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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## Appendix – 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.

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