

# Ennismore European Smaller Companies Fund

## Investor Newsletter for the month of August 2016

Issued on 8 September 2016

### 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 357m as at 31<sup>st</sup> August. Total assets under management by Ennismore Fund Management were GBP 440m. 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 August 2016

	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>	113.50	133.47	19.17	19.04	19.11			
Period	% Change					% Change		
August 16	2.3	1.3	2.3	1.9	1.9	1.9	1.2	1.2
July 16	1.3	0.0	1.3	0.3	0.3	6.7	5.6	4.0
June 16	2.3	-5.8	2.4	-4.9	-4.8	0.1	-7.9	-2.0
May 16	-1.2	1.0	-1.3	0.6	0.6	1.5	3.5	1.8
April 16	0.4	1.8	0.4	1.5	1.5	0.4	1.5	1.5
March 16	0.9	-0.8	0.9	-0.5	-0.5	5.0	3.8	1.9
February 16	2.8	0.6	2.8	1.2	1.2	1.6	-0.9	-1.9
January 16	2.2	-1.3	2.2	-0.7	-0.7	-5.3	-8.3	-4.9
2016 to date	11.5	-3.4	11.5	-0.8	-0.8	12.1	-2.6	1.3
Annualised return <sup>5</sup>	14.9	13.6	12.3	12.2	12.3	9.6	8.3	3.6
Since launch <sup>5</sup>	1056.4	847.8	91.7	90.4	91.1	399.4	308.5	87.8
	Discrete 12 Month Rolling Performance - % Change							
To 31 August 16	17.6	1.1	17.6	3.9	3.9	18.2	1.2	2.2
To 31 August 15	6.6	15.7	6.6	13.9	13.9	6.2	15.8	3.7
To 31 August 14	13.7	22.2	13.8	20.8	20.7	13.1	21.8	15.2
To 31 August 13	22.7	14.2	22.7	15.9	15.7	35.4	25.7	17.7
To 31 August 12	-0.8	10.5	-0.8	7.8	8.3	-3.6	7.7	11.4

<sup>1</sup>Source: Administrator, Net Asset Value. <sup>2</sup>Source: Administrator, Net Asset Value, net income reinvested. <sup>3</sup>Source: Bloomberg, Euromoney (formerly 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 increased by 2.3% in August. Our long book contributed 4.0% while the Fund's short exposure cost 1.2%. On the long side, Market Tech, Etsy and 4Imprint were the biggest positive contributors, each adding 0.3% to NAV. Etsy and 4Imprint both released solid results in the month. The biggest negative attribution was from our short in Oriflame, which cost the fund 0.7%, after the market reacted positively to its Q2 results. We continue to believe it is significantly overvalued and remain short.

### CPL Resources - Irish Recruitment (1.1% of NAV)

CPL Resources is the leading recruitment consultant in Ireland, where it generates more than 70% of its EUR 70m Net Fee Income (NFI). We have invested in CPL in the past, writing about it back in April 2009. We ultimately sold it in early 2014 - at a price 30% higher than today's. The company continues to perform well, having grown operating profits by more than 15% since we sold, and it has built its cash balance even further. It continues to be excellently led by the CEO and main shareholder, Anne Heraty, who has navigated CPL through all sorts of economic conditions. We are confident that will continue, even if the Irish economy does suffer from Brexit as the share price now implies.

We think CPL is a good business. The business consistently generates after-tax returns on capital of over 20% due to its asset light nature. Although overall barriers to entry are not as high as in some industries, scale does give CPL the ability to consistently and quickly fill posts for clients, and to finance the temporary wage book, which smaller players struggle with. This generates goodwill with clients - who tend to be very sticky as a result - as well as enabling it to bid for large public sector framework contracts. This can be seen in how CPL tends to increase market share when the market suffers. Today it has a market share in Ireland of over 15%, up from 12% in 2009.

Fee income is split between permanent recruitment (40%) and temporary placement and outsourcing services (60%). Since the peak in 2008 there has been pressure on the NFI margins on temporary contracts, which has held back net fee income

growth. Encouragingly, this now looks to have troughed with recent results showing an increase. We expect margins to further increase as new business is written on improved terms. Momentum is solid, with current organic growth in the high single digits. Recruitment companies are obviously economically cyclical but the Irish economy is in good health with GDP expected to grow by 5% this year, despite potential ill effects from Brexit. Brexit could even be a positive for it – foreign companies may choose Ireland over the UK to access English speaking personnel within the EU. However, if there was a downturn in the economy, the 60% exposure to the resilient sectors of Pharma, Healthcare and Information Technology will help. Its exposure to the UK is largely in the Healthcare sector, which again is relatively defensive. We love that the CEO is so aligned with shareholders, still owning over 30% of the equity. With over EUR 33m in net cash, after generating over EUR 10m in free cash flow last year, we would hope for further one-off capital returns, as occurred five years ago, and accretive bolt-on acquisitions. In the meantime CPL progressively grows its dividend and it currently has a 2% yield. The market capitalisation is EUR 163m, implying an enterprise value of EUR 130m. This compares to our forecasted operating profit of over EUR 16m for the year to June 2017 and an average operating profit of over EUR 12m p.a. for the past 10 years, during which it has always been profitable. Given the management alignment, good return on capital, business quality and long-term track record, we prudently value the business on 13 times operating profit after tax. This leads to upside of around 35% over the next 18 months.

### Top Five Holdings as at 31 August 2016

Company	Country	Sector	% of NAV
1 Jd Sports	United Kingdom	Consumer Discretionary	6.3
2 Vib Vermoegen	Germany	Financials	4.1
3 Oslo Bors	Norway	Financials	2.6
4 4Imprint	United Kingdom	Consumer Discretionary	2.6
5 Cegecim	France	Health Care	2.5
			<b>18.1</b>

### Exposures as at 31 August 2016

Longs %	Shorts %	Gross Exposure %	Net Exposure %
75.1 (72.0)	36.8 (36.3)	111.9 (108.3)	38.3 (35.7)

Figures in brackets refer to previous month end.

### Exposures by Country, Market Cap & Sector as % NAV and Positions as at 31 August 2016

Country	Gross%	Net%	Market Cap	Gross%	Net%	Sector	Gross%	Net%
Austria	2.7	2.2	>£2bn	26.7	4.0	Consumer Discretionary	27.2	17.3
Canada	1.7	0.9	£700m - £2bn	22.4	-4.5	Consumer Staples	11.2	-4.7
Finland	1.3	-1.3	£200m - £700m	43.6	22.5	Energy	0.7	0.7
France	7.3	7.0	<£200m	19.2	16.3	Financials	18.2	12.8
Germany	19.2	7.8				Health Care	4.0	3.4
Ireland	2.3	2.2				Industrials	16.5	0.3
Italy	2.6	0.8				Information Technology	24.6	4.4
Netherlands	3.3	-2.0				Materials	6.6	4.7
Norway	6.1	6.1				Telecommunication	1.9	0.4
Spain	2.1	-2.1				Utilities	1.0	-1.0
Sweden	1.3	-1.2				Other	0.0	0.0
Switzerland	6.7	-6.5						
UK	45.3	23.5						
US	7.0	-0.8						
Other	3.0	1.7						

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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