

Ennismore European Smaller Companies Fund

Investor Newsletter for the month of September 2016

Issued on 11 October 2016

Important Notice - Revised Prospectus

The Ennismore European Smaller Companies Fund (the "Fund") is a sub-fund of Ennismore Smaller Companies PLC (the "Company"). The Company issued an amended Prospectus on 8 September 2016 together with a Supplement relating to the creation of a second sub-fund, the Ennismore Global Equity Fund, which launched on 3 October 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 361m as at 30th September. Total assets under management by Ennismore Fund Management were GBP 443m. The Fund is 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 September 2016

	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	115.32	133.30	19.48	19.09	19.16			
Period	% Change					% Change		
September 16	1.6	-0.1	1.6	0.3	0.3	3.4	1.4	0.4
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	13.3	-3.5	13.3	-0.5	-0.5	15.9	-1.3	1.7
Annualised return ⁵	15.0	13.6	12.4	12.1	12.2	9.7	8.4	3.7
Since launch ⁵	1075.0	846.6	94.8	90.9	91.6	416.2	314.1	88.6
	Discrete 12 Month Rolling Performance - % Change							
To 30 September 16	18.9	1.3	18.9	4.4	4.4	24.5	6.3	7.0
To 30 September 15	7.3	13.5	7.3	12.2	12.2	8.1	13.9	-0.3
To 30 September 14	11.8	19.9	11.8	18.6	18.5	5.2	13.0	10.9
To 30 September 13	24.7	18.8	24.7	20.1	20.0	35.7	29.4	20.6
To 30 September 12	-0.7	7.4	-0.6	5.1	5.8	11.3	20.0	18.2

¹Source: Administrator, Net Asset Value. ²Source: Administrator, Net Asset Value, net income reinvested. ³Source: Bloomberg, Euro money (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 1.6% in September. Our long book contributed 3.0% while the Fund's short exposure cost 1.0%. JD Sports was our biggest contributor in the month, adding 0.9% to NAV. It continues to perform well, having released strong interim results with operating profit up 70%. Our short in Oriflame cost us 0.6%, although there was no news of note.

IGE-XAO - French software provider (1.4% of NAV)

IGE-XAO produces computer-aided-design (CAD) software for electrical engineers. Across an increasingly diverse group of industries - from airplanes to power plants, ships to office blocks - IGE's software is used to design, maintain and test complex electrical wiring systems. It is based in France, where it generates around 70% of its sales. Half of its sales are from recurring maintenance contracts, with the remainder from new license sales and service revenue.

With a market capitalisation of EUR 108m, it easily falls below the radar screen of most investors. In fact, we've never seen a research note on it. Yet we think IGE is a classic example of a hidden champion. It dominates the market in France, with a roughly 70% market share, and it has a 10% global market share, despite having a limited presence in many countries. Customer switching costs are about as high as it gets. When you design a product with its software, you need to keep using the software for the life of that product. This is because you must refer back to the software when trying to diagnose any problems or make amendments to the product. A competitor's software just won't work. Given that the life of IGE's customers' products is very long (think of a ship or aeroplane), the customers are locked in for many years. The engineers themselves use the software every day, and most have been using the software for years, making them highly resistant to any change. IGE gives the software for free to universities in France to help perpetuate this. As a result,

renewal rates are in the high 90-percentage range. There are also network effects at work – when Renault designs a car with the software, its suppliers need to as well.

IGE's cost base of EUR 21m, which includes EUR 7m of R&D, is highly fixed, so even when economic conditions mean revenue growth is a fairly mundane 4-5% – like today – operating profit growth can be much higher. Between 2010 and 2015, when revenue grew by 5% per annum, the operating profit increased by an impressive 12% per annum. If the frugality we saw in the head office in Toulouse is anything to go by, we expect cost inflation will remain low. While revenue growth is currently mid-single-digits, we wouldn't be surprised to see growth accelerate as IGE expands into the huge American and Asian markets. America in particular has a dearth of specialist electrical CAD software, and is largely served by add-ons from the large CAD players such as AutoDesk. However, these lack the electrical engineering focus of IGE's software. The early signs in these markets are good, with sales doubling in 2015, increasing from 2% to 4% of sales, although they remain largely untapped markets.

We last wrote about IGE in July 2014. Since then, IGE has arguably become even cheaper. While the share price has increased by 20%, there has been double-digit growth in operating profit and the company's cash has continued to grow. Indeed the multiple of enterprise value to operating profit after-tax has actually declined from 12.5 times to 12 times. We have accordingly increased our position, which is now around 7% of the company. There is over EUR 30m of cash on the balance sheet, nearly one-third of the market cap. The cash balance, while excessive, does provide good downside protection. It also reflects the conservatism of the CEO, who owns 10% of the business and manages it very carefully. In the past, the company has bought back shares, and we expect this to be resumed. In the meantime, the dividend yield is roughly 1.5%, and we're encouraging the CEO to increase it. For a business that has grown operating profits by 9% per annum over the last decade, with no down years and cash conversion of 100%, it is far too cheap. Looking out two years, and using a more appropriate seventeen times operating profit after-tax, we see upside of nearly 50%, and even more if the company buys back shares. More importantly, we expect to own this business at an attractive return for many years to come.

Top Five Holdings as at 30 September 2016

Company	Country	Sector	% of NAV
1 Jd Sports	United Kingdom	Consumer Discretionary	7.1
2 Vib Vermoegen	Germany	Financials	4.3
3 Oslo Bors	Norway	Financials	2.7
4 Cegedim	France	Health Care	2.5
5 Kongsberg Auto	Norway	Consumer Discretionary	2.3
			18.9

Exposures as at 30 September 2016

Longs %	Shorts %	Gross Exposure %	Net Exposure %
77.6 (75.1)	39.8 (36.8)	117.4 (111.9)	37.8 (38.3)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 30 September 2016

Country	Gross%	Net%	Market Cap	Gross%	Net%	Sector	Gross%	Net%
Austria	2.5	2.1	>£2bn	30.6	5.7	Consumer Discretionary	29.4	16.3
Canada	2.0	0.3	£700m - £2bn	24.0	-4.9	Consumer Staples	11.1	-3.5
Finland	1.7	-1.7	£200m - £700m	45.5	20.6	Energy	1.2	0.8
France	7.0	6.7	<£200m	17.4	16.4	Financials	18.5	12.4
Germany	20.0	7.4				Health Care	4.1	3.0
Ireland	2.5	2.1				Industrials	16.0	1.7
Italy	3.3	1.4				Information Technology	25.5	3.6
Netherlands	3.4	-2.3				Materials	6.7	4.3
Norway	6.9	6.9				Telecommunication	3.8	0.4
Spain	2.5	-2.5				Utilities	1.2	-1.2
Sweden	1.5	-1.2				Other	0.0	0.0
Switzerland	6.0	-6.0						
UK	46.5	24.6						
US	8.2	-1.6						
Other	3.5	1.6						

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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Risk Warning

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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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