Ennismore European Smaller Companies Fund

Investor Newsletter for the month of September 2017

Issued on 6 October 2017

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 391m as at 29th September. Total assets under management by Ennismore Fund Management were GBP 641m. 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 29 September 2017

	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]	**125.54**	**142.48**	**21.21**	**20.51**	**20.57**			
Period			% Change				% Change	
September 17	**-1.2**	**3.4**	**-1.3**	**2.6**	**2.5**	**-0.2**	**4.3**	**2.7**
August 17	1.5	-1.6	1.5	-1.0	-1.0	2.1	-0.8	0.1
July 17	2.7	0.9	2.7	1.2	1.2	2.8	0.7	0.6
June 17	-0.6	-1.4	-0.5	-1.2	-1.2	-1.8	-2.4	-2.3
May 17	2.2	-1.2	2.2	-0.6	-0.6	5.5	1.9	2.6
April 17	1.0	2.7	1.0	2.4	2.4	3.1	4.5	1.5
March 17	0.9	0.7	0.9	0.8	0.7	2.3	2.5	3.5
February 17	-0.2	0.4	-0.2	0.3	0.3	2.5	3.0	2.8
January 17	1.2	0.6	1.2	0.7	0.7	1.8	1.4	-0.3
2017 to date	**7.7**	**4.4**	**7.7**	**5.0**	**5.0**	**19.6**	**15.9**	**11.6**
Annualised return[5]	**14.6**	**13.2**	**11.9**	**11.4**	**11.4**	**10.4**	**9.0**	**4.4**
Since launch[5]	**1179.1**	**911.7**	**112.1**	**105.1**	**105.7**	**535.0**	**400.1**	**122.0**
			Discrete 12 Month Rolling Performance - % Change					
To 30 September 17	8.9	6.9	8.9	7.4	7.4	23.0	20.8	17.7
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

[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 1.2% in September. Our long book was flat while the Fund's short exposure cost 0.3%. On the long book, JD Sports added 0.8% to NAV as the company issued strong half year results. Kongsberg Automotive also contributed 0.3% of NAV. UP Global Sourcing cost 0.6% of NAV after issuing a cautious outlook for 2018 and Servelec also detracted 0.3% of NAV following weak first half results. Our short positions in a US-listed media company and German software company both detracted 0.3% of NAV respectively.

Sto – German building materials manufacturer (2.6% NAV)

We have been long term holders of Sto, which manufactures construction products such as paint and render as well as insulation systems. The stock has returned more than 20% p.a. since our initial investment in 2004 but is still exactly the kind of investment we look for – a business that is highly regarded in its own industry but overlooked by ours, trading at a very attractive valuation. The company has a highly fragmented customer base and benefits from a strong reputation among architects, builders and homeowners. We thought it was worth writing on Sto again because, whilst the company faced some headwinds in 2016, it has quickly recovered from them, highlighting to us the core strengths of the business and the attractiveness of an investment which relies on self-help rather than favourable market conditions.
Since our last comment on Sto in 2013 it has benefited from the recovering activity in construction markets across Europe, although this has been somewhat offset by reduced demand for external wall insulation in Germany where the market is below its 2012 peak. As a result of the weaker end market, the company reduced its financial guidance in 2016, and whilst revenues came in flat at EUR 1230m, operating profit fell from EUR 82m in 2015 to EUR 70m. In response, Sto has reduced costs, and refocused sales activities towards products with the most future growth potential. Whilst detail on the restructuring plan has been limited, principally because a fear of local media attention often deters family businesses from sharing information on restructuring measures, we are impressed by the results to date. In the first half of 2017 the business grew revenues 6.6%, gaining share in a weak market without cutting prices. Personnel expenses grew at just 1.9%, resulting in operating profit increasing 67.5% to EUR 32m – Sto's second best result ever. Given Sto is the leader in its domestic German market and overseas markets such as France and Austria, we believe that its broad product offering,

direct access to customers and innovative product solutions are enabling the company to outperform competitors. We have also seen peers exit the market and the uncertainty regarding demand for insulation products in Germany will continue to deter new entrants and allow Sto to use its strong financial position to consolidate the market. We believe that guidance for full year revenues of EUR 1268m and an operating profit of between EUR 80m and EUR 90m is conservative and that Sto will achieve the upper end if not surpass this. In the medium term, we see a company which can achieve its revenue target of EUR 2bn in 2022 through a combination of organic growth and bolt-on acquisitions and improve operating margins from 7% to its 10% target and its return of capital employed from 18% in 2017 to over 20%.
Sto's current market capitalisation is EUR 790m and the company has a strong balance sheet – we estimate EUR 160m in net cash for the current year end. Including the company's EUR 93m pension liabilities in the enterprise value, Sto is currently valued at just eight times our estimate for this year's operating profit. We believe this is too cheap for a high quality, cash generative company, which based on our estimates offers a 4% dividend yield and history of returning excess capital to shareholders via special dividends. We see around 30% upside from current levels in the next twelve months and significantly more beyond if the company executes on its longer term plans.

Top Five Long Holdings as at 29 September 2017

	Company	Country	Sector	% of NAV
1	Jd Sports	United Kingdom	Consumer Discretionary	6.0
2	Vib Vermoegen	Germany	Real Estate	3.2
3	Kongsberg Auto	Norway	Consumer Discretionary	3.1
4	Cegedim	France	Health Care	3.1
5	Renk	Germany	Consumer Discretionary	2.8
				18.2

Exposures as at 29 September 2017

Longs %	Shorts %	Gross Exposure %	Net Exposure %
74.6 (74.3)	51.4 (52.8)	126.0 (127.1)	23.2 (21.5)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 29 September 2017

Country	Gross%	Net%
Australia	1.3	0.6
Austria	2.6	0.8
Belgium	1.1	-0.5
France	6.9	6.8
Germany	30.1	8.1
Hong Kong	1.7	-1.7
Italy	4.6	4.0
Netherlands	4.9	-3.9
Norway	7.1	6.5
Spain	1.7	-1.7
Sweden	2.2	0.2
Switzerland	6.3	-5.8
UK	44.9	12.2
US	9.1	-2.7
Other	1.5	0.3

Market Cap	Gross%	Net%
>£2bn	40.1	-6.5
£700m - £2bn	31.0	-1.7
£200m - £700m	35.9	15.0
<£200m	19.0	16.4

Positions	Sep	Aug
Long	85	86
Short	81	85
Longs Opened	3	4
Longs Closed	4	6
Shorts Opened	1	6
Shorts Closed	5	7

Sector	Gross%	Net%
Consumer Discretionary	40.9	14.1
Consumer Staples	8.8	-3.9
Energy	0.0	0.0
Financials	6.6	1.6
Health Care	5.6	3.7
Industrials	19.5	5.7
Information Technology	26.6	-4.0
Materials	4.1	3.4
Real Estate	7.8	3.7
Telecommunication	5.4	-0.4
Utilities	0.7	-0.7
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.

Ennismore Fund Management Limited, Kensington Cloisters, 5 Kensington Church Street, London, W8 4LD
Registered in England and Wales No. 3598371 Authorised and regulated by the Financial Conduct Authority