

Ennismore European Smaller Companies Fund

Investor Newsletter for the month of January 2015

Issued on 10 February 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 285m as at 30th January. Total assets under management by Ennismore Fund Management were GBP 350m. 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 January 2015

	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	92.16	122.66	15.57	17.14	17.21			
Period	% Change					% Change		
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
September 14	-0.2	1.6	-0.2	1.3	1.3	-3.7	-1.9	-0.2
August 14	1.1	1.0	1.1	1.0	1.1	1.2	1.2	1.8
2015 to date	-0.7	2.6	-0.7	2.1	2.1	2.5	5.9	3.9
Annualised return ⁵	15.0	14.5	11.6	14.4	14.5	9.0	8.4	3.9
Since launch ⁵	839.0	771.0	55.7	71.4	72.1	295.1	265.1	83.6
Discrete 12 Month Rolling Performance - % Change								
To 31 January 15	4.5	14.1	4.6	12.5	12.5	0.6	9.8	11.2
To 31 January 14	20.1	25.3	20.2	24.6	24.4	23.5	28.8	13.0
To 31 January 13	14.8	11.3	14.7	12.0	11.9	22.3	18.6	17.5
To 31 January 12	7.3	10.8	7.4	9.2	9.9	-14.8	-12.3	-8.0
To 31 January 11	20.8	22.4	N/A	N/A	N/A	22.4	24.2	13.2

¹Source: Administrator, Net Asset Value. ²Source: Administrator, Net Asset Value, net income reinvested. ³Source: Bloomberg, HSBC Smaller European Total Return 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 fell by 0.7% in January. Our long book contributed 1.0% while the Fund's short exposure cost 0.9%. Our investment in Vib Vermoegen was the largest contributor, adding 0.4% to NAV. Our investment in airline Flybe Group cost the Fund 0.5% after the airline gave a cautious outlook in its Q3 trading statement. The largest negative attribution came from our short in Quindell, which cost the fund 1.1%. The share price increased strongly on the back of speculation that it may sell its legal services business. We do not expect them to receive significant proceeds from selling this or any other asset.

Uzin Utz - German building products manufacturer (0.6% NAV)

Uzin Utz is a German manufacturer of floor treatment products, still run and majority owned by the founding Utz family. All of its products cater for the floor - whether you cover it with tiles, wood, carpets or PVC - and the majority of sales are adhesives and dry mortar. Founded in 1911 to serve its local market in Ulm, Germany, we estimate sales last year were around EUR 232m with nearly 60% coming from foreign markets. Uzin Utz has a market share of 15% in Europe, with 25% in Germany and 40% in the Netherlands (its second biggest market). While demand is closely linked to construction activity, around three-quarters is from less cyclical renovation.

We have followed the company for several years and have watched it continuously outperform its competitors. After spending time with the management team at their headquarters in Ulm, where they laid out the ingredients to the company's success, we started to invest. Uzin Utz's consistent growth has been built on a number of principles. Firstly, it focuses on premium products. Its superior quality is well-recognised amongst its loyal customers and it sells at a 10% premium on average. Secondly, it remains focused on its niche. Even though it competes with much larger companies such as Henkel, Sika or Mapei, these competitors are less focused and less innovative, and this has allowed Uzin Utz to take market share. Thirdly, the company protects its know-how. For instance, only a small number of people in the company know the formulas used to make its products, reducing the risk that a competitor acquires this knowledge. Finally, its employees show one of the highest satisfaction rates in Germany, with no unions to be seen. No employees

were laid off in the recession of 2009 and Uzin Utz was even able to boost its margin due to employee concessions, and revenues only slightly fell. This strikes us as good business: happier employees deliver better service. These ingredients have allowed it to enter new markets and gain market share in existing ones. Looking at its 1996 results is instructive: in 1996 it generated EUR 11m of sales outside of Germany; in 2014 that figure will be around EUR 130m. The company's growth outside of Germany is a great achievement, but it has come at a price. In 1996, Uzin Utz was able to generate operating margins of 12%, almost twice the level it achieved in 2013. We think that 2014 will mark a reversion of this trend as many of its international businesses have now achieved critical size. Management is focussed on profitable growth and its major investments are mostly done, having invested an average of EUR 20m in capital expenditure in each of the last three years (compared to an annual depreciation charge of around EUR 7m). The pre-tax return on capital employed has been around 10% in recent years but we expect that to increase back to historic levels of around 20% by 2017. For 2014 we expect operating profit to have been around EUR 16m, up almost 20%. In 2015, Uzin Utz should be able to achieve revenue growth of 7-8% with the operating margin expanding further, leading us to forecast an operating profit approaching EUR 20m. The company has a market capitalization of EUR 150m and an enterprise value of EUR 190m, implying an enterprise value of around nine and a half times this year's operating profit and a price to earnings multiple of thirteen times. Given the quality of the business and its long-term earnings potential we believe it is cheap compared to its intrinsic value. It has a consistent dividend policy to pay out 40% of earnings (we expect a yield of 3%), with dividends paid every year since the IPO in 1997. All of this comes together with good earnings quality, conservative management and accounting, and a valuation of just 1.3 times its book value. We like the family involvement – they are genuinely long-term and are happy to forgo short-term earnings to create value. We also think their limited marketing to investors and the relatively small free float are the key reasons why this great business has been overlooked by investors. We believe the shares have further upside of at least 30% over the next 12 months and are happy to partner the management team for the long-term.

Top Five Holdings as at 30 January 2015

Company	Country	Sector	% of NAV
1 Jd Sports	United Kingdom	Consumer Discretionary	5.8
2 Vib Vermoegen	Germany	Financials	5.0
3 Oslo Bors	Norway	Financials	3.7
4 Asos	United Kingdom	Consumer Discretionary	3.5
5 Sto	Germany	Materials	3.2
			21.2

Exposures as at 30 January 2015

Longs %	Shorts %	Gross Exposure %	Net Exposure %
70.3 (75.6)	36.3 (32.5)	106.6 (108.1)	34.0 (43.1)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 30 January 2015

Country	Gross%	Net%	Market Cap	Gross%	Net%	Sector	Gross%	Net%
Belgium	1.3	1.3	>£2bn	16.6	-3.3	Consumer Discretionary	34.5	25.2
Bermuda	1.3	1.3	£700m - £2bn	29.5	-0.4	Consumer Staples	4.2	0.2
France	8.5	8.4	£200m - £700m	37.4	19.3	Energy	0.0	0.0
Germany	24.8	5.9	<£200m	23.1	18.4	Financials	17.2	6.0
Italy	2.7	1.5				Health Care	6.7	2.2
Jersey	1.0	-1.0				Industrials	12.8	2.3
Netherlands	2.0	-0.8				Information Technology	23.9	-6.2
Norway	7.5	6.2				Materials	4.3	4.3
Poland	2.1	-2.1				Telecommunication	2.2	0.8
Spain	0.9	0.6				Utilities	0.8	-0.8
Sweden	2.9	-2.4				Other	0.0	0.0
Switzerland	2.8	-2.8						
UK	41.6	18.9						
US	5.1	-2.0						
Other	2.1	1.0						

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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