Ennismore European Smaller Companies Fund

Investor Newsletter for the month of March 2009

Issued on 6 April 2009

Fund Details

Daily dealing UCITS and Irish Financial Services Regulatory Authority regulated open-ended investment company with Financial Services Authority approval, registered in Ireland and listed on the Irish Stock Exchange. The Fund has an A S&P Fund Research Fund Rating. The Fund size was GBP 130m as at 31st March.

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.

The number of shares in the Fund is capped but some capacity is currently available. If you would like to subscribe please call Jo-Anne Osilalde on +44 (0) 20 7368 4227 or email subs@ennismorefunds.com. Redemptions can be made through the Administrator in the usual way.

Performance as at 31 March 2009

Period	GBP Fund NAV[1] Per Share	GBP Fund NAV[2] Per Share % Change	GBP HSBC Index[3] % Change	EUR Fund NAV[1] Per Share	EUR Fund NAV[2] Per Share % Change	EUR HSBC Index[3] % Change	MSCI Index[4] % Change
March 09	**46.06**	**-2.1**	**7.3**	**49.73**	**-5.9**	**2.6**	**3.7**
February 09	47.07	-1.6	-7.2	52.83	-1.9	-7.0	-9.1
January 09	47.85	-3.7	-6.5	53.83	4.7	0.9	-6.1
December 08	49.69	7.5	12.7	51.40	-8.1	-2.9	0.7
November 08	46.24	2.1	-4.1	55.92	-3.1	-8.0	-4.7
October 08	45.29	-7.6	-20.1	57.71	-7.2	-20.1	-13.5
September 08	49.00	-8.5	-17.4	62.18	-6.2	-16.0	-11.8
August 08	53.53	1.5	6.1	66.32	-1.0	3.5	2.5
Launch (27/01/99)	10.00			14.35			
1999	14.90	49.0	27.2	23.71	65.2	42.1	29.8
2000	20.21	35.7	-3.2	31.84	34.3	-4.7	-2.2
2001	20.52	1.5	-18.3	33.54	5.3	-15.6	-16.4
2002	21.49	6.2	-19.8	32.98	-0.3	-24.7	-29.4
2003	27.65	29.3	48.8	39.25	19.6	37.5	19.8
2004	34.15	23.5	24.6	48.24	22.9	24.4	12.2
2005	44.54	30.4	32.6	64.82	34.4	36.3	24.9
2006	48.28	8.4	30.5	71.66	10.6	33.2	19.1
2007	52.67	9.1	3.1	71.71	0.1	-5.5	6.0
2008	49.69	-5.7	-36.8	51.4	-28.3	-51.5	-38.9
2009 to date	**46.06**	**-7.3**	**-6.9**	**49.73**	**-3.2**	**-3.7**	**-11.5**
Annualised return[5]		**16.4**	**4.5**		**13.2**	**1.6**	**-1.5**
Since launch (27/01/99)		**369.3**	**57.1**		**253.1**	**17.9**	**-14.1**

[1] Source: Administrator, Net Asset Value. [2] Source: Administrator, Net Asset Value, net income reinvested. [3] Source: Bloomberg, HSBC Smaller European Total Return Index.
[4] Source: Bloomberg, MSCI Europe Index, local currencies, total return. [5] Since inception, to date. Note: All performance figures net of fees.

Comments below on performance are prior to expenses, exclude cash returns and refer to GBP unless otherwise stated.

The Fund's NAV fell by 2.1% in March. Our long book contributed 3.0% while the Fund's short exposure cost 5.9%.

On the long side the best contributions came from Kingspan and TGS Nopec, both adding 0.6% to the Fund's NAV. Kingspan reported 2008 results at the start of the month that were in line with its guidance given in November last year.

In general our short book performed poorly in March. Equity markets fell then rallied strongly during the month with highly leveraged companies, which have been massively de-rated over the past two years, rising sharply. A number of our short positions fall into this category but, importantly, we make a clear distinction between those that continue to generate positive cashflow, but are close to breaching banking covenants, and those that need additional financing to fund their operations. The former are, on the whole, increasingly likely to be treated favourably by the banks, under strong influence from governments. However, where companies are unable to generate positive cashflow for the foreseeable future we expect little value will remain for equity shareholders by the time economic conditions improve. These short positions will continue to be highly volatile but ultimately a business is only worth the cashflow it generates and in many cases this will prove to be less than the debt they owe.

The most disappointing contribution on the short side came from a position which exemplifies this latter case. The company provides a subscription-based consumer media service. Its share price more than doubled in March, costing the Fund 2.3%. In February it was able to raise additional financing from a trade investor, but only at the expense of massive dilution for existing investors. Even with this net debt is around ten times expected 2009 EBITDA with the business unlikely to become profitable for the foreseeable future, if ever.

Telegate – German directory assistance operator

Telegate provides telephone directory assistance (DA) services in Germany, Italy, France and Spain. The company is also developing an online classified directory in Germany. The DA business is a cash cow in steady structural decline, as consumers increasingly use the internet to find this kind of information. So far the company is doing a good job of maximising this income stream, partly by broadening the offering and partly by cutting costs. Adding more services, for example by putting callers through directly, increases average call times and hence mitigates the lower number of calls. This strategy allowed Telegate to upgrade its EBITDA expectations twice during 2008. On the cost side directory assistance is much less operationally geared than print directories as the main expenses are marketing, which is discretionary, and call centre costs, which are essentially variable with call volumes. While cashflows from the DA business are therefore likely to decline consistently in future they should remain substantial for several years, particularly when compared to the company's current valuation.

Telegate has a market valuation of EUR 162m. In addition to net cash of EUR 53m the company also has several outstanding compensation claims against Deutsche Telecom (DT) which historically overcharged DA operators for access to data. DT has already paid out on part of these claims and is appealing to the federal courts on others, having lost in the lower courts. It is difficult to estimate what further cashflow Telegate can expect to receive from these claims, or when it will be paid, but it will certainly be materially positive. Even without this, for an enterprise value of EUR 108m, you are buying a business with underlying free cashflow of about EUR 25m. While the DA income stream is declining Telegate has established a leading online directory in Germany. This was only breakeven in 2008 but continues to grow strongly, with revenue increasing organically by 40% last year and management seeing no sign of a downturn so far in 2009. Now, at almost 15% of group revenues, the online directory is approaching the scale needed to contribute positively to earnings as well.

Telegate is majority owned by Italian directories publisher Seat Pagine Gialle. Seat has well publicised cashflow problems and its stake in Telegate is an obvious sources of financing. This is reflected in a dividend yield of 9%. Taking all of its assets into account and conservatively assuming very little further compensation from DT, we believe Telegate is easily worth double its current share price. If the online directory develops profitably as well it could be worth considerably more again.

Top Five Holdings as at 31 March 2009

	Company	Country	Sector	% of NAV
1	TGS Nopec	Norway	Services	4.0
2	Sto	Germany	Construction	3.4
3	Atlantia	Italy	Transport	2.9
4	Trader Media East	Netherlands	Media	2.7
5	Kingspan	Ireland	Construction	2.3
				15.3

Exposures as at 31 March 2009

Longs %	Shorts %	Gross Exposure %	Net Exposure %
51.0 (50.4)	48.2 (42.5)	99.1 (92.8)	2.8 (7.9)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 31 March 2009

Country	Gross%	Net%
Denmark	2.0	-0.5
Finland	1.7	-1.7
France	7.7	-6.1
Germany	12.2	4.9
Ireland	3.5	3.4
Italy	5.2	2.6
Japan	2.2	-2.2
Netherlands	3.2	3.0
Norway	9.0	4.1
Spain	1.4	-1.4
Sweden	13.2	-4.9
Switzerland	5.7	-0.8
UK	20.3	3.0
US	6.9	-4.6
Other	4.9	4.0

Market Cap	Gross%	Net%
>£2bn	12.3	-3.8
£700m - £2bn	19.7	-18.5
£200m - £700m	31.4	2.3
<£200m	35.7	22.8

Sector	Gross%	Net%
Construction	10.4	4.6
Consumer	16.9	-10.2
Energy	6.2	-1.2
Financial	4.7	-0.9
Industrials	3.4	-1.6
Leisure	5.3	-3.3
Manufacturing	3.8	-0.8
Media	11.5	2.9
Medical	5.0	-3.6
Property	2.6	2.1
Retail	3.2	2.2
Services	6.3	5.8
Technology	8.6	3.9
Transport	3.9	3.3
Other	7.3	-0.4

The geographic analysis relates to country of incorporation or listing. This may not represent the underlying economic exposure of the operating business.

Portfolio Activity

Figures in brackets refer to previous month end; * = positions > 0.5% of NAV.

As at 31st March the Fund was invested in 60 (57)* stocks. The Fund's net exposure fell to almost zero during the month, driven largely by the strong rally in several of our short positions. We continue to believe a low net exposure is appropriate while the economic outlook remains so uncertain.

Outlook

Equity markets rallied strongly in March, apparently driven by some slightly better than expected economic data and more concerted political action. We are still cautious about investing while the economic outlook is so uncertain and expect markets to remain highly volatile, with forced selling by highly leveraged investors continuing. This should provide the perfect environment for value focussed investors who are willing and able to take a two to three year view. With no leverage and a broad shareholder base the Fund is in an excellent position to exploit this. We believe that the outlook for the Fund is promising.

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