Ennismore European Smaller Companies Fund

Investor Newsletter for the month of May 2009

Issued on 4 June 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 118m as at 31st May.

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 Osilade 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 May 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
May 09	**44.77**	**4.0**	**4.5**	**51.00**	**3.6**	**6.8**	**4.4**
April 09	43.06	-6.5	19.1	49.23	-1.0	23.1	12.8
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
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	**44.77**	**-9.9**	**15.7**	**51.00**	**-0.8**	**26.7**	**4.1**
Annualised return[5]		**15.8**	**6.7**		**13.3**	**4.3**	**0.1**
Since launch (27/01/99)		**356.2**	**95.4**		**262.1**	**55.1**	**1.2**

[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 refer to GBP NAV per share unless otherwise stated, exclude cash returns are prior to expenses.

The Fund's NAV increased by 4.0% in May. The long portfolio contributed 4.2% and the short book cost 0.1%.

The largest attribution on the long side came from Atlantia, adding 0.5%. The company reported Q1 09 results which were in line with expectations with traffic volumes having stabilised since November.

OHB Technology reported strong Q1 09 results with order backlog increasing to its highest ever level. The position contributed 0.2%.

Ideal Shopping, a UK teleshopping channel, contributed 0.3%. This is essentially a turnaround story with the firm's founders and main investors significantly increasing their shareholding and bringing in new management following two years of poor operating performance. The new management have also been buying shares.

Sto contributed 0.2% after announcing strong 2008 results and maintaining its 2009 guidance. This stock is covered in more detail in the comment below.

The main negative contribution (-0.3%) on the long side came from Trader Media East. The company reported very weak Q1 09 results as expected, reflecting the arrival of the financial crisis in Russia. We expect this quarter will have been the trough in their earnings as cost cuts and an improved FX rate benefit them going forward, even in the absence of economic recovery which should be driven by the higher oil price and government stimulus measures. The stock is down 12% so far this year while the main Russian equity index is up more than 75%.

On the short side the picture was mixed. The worst performer from last month, a Swedish manufacturing firm that had rallied strongly on the back of its equity fundraising, gave back almost half those gains, contributing 0.9%. In general, however, an apparent increase in investors' risk appetite helped push many cyclical and highly indebted companies higher in the absence of specific newsflow.

Our long held short position in a small US free to air TV channel continued to contribute to the Fund's performance, adding 0.3%. We took this position two years ago as it seemed clear that the equity had little value even before taking into account the industry's structural issues or the risk of a cyclical downturn. The company is massively indebted, generates little operating cashflow and has only remained a going concern because its major lender, who is also its parent company, was willing to waive its short term debt obligations. This generosity apparently came to an end at the end of May with the announcement that the standstill on its debt will not be extended beyond the current agreement. The lender has instead proposed a debt for equity swap that leaves existing shareholders with only 15% of the equity, in return for a 55% debt reduction, and new debt with a significantly higher coupon than the current rate.

Management have indicated they are unable to refinance on commercial terms and so there seems to be no other option but to accept this deal. The share price dropped over 20% the day the refinancing was proposed and has continued to fall since then. However it remains at almost twice the price at which the debt will be converted to equity if the proposal is implemented and has a lot further to fall in our view.

Sto – German building products manufacturer

Sto is a manufacturer of construction products, principally façade coating (render, paints) and insulation systems. These products are used in commercial and residential buildings in both newbuild and refurbishment. From its base in southern Germany Sto has gradually grown profitable operations across Europe and in North America and Asia, with more than 50% of sales now coming from outside Germany. In recent years sales growth has been driven by Sto's successful insulation offering which has positioned the business in the sweet spot of energy efficient renovation. The company places a big emphasis on innovation and R&D and sells its products directly to a highly fragmented customer base. The Sto brand is well recognized and highly regarded among architects, builders and homeowners.

2008 was a record year for Sto with the highest operating profit ever achieved in its history, even beating its guidance given in November (which had been revised upwards). Revenues came in at EUR 947m, up 7%, and operating profit was EUR 83.2m, up 10.9%. Excellent cash generation meant financial debt was further reduced and they ended the year with a net cash position of around EUR 19m. This allowed management to increase the dividend from EUR 1.15 to EUR 2.37, a yield of 5.5%.

In the first quarter of 2009 demand was hit by the harsh winter across much of Europe as little external construction work can take place unless temperatures are well above freezing. Sales were down 12% but this was partly offset by tight cost control and cheaper sourcing as commodity prices weaken. While 2009 will undoubtedly be a tough year in all construction markets Sto is well positioned to outperform in this environment. It is apparently benefitting significantly from government incentives to upgrade insulation in existing housing stock, particularly in its core German and French markets, as its exterior insulation systems can be easily retrofitted. Sto's track record in a tough economic environment is also very encouraging - in eight years of recession in the German construction market beginning in the late 1990s Sto managed to hold organic sales flat, thus increasing its market share significantly.

Sto is exactly the kind if stock we look for – it is well regarded in its own industry and largely overlooked by ours (the company makes virtually no effort to market itself to the investor community and is mostly ignored by brokers). It is currently valued at five times 2008 earnings, on an enterprise value of three times operating profit with net cash. Even assuming a significant drop in profitability this year this is simply too cheap for a company with such a highly regarded product offering and where the long term outlook for demand is so favourable. We are very happy to have Sto as one of the Fund's largest positions and believe it will continue to contribute very positively to performance in future.

Top Five Holdings as at 31 May 2009

	Company	Country	Sector	% of NAV
1	Sto	Germany	Construction	4.5
2	Atlantia	Italy	Transport	4.0
3	Trader Media East	Netherlands	Media	3.6
4	Publicgroupe	Switzerland	Media	2.1
5	Kentz Corp	United Kingdom	Engineering	1.9
				16.1

Exposures as at 31 May 2009

Longs %	Shorts %	Gross Exposure %	Net Exposure %
55.9 (59.4)	41.3 (57.2)	97.1 (116.6)	14.6 (2.3)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Denmark	1.4	0.3
Finland	2.1	-2.1
France	9.8	-8.2
Germany	15.8	7.1
Ireland	2.1	2.0
Italy	6.6	3.9
Japan	2.5	-2.5
Netherlands	4.0	3.8
Norway	5.0	-0.4
Spain	1.5	-1.5
Sweden	7.7	0.0
Switzerland	5.2	1.4
UK	23.5	10.7
US	5.8	-3.1
Other	4.1	3.2

Market Cap	Gross%	Net%
>£2bn	15.3	-4.8
£700m - £2bn	17.0	-14.5
£200m - £700m	23.4	4.8
<£200m	41.4	29.1

Sector	Gross%	Net%
Construction	9.6	3.5
Consumer	19.4	-12.1
Energy	5.7	-0.7
Financial	3.8	0.1
Food	2.2	-1.6
Leisure	3.5	-1.4
Manufacturing	2.7	0.4
Media	13.1	5.8
Medical	5.2	-1.2
Property	3.3	3.3
Retail	3.4	2.2
Services	3.6	2.9
Technology	10.0	5.0
Transport	4.7	4.7
Other	6.9	3.7

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 May the Fund was invested in 65 (70)* stocks. The Fund's net exposure increased significantly in the month while the gross exposure was reduced. We exited several positions in May, including TGS Nopec and Kingspan.

For further information please contact:	Geoff Oldfield, Ennismore Fund Management	+44 (0) 20 7368 4223	
For dealing please contact:	Trevor Keane , State Street International (Ireland) Ltd	+353 (0) 1 523 4050	tkeane@statestreet.com