Ennismore European Smaller Companies Fund

Investor Newsletter for the month of September 2009

Issued on 6 October 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 117m as at 30th September.

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 30 September 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
September 09	**48.89**	**7.0**	**8.3**	**53.49**	**3.2**	**4.0**	**3.3**
August 09	45.69	4.5	14.2	51.85	1.4	10.8	6.5
July 09	43.74	0.3	6.9	51.15	-0.2	6.9	9.2
June 09	43.63	-2.5	-2.6	51.23	0.5	-0.1	-1.9
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
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	**48.89**	**-1.6**	**49.1**	**53.49**	**4.1**	**55.8**	**22.8**
Annualised return[5]		**16.2**	**9.0**		**13.3**	**6.2**	**1.7**
Since launch (27/01/99)		**398.1**	**151.6**		**279.8**	**90.8**	**19.4**

[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 and are prior to expenses.

The Fund's NAV increased by 7.0% in September. Our long book contributed 7.0% while the Fund's short exposure cost 0.6%.

Most stocks moved on relatively little newsflow during the month. CPL Resources and Tenon both contributed 0.3% after reporting first half results, with the former's Irish recruitment business proving more resilient than expected in recession and the latter's corporate recovery and turnaround services positively benefitting from it in the UK.

Portfolio Activity

As at 30th September the Fund was invested in 65 (61)* stocks. Our largest new position during the month was Telenet, which is covered in detail in the stock comment below. On the short side we covered a long held position in a highly leveraged building materials manufacturer. As we had long expected they announced plans to raise equity from a new shareholder on very unfavourable terms for non-controlling investors, causing the share price to fall by over a third.

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

Telenet – Belgian cable network operator (2.9% NAV)

Telenet owns a cable network covering the Flanders region of Belgium and about one third of the capital Brussels. We believe it is the most attractive fixed line network in Europe for several reasons. Firstly the network was built by regional government and as a result is high quality and well integrated whereas in many countries a consolidated network only came about by merging a patchwork of privately developed and often disparate cable systems. Secondly Telenet is effectively a national operator, in that it covers virtually all homes in the Flemish speaking area of Belgium, making marketing spend much more effective. Thirdly there is no strong competition from satellite TV, partly a reflection of very high population densities which make fixed line networks more economic. As such the market is effectively a duopoly with telco incumbent Belgacom. These attractions combined give Telenet exceptionally high penetration of its marketplace, with their network passing 90% of all homes in Flanders and Brussels and having 85% of these as customers.

In common with most other European operators the business continues to see steady top line growth as the customer base is converted from analogue TV to a triple play offering of digital TV, broadband and fixed line voice. This process is highly lucrative as it drives a significant increase in monthly revenue per user, lower customer churn (and hence marketing costs) and leverages the large element of fixed costs in the network. These trends have not been noticeably impacted by the economic downturn showing the utility type nature of this business, with current churn rates implying average customer lifetime is over 15 years. They should continue to drive profit growth for the next two to three years at least as triple play penetration of their customer base remains quite low at about 25% and the switch to digital TV is helping to pull customers over to other products. This strong but very predictable growth is what makes successful cable networks so attractive to invest in at present.

The key area of uncertainty for cable businesses, including Telenet, is the level of investment required to maintain their technical superiority. As things stand they are able to offer significantly better download speeds than the part-copper networks of incumbent telcos. The risk of telcos investing in fibre all the way to the customer's home (FTTH), which would ultimately require cable operators to make a similar investment, seems less and less imminent as existing networks can still be improved far more cheaply. More importantly, most customers are not using – and certainly won't pay for – such high speeds any time soon, making FTTH investment uneconomic for many years to come. Telenet recently entered the mobile market and much has been made of a possible bid for the unused fourth Belgian licence or a merger with operator Mobistar. We think Telenet are in the strongest position here and so can choose whichever option is the most profitable for them. Related to these technological challenges is the issue of future regulation and, specifically, whether Telenet will be forced to offer open access to its network. Broadly speaking the more Telenet need to invest the less likely stricter regulation is. We have often seen it argued that capex can be run well below depreciation once a network has been built out but we think it is more sensible to assume it remains in line with depreciation, reflecting our uncertainty over how and when new technologies and regulation develop.

Annualising last quarter's earnings Telenet trades on a price to earnings ratio of about 15 times. Given strong, low risk growth we think this will be about 12 times a year from now and less than ten times in two years. While this is certainly an oversimplification of how future cashflows will develop it clearly demonstrates the strong momentum in profitability that is being driven by well established trends. Free cashflow may well be stronger than net profit but we prefer not to assume this in our valuation. We do, however, expect the company to maintain an efficient capital structure, with net debt staying at around three times EBITDA, supported by their very long term customer relationships. Adding in these returns means that we expect this investment to at least double over the next three years with very little risk of serious disappointment.

Top Five Holdings as at 30 September 2009

	Company	Country	Sector	% of NAV
1	Sto	Germany	Construction	5.9
2	Atlantia	Italy	Transport	4.7
3	Trader Media East	Netherlands	Media	3.7
4	PubliGroupe	Switzerland	Media	3.3
5	Telenet	Belgium	Technology	2.9
				20.5

Exposures as at 30 September 2009

Longs %	Shorts %	Gross Exposure %	Net Exposure %
69.5 (67.2)	30.0 (30.5)	99.5 (97.6)	39.5 (36.7)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 30 September 2009

Country	Gross%	Net%
Belgium	2.9	2.9
Czech Republic	1.3	1.3
France	5.3	-5.3
Germany	19.3	10.0
Ireland	3.1	3.1
Italy	7.7	5.1
Japan	2.2	-2.2
Jersey	2.7	2.7
Luxembourg	1.5	1.5
Netherlands	6.4	3.1
Spain	3.6	-3.6
Sw itzerland	4.6	3.7
UK	27.9	17.1
US	7.4	-3.1
Other	3.6	3.2

Market Cap	Gross%	Net%
>£2bn	18.8	-3.0
£700m - £2bn	13.5	1.6
£200m - £700m	25.1	7.9
<£200m	42.1	33.0

Sector	Gross%	Net%
Construction	9.4	8.2
Consumer	7.5	1.6
Energy	6.5	-2.2
Engineering	2.3	2.3
Food	2.0	0.0
Industrials	9.0	-0.3
Leisure	4.5	0.5
Media	18.6	11.7
Medical	2.5	-0.9
Property	4.6	4.6
Services	9.1	6.5
Technology	13.8	4.0
Telecoms	2.9	0.1
Transport	5.1	5.1
Other	1.7	-1.7

The 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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