Ennismore European Smaller Companies Fund

Investor Newsletter for the month of December 2009

Issued on 11 January 2010

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 88m as at 31st December.

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 December 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
December 09	**48.89**	**-0.9**	**2.3**	**55.03**	**2.1**	**5.4**	**4.9**
November 09	49.31	2.0	1.4	53.90	-0.2	-0.6	1.9
October 09	48.33	-1.1	-4.5	53.99	0.9	-2.2	-2.7
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
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	**48.89**	**-1.6**	**47.7**	**55.03**	**7.1**	**59.7**	**27.7**
Annualised return[5]		**15.8**	**8.7**		**13.3**	**6.3**	**2.0**
Since launch (27/01/99)		**398.1**	**149.4**		**290.8**	**95.6**	**24.1**

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

The Fund's NAV decreased by 0.9% in December, bringing the total return for the year to -1.6%. In euros monthly and annual returns were 2.1% and 7.1% respectively.

The most significant attribution either way in December came from our investment in professional publisher Informa, adding 0.5%. The company's share price increased 15% during the month after management ended due diligence of academic publishing peer Springer. While a merger of the two business makes excellent sense operationally due to the high level of operational leverage in journal publishing, the level of debt and new equity financing that Informa would have required to close the deal was, understandably, a significant concern to investors. Longer term a tie up may still happen – in recent years it was in fact Springer's private equity owners that tried to acquire Informa – but for now we are very happy to remain invested in the standalone Informa business.

Portfolio Activity

As at 31st December the Fund was invested in 72 (75)* stocks with overall gross and net exposures slightly increased during the month. We added to our position in accountancy and financial advisory firm Tenon, taking part in an equity issue to raise funding for the acquisition of competitor RSM Bentley Jennison. The deal gives the combined business significant scale making it the 7th largest provider of these services in the UK.

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

Mount Engineering – UK specialist manufacturer and distributor (0.5% NAV)

Mount Engineering is a niche manufacturer selling primarily into industries which have hazardous environments (e.g. oil and gas). Their main product lines are adaptors and reducers used to connect cables with differing connection types in potentially explosive environments. Because of their critical safety function these products usually require certification by the relevant safety body in each end market. The company also acts as a distributor of control valves. Around half of production is exported. Approximately half is sold direct and half is sold through distributors. Customer concentration is quite low with the ten largest combined accounting for about one third of turnover.

Mount Engineering is very profitable with an operating margin of close to 30% and pre-tax returns on capital employed in the 15-20% range, even in this difficult economic period. We believe two attributes of the products they make mean that these returns are sustainable. The need for regulatory approval increases start up costs and time to market for potential new entrants while relatively small batch volumes make competition from mass production in low labour cost countries unviable. The products are typically low value relative to the scale of capital projects they are used in but are sold at a large premium to non-certificated comparables, hence the attractive returns Mount Engineering is able to produce.

Management have done a god job of improving efficiency even with turnover declining in 2009 and this has lead to an increase in the operating margin. As a result we expect operating profit to fall by only around ten percent. Management's stated strategy is also to look to acquire businesses with similar high margin, niche positioning and similar end customers as these could bring further efficiency improvements. However since listing over two years ago no acquisitions have been made as management say valuations have been too high, which gives us some confidence that any future deals will be sensibly priced.

The current market capitalisation of Mount Engineering is just GBP 12.3m, trading on a price to earnings ratio for 2009 of about six and a half times with net cash on the balance sheet. We view this stock as substantially mispriced, largely because it is simply too small for most investment funds to look at. A more reasonable multiple would be around 11 times earnings, given secure funding and relative resilience in an already weak macro environment, which implies upside of over 70 percent.

Top Five Holdings as at 31 December 2009

	Company	Country	Sector	% of NAV
1	STO	Germany	Construction	7.4
2	Telenet	Belgium	Technology	4.3
3	Informa	Jersey	Media	3.9
4	Atlantia	Italy	Transport	3.5
5	Buzzi Unicem	Italy	Construction	3.4
				22.5

Exposures as at 31 December 2009

Longs %	Shorts %	Gross Exposure %	Net Exposure %
82.6 (80.1)	29.8 (29.3)	112.3 (109.4)	52.8 (50.8)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Belgium	4.3	4.3
Czech Republic	1.0	1.0
Denmark	1.4	1.4
France	3.6	-3.6
Germany	23.6	12.9
Ireland	4.9	4.9
Italy	9.2	6.4
Jersey	5.3	5.3
Luxembourg	1.7	1.7
Netherlands	6.3	4.0
Spain	2.6	-2.6
Switzerland	5.2	2.7
UK	31.8	18.5
US	8.7	-4.4
Other	2.7	0.3

Market Cap	Gross%	Net%
>£2bn	8.8	1.7
£700m - £2bn	22.1	4.7
£200m - £700m	30.9	6.5
<£200m	50.5	39.9

Sector	Gross%	Net%
Construction	12.5	11.7
Consumer	8.6	3.6
Energy	7.2	-4.7
Financial	2.9	-0.1
Food	3.5	-0.6
Industrials	11.3	6.6
Leisure	3.9	-2.2
Media	17.0	16.0
Medical	2.3	-2.1
Property	4.5	4.5
Services	11.5	7.5
Technology	17.7	8.7
Telecoms	3.6	-0.1
Transport	4.9	4.9
Other	0.9	-0.9

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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