Ennismore European Smaller Companies Fund

Investor Newsletter for the month of January 2010

Issued on 4 February 2010

Notice

The Ennismore website – www.ennismorefunds.com - is now live with all the Fund's monthly newsletters, reports and presentations.

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 87m as at 31st January. Total assets under management by Ennismore Fund Management Limited were GBP 146m.

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 January 2010

	GBP			EUR			
Period	Fund NAV[1] Per Share	Fund NAV[2] Per Share % Change	HSBC Index[3] % Change	Fund NAV[1] Per Share	Fund NAV[2] Per Share % Change	HSBC Index[3] % Change	MSCI Index[4] % Change
January 10	**49.32**	**0.9**	**-0.1**	**56.86**	**3.3**	**2.1**	**-3.8**
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
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	51.40	-28.3	-51.5	-38.9
2009	48.89	-1.6	47.7	55.03	7.1	59.7	27.7
2010 to date	**49.32**	**0.9**	**-0.1**	**56.86**	**3.3**	**2.1**	**-3.8**
Annualised return[5]		**15.8**	**8.6**		**13.5**	**6.5**	**1.6**
Since launch (27/01/99)		**402.5**	**149.2**		**303.8**	**99.6**	**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 0.9% in January. Our long book contributed 1.9% while the Fund's short exposure cost 0.3%.

The strongest performers were advertising firm PubliGroupe (contributing 0.7%), satellite manufacturer OHB Technology (0.4%) and oil and gas engineering contractor Kentz Corp. (0.3%). Construction materials manufacturers Sto (-0.4%) and Buzzi Unicem (-0.3%) were the weakest performers.

OHB's share price appreciated by just over 30% during the month after the company was awarded prime contractor status for the first 14 satellites in the Galileo system, Europe's answer to American-based GPS. At EUR 560m the order is the biggest ever won by OHB and is worth almost twice their total 2009 revenue. More importantly, the outright award of such a major contract - rather than it being split between two or more manufacturers - moves OHB firmly into the premier league of the industry and should help to transform the business from a niche player into a major satellite supplier. We took advantage of the share price strength to reduce our holding but remain confident that the most exciting part of this company's development is yet to come and are very happy to be invested in such a dynamic business.

Portfolio Activity

As at 31st January the Fund was invested in 65 (72)* stocks. During the month we sold our position in recruitment agency FDM Group as part of a management buyout of the company.

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

RSM Tenon – UK professional services provider

RSM Tenon is a UK based advisory business primarily focused on small and medium sized enterprises (SMEs). The company is now the seventh largest accountancy firm in the UK, having recently acquired competitor RSM Bentley Jennison. This was a reasonably large merger which we believe will materially improve the quality of the combined business by giving it broader geographic coverage and a wider service offering as well as the potential for significant cost savings over the next few years. As such we took part in the equity fundraising in December to finance the deal. Management, who own over 15% of the company, also put more money in.

The enlarged group's service offering accounts for most of a client's professional needs over the life-cycle of a corporation, and is broadly spread across taxation and business advisory (25% of revenue), corporate turnaround and recovery (21%), risk management (14%), basic accounts and audits (9%), outsourcing (7%) and corporate finance (3%). This variety of revenue streams offers good resilience over an economic cycle. The close relationship advisors have with their customers is reflected in the fact that the company often provides personal financial advice and taxation services to the individuals involved as well (21% of revenue). We believe that switching costs are significant for the group's clients as these are time-constrained entrepreneurs and the services provided are usually essential to the business. Clients are unlikely to switch to a competing advisory group simply on price. The flip side of this is that RSM Tenon tends to do selective acquisitions to grow its business as it is similarly difficult for them to grab market share from well-established local players. Given the size of the recent deal, however, we don't expect further acquisitions in the near future.

Tenon's results have been encouraging since the current CEO, Andy Raynor, took over in 2002. Cash generation has generally been strong although the recent relative strength of the corporate recovery division has required some investment in work in progress. However the company is well funded with net debt of only around GBP 35m, a little over one times pro forma operating profit of GBP 30m. We expect cash earnings to grow from GBP 17m this financial year, which ends in June, to close to GBP 25m the following year as the impact of a full twelve months of the RSM Bentley Jennison acquisition and some cost synergies come through. This implies a price to earnings ratio of six times for the year to June 2011 with a current dividend yield of 3.5%. We expect to see at least a 50% upside in the share price in the next two years as the market wakes up to the value the merged business can create.

Top Five Holdings as at 31 January 2010

	Company	Country	Sector	% of NAV
1	Sto	Germany	Construction	7.0
2	Telenet	Belgium	Technology	4.4
3	Informa	Jersey	Media	4.1
4	PubliGroupe	Switzerland	Media	3.8
5	Atlantia	Italy	Transport	3.5
				22.8

Exposures as at 31 January 2010

Longs %	Shorts %	Gross Exposure %	Net Exposure %
80.4 (82.6)	29.5 (29.8)	109.8 (112.3)	50.9 (52.8)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 31 January 2010

Country	Gross%	Net%
Belgium	4.4	4.4
Denmark	1.4	1.4
France	2.8	-1.9
Germany	20.7	13.5
Ireland	4.5	4.5
Italy	8.5	5.8
Jersey	5.5	5.5
Luxembourg	1.7	1.7
Netherlands	6.8	3.5
Spain	3.3	-3.3
Sweden	1.2	0.2
Switzerland	6.5	2.4
UK	30.3	17.0
US	9.2	-4.8
Other	3.0	1.0

Market Cap	Gross%	Net%
>£2bn	13.0	6.3
£700m - £2bn	18.6	-0.7
£200m - £700m	28.8	7.5
<£200m	49.4	37.8

Sector	Gross%	Net%
Construction	11.4	11.4
Consumer	7.1	4.5
Energy	5.9	-3.1
Financial	2.5	0.3
Food	3.8	-1.1
Industrials	12.3	6.1
Leisure	4.8	-2.0
Media	18.4	17.3
Medical	2.0	-2.0
Property	4.8	4.8
Services	9.7	5.5
Technology	18.5	6.5
Telecoms	3.7	-0.2
Transport	3.9	3.9
Other	1.0	-1.0

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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