Ennismore European Smaller Companies Fund

Investor Newsletter for the month of March 2010

Issued on 8 April 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 March. Total assets under management by Ennismore Fund Management Limited were GBP 144m.

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 March 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
March 10	**51.84**	**2.0**	**7.9**	**58.12**	**2.5**	**8.4**	**6.9**
February 10	50.82	3.0	1.2	56.69	-0.3	-1.9	0.7
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
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	**51.84**	**6.0**	**9.1**	**58.12**	**5.6**	**8.6**	**3.5**
Annualised return[5]		**16.1**	**9.4**		**13.5**	**7.0**	**2.3**
Since launch (27/01/99)		**428.2**	**172.1**		**312.7**	**112.4**	**28.4**

[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 2.0% in March. Our long book contributed 3.1% while the Fund's short exposure cost 0.7%. The strongest performers were Informa (contributing 0.6%), Cove Energy (0.4%) and Diploma (0.3%).

The main newsflow came from publisher Informa which announced 2009 results very much in line with consensus expectations. More importantly management commented that subscription renewals for 2010 have remained very close to pre-recession levels and that bookings for exhibitions and larger events are in fact slightly up year on year. Informa's businesses have, again, mostly proven relatively defensive in a downturn. Despite the strong recent performance of its shares the company is still reasonably valued at 12 times consensus 2010 earnings, given the quality of many of its publishing franchises and the good possibility that earnings will begin to grow sooner than expected by the market.

Cove Energy continued its strong performance, which we commented on last month. Specialist distributor Diploma, which is covered in detail in this month's stock comment, put out a strong trading update during the month.

German directory business Telegate was the worst performer, costing the Fund 0.2%. Earnings guidance for 2010 given during the month was disappointing with the continuing decline of the directory assistance cash cow only marginally offset by very strong expected revenue growth for the online directory as management continue to invest in the ground sales force behind this business. Telegate continues to be a low risk investment with 30% of its market cap in net cash and at least as much again due in compensation from already won legal claims against Deutsche Telecom – as a result the dividend payout is high (7.5%) and will be supplemented by a tender offer to buy back and cancel 10% of the company's share capital this year. Management forecasts imply well over 30% revenue growth for the online directory in 2010 which, if they can deliver it, will make this is sizeable and valuable operation in its own right and this is where the potential upside for this investment lies.

Portfolio Activity

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

As at 31st March the Fund was invested in 69 (65)* stocks. We sold our position in Italian toll road operator Atlantia during the month and began building up one significant new investment.

Diploma – a UK listed specialist distributor (3.0% NAV)

Diploma is a specialist distributor focussing on several very narrow niche markets which are typically too small to be served by larger players. The products it handles range from testing kits used in hospital laboratories to seals used in heavy machinery (each accounts for about 20% of revenue) but mostly share the common characteristic of being consumables with a high level of repeat business (about 85% of revenue). End markets are well diversified, both geographically (roughly 20-25% of revenue from each of Canada, the USA, the UK and the rest of Europe) and by industry, with a roughly fifty fifty mix of cyclical and non-discretionary exposure. The end result is a very attractive pre-tax return on capital employed of 28% over the last economic cycle (September 2000 to September 2009), including a trough return of 22% last year (to September 2009).

In March Diploma issued a very encouraging trading statement with underlying revenues returning to growth, signs of improved trading across most of the market segments they serve and first half profits significantly ahead of the previous year's level. This was much better than we were expecting. We estimate Diploma is currently valued at about 12 times 2009/10 earnings with more than 10% of its market cap in net cash, which management plan to invest in complementary acquisitions. We have followed this business closely for many years - this is the second time the Fund has owned it – and management's track record in making acquisitions is excellent. The return on capital generated, including goodwill paid, is of course partly a reflection of this. The combination of cyclical recovery, even if it turns out to be more muted than many are forecasting, and cash available to deploy in complementary acquisitions lead us to think the stock is 50% undervalued.

Top Five Holdings as at 31 March 2010

	Company	Country	Sector	% of NAV
1	Sto	Germany	Construction	7.5
2	Telenet	Belgium	Telecoms	4.2
3	Informa	Jersey	Media	4.0
4	Buzzi Unicem	Italy	Construction	3.2
5	Kentz Corp	United Kingdom	Industrials	3.2
				22.1

Exposures as at 31 March 2010

Longs %	Shorts %	Gross Exposure %	Net Exposure %
79.3 (79.5)	34.4 (30.9)	113.6 (110.4)	44.9 (48.7)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Belgium	4.2	4.2
France	2.6	-1.7
Germany	25.8	16.3
Ireland	4.6	4.6
Italy	6.9	3.5
Japan	1.5	-1.5
Jersey	5.3	5.3
Luxembourg	1.6	1.6
Netherlands	5.0	5.0
Spain	6.4	-6.4
Sweden	1.9	-0.2
Switzerland	6.3	0.3
UK	29.1	17.5
US	9.0	-4.8
Other	3.4	1.2

Market Cap	Gross%	Net%
>£2bn	16.8	2.7
£700m - £2bn	11.9	-5.4
£200m - £700m	31.9	8.9
<£200m	53.0	38.7

Sector	Gross%	Net%
Auto	1.1	-1.1
Construction	12.0	12.0
Consumer	6.2	3.0
Energy	7.2	-3.5
Financial	2.3	0.0
Food	2.9	-0.8
Industrials	15.8	4.8
Leisure	5.2	-2.8
Media	19.9	14.4
Medical	2.0	-2.0
Property	4.0	4.0
Services	10.4	6.5
Technology	16.1	6.4
Telecoms	7.7	3.8
Other	0.8	0.2

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

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

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