Ennismore European Smaller Companies Fund

Investor Newsletter for the month of May 2010

Issued on 9 June 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 87m as at 28th May. Total assets under management by Ennismore Fund Management Limited were GBP 134m.

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 28 May 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
May 10	**51.52**	**-1.6**	**-9.4**	**60.41**	**0.2**	**-6.9**	**-5.8**
April 10	52.36	1.0	-0.4	60.28	3.7	1.8	-1.8
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
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	**51.52**	**5.4**	**-1.6**	**60.41**	**9.8**	**2.9**	**-4.3**
Annualised return[5]		**15.7**	**8.2**		**13.7**	**6.4**	**1.5**
Since launch (27/01/99)		**424.9**	**145.4**		**329.0**	**101.3**	**18.7**

[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 fell by 1.6% in May in GBP, with performance suffering from the 2% depreciation in the value of the Euro although this helped returns in EUR to be flat. In a weak month for European stock markets our long book cost 3.2% offset by the Fund's short exposure which contributed 2.3%. There were only a limited number of strong individual performers in the month. Melorio, a UK provider of training services, contributed 0.4% following a bid approach from Pearson. Despite a 30% premium to the previous market price we believe the bid materially undervalues the company. Xing, an online German business network, also performed well, contributing 0.2% following good first quarter results. Xing has become a big position in the Fund in recent months and will be covered in detail in our next newsletter. The worst performer was Buzzi Unicem, an Italian cement manufacturer, which cost the fund 0.7%. The company's first quarter results were as expected but the stock has suffered due to fears of a price war in the Italian market, which accounted for 18% of 2009 EBITDA. Despite this near-term concern, we believe Buzzi is an extremely attractive long-term investment and that the current 45% discount to book value substantially undervalues the company. Our view is backed up by ongoing share purchases by the controlling family.

Portfolio Activity

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

As at 28th May the Fund was invested in 67 (65)* stocks. During the month we substantially increased our positions in Xing and Buzzi Unicem (discussed above) and reduced our position in Telenet, a Belgian cable operator, due to strong performance. Net exposure rose during the month as we took advantage of price weakness to increase the size of some of our long positions.

Vitec – UK-listed producer of broadcast and photography equipment

Vitec is an equipment supplier for the global broadcast and photography markets with sales mainly split between the Americas and Europe. The VideoCom division sells "everything around the camera, but not the camera" for a broadcast studio – camera pedestals, batteries, auto prompters, etc – whilst the Imaging division primarily sells tripods and related accessories for digital cameras.

Vitec is dominant in almost all these niche markets with market shares ranging from an estimated 40% in photographic tripods and auto prompters up to over 80% in broadcast camera pedestals. The competition is relatively fragmented meaning that Vitec is much bigger than its nearest rivals and can invest more in its brands and products, helping it to maintain its leadership. Brand loyalty is typically very high; in several discussions customers have stated that Vitec's products are mission-critical to their business and they would not switch suppliers. The strength of Vitec's position was demonstrated on our recent trip to the main broadcast trade show in the EU, where all of the major camera manufacturers were displaying their new cameras on Vitec pedestals.

For such a strong company, Vitec's average post-tax return on invested capital is disappointing at 10% pa over the last decade, although this improves to 15% over the last 20 years. This was partially caused by a severe downturn in the broadcast markets in 2002, but also due to a variety of ill-advised acquisitions and an attempted expansion into the air traffic control market. Today a new management team is in place and they have already disposed of an underperforming subsidiary, realigned R&D onto new opportunities in the core markets and started to integrate the group's disparate subsidiaries more closely. We believe that this renewed focus on the core competencies will start to show in the results moving forwards.

Future earnings growth will also be driven by new products being rolled out via Vitec's existing distribution channels. For example the recently-acquired LitePanels business, an industry-leading LED lighting solution, grew sales by 20% in 2009 despite a 30% fall in the broadcast markets. Vitec has also recently entered the military and government markets by adapting existing products to make them suitable for wireless surveillance. Whilst there is some risk involved in entering any new market, we believe this is mitigated by Vitec's best-in-class technology (driven by the need for 100% reliability in the broadcast markets) and by a recent major contract win from a federal agency, which validates the product and should pave the way for additional orders in the US.

Adjusting for the recent disposal, we estimate that Vitec is trading on a historic price to earnings ratio of under 9 times and, factoring in the small amount of net debt, an enterprise value to operating profit ratio of around 8 times. The dividend was stable in 2009 and offers a 4.6% yield at the current price. We believe that this is far too cheap for a company of this calibre, particularly considering that 2009 was one of the most difficult years in recent memory for the broadcast industry and the changes instigated by management. We expect the stock price to benefit from a gradual improvement in operating performance towards historic levels as broadcast markets recover; we estimate average profit from 1997 - 2008, excluding loss-making businesses, was 30% higher than in 2009. On this basis we expect to see at least 70% upside in the medium term, and more if the new military business is a success.

Top Five Holdings as at 28 May 2010

	Company	Country	Sector	% of NAV
1	Sto	Germany	Construction	8.2
2	Xing	Germany	Technology	4.5
3	Buzzi Unicem	Italy	Construction	4.2
4	Informa	Jersey	Media	3.7
5	Diploma	United Kingdom	Industrials	3.5
				24.1

Exposures as at 28 May 2010

Longs %	Shorts %	Gross Exposure %	Net Exposure %
78.9 (77.6)	27.4 (31.5)	106.4 (109.2)	51.5 (46.1)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 28 May 2010

Country	Gross%	Net%
Belgium	2.3	2.3
Finland	2.2	-2.2
France	2.2	-1.5
Germany	28.7	18.9
Ireland	3.0	3.0
Italy	8.5	5.7
Jersey	4.9	4.9
Luxembourg	1.4	1.4
Netherlands	4.5	4.5
Spain	4.9	-4.9
Sweden	1.7	-0.1
Switzerland	4.6	0.1
UK	28.9	18.8
US	6.4	-1.6
Other	2.2	2.2

Market Cap	Gross%	Net%
>£2bn	9.9	4.8
£700m - £2bn	12.1	-3.8
£200m - £700m	35.1	9.6
<£200m	49.3	40.9

Sector	Gross%	Net%
Construction	13.7	13.7
Consumer	6.6	2.3
Energy	6.1	-2.5
Financial	2.1	0.2
Food	2.2	-0.2
Industrials	14.6	7.5
Leisure	4.6	-2.3
Materials	1.1	-0.2
Media	18.5	13.9
Medical	2.6	-2.6
Property	4.1	4.1
Services	10.1	6.4
Technology	14.4	8.6
Telecoms	4.3	3.2
Other	1.4	-0.6

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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