Ennismore European Smaller Companies Fund

Investor Newsletter for the month of June 2010

Issued on 7 July 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 30th June. 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 30 June 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
June 10	**51.39**	**-0.3**	**-3.6**	**62.77**	**3.9**	**-0.3**	**-2.5**
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
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	**51.39**	**5.1**	**-5.1**	**62.77**	**14.1**	**2.6**	**-6.7**
Annualised return[5]		**15.6**	**7.8**		**14.0**	**6.3**	**1.3**
Since launch (27/01/99)		**423.6**	**136.6**		**345.7**	**100.6**	**15.8**

[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. No value has been attributed to the Fund's claim for USD 7.8m in the administration of Lehman Brothers International (Europe) due to the uncertainty of both the timing and amount of any eventual recovery. The Fund's holding in Trader Media East continues to be valued based on the latest net asset value reported by that company, as explained in our October 2009 newsletter.

The Fund's NAV decreased 0.3% in June in GBP, while in EUR it increased 3.9% due to the weakness of the euro. Our long book cost 0.3% while the Fund's short exposure contributed 1.1%.

The strongest and weakest performers were both in the construction materials sector, with Sto adding 0.6% to NAV while Buzzi Unicem cost 0.5%. There was no significant news on either stock during the month.

Portfolio Activity

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

As at 30th June the Fund was invested in 72 (67)* stocks. We sold our remaining investment in Telenet during the month and began building up five new long positions.

Xing – German professional network (4.3% of NAV)

Xing is a networking website for professionals in the DACH region (Germany, Austria and German speaking Switzerland). The network can be a valuable source of business leads for freelancers and small businesses, salespeople and recruitment agencies. Basic membership is free but to really exploit the network commercially (e.g. to see detailed information on other members or to contact them) about one in six members pay a monthly subscription of five euros (84% of 2009 revenue). The company also sells advertising on the site, mostly for jobs targeted to members' profiles. Direct competition is limited as the business benefits from a powerful network effect. The main competitor is US based LinkedIn, which is number one is most other countries worldwide. LinkedIn launched in German at the start of 2009 but has failed to make a significant impact – based on data from Google AdPlanner, Xing gets about 18 times as much usage in Germany. We waited to see how LinkedIn's launch developed before investing and are now very confident that barriers to entry are extremely high. In the long run we would not be surprised to see LinkedIn acquire Xing.

Professional networks are now well established businesses among the top twenty websites by usage in most countries (Xing is ranked 14th in Germany). Subscriber numbers continue to grow modestly but the key to maximising revenue is to get the user base, which benefits to widely varying degrees from having access to the network, to pay what the service is worth to them. The potential can be seen in the contrasting pricing strategies Xing and LinkedIn launched with. Xing has a low monthly fee and over 700,000 paying members. LinkedIn, on the other hand, had a greater focus on recruitment, selling premium subscriptions (up to USD 100 a month) to agencies that use the site to find candidates for vacancies. The challenge for Xing now is to extract more value from, for example, these recruiters (about 10% of its subscriber base) that would in fact be happy to pay more like the rates charged on LinkedIn. With a fixed cost base the incremental profitability from successful price segmentation could be enormous – as a crude estimate, if the 70,000 or so recruiters using the site can be moved to the new EUR 60 a month subscription this would add over EUR 20m (more than three times Xing's 2009 operating profit) to revenue at no extra cost.

Professional networks are also very valuable for companies advertising vacancies as they provide a relatively targeted way of offering jobs to those who are not actively looking for new employment. Xing is currently focussed on tapping this revenue stream. The cost of setting up this offering depressed profitability in 2009 but Q1 10 results began to show payback on this investment with strong growth (+20% y-o-y) in job ad revenue, despite the overall number of jobs advertised in their core DACH markets continuing to decline. Over the next three years Xing's revenue from job ads (EUR 4.4m in 2009) should double.

Burda Media Group acquired 25% of Xing at EUR 36.50 in November 2009 from founder and former CEO Lars Hinrichs. Burda hold long term minority interests in several listed German companies and take an essentially advisory role to influence management. We discussed their views on how to develop the Xing business model earlier this year and are very happy with their detailed and objective approach to organic investment based on thorough market research. They are, like us, sceptical about the benefits of acquiring complementary businesses or similar businesses overseas which is important given Xing's large pile of excess cash.

Xing is currently valued at a market cap of EUR 147m (EUR 28 per share), with net cash of EUR 50m. In 2009 it generated operating profit of EUR 6.3m, down from EUR 9.6m in 2008. 2009 profit includes the cost but not the benefit of investment in the job ads offer, losses from international operations (Spain and Turkey, where management have said they are clearly committed to reaching profitability or closing them down in 2011 – we think the latter is more likely) and payoffs to the founding management who left last year. There is little variable cost in this business and we expect operating profit to more than double from last year's level by 2012, which still implies a margin of less than 20% compared to 27% in 2008. If management can successfully segment pricing profits could be double again from this level. Stripping out the cash, which is clearly not needed to fund the business (as well being profitable it has negative working capital), we estimate Xing trades on a 2010 price to earnings multiple of about fifteen times (and more like eleven if you exclude the international losses). With strong growth in profits and real strategic value we think this investment will at least double in the next three years and has the potential to do much, much better than this.

Top Five Holdings as at 30 June 2010

	Company	Country	Sector	% of NAV
1	Sto	Germany	Construction	8.7
2	Xing	Germany	Technology	4.3
3	Buzzi Unicem	Italy	Construction	3.7
4	Diploma	United Kingdom	Industrials	3.6
5	Informa	Jersey	Media	3.5
				23.8

Exposures as at 30 June 2010

Longs %	Shorts %	Gross Exposure %	Net Exposure %
80.7 (78.9)	28.7 (27.4)	109.4 (106.4)	51.9 (51.5)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 30 June 2010

Country	Gross%	Net%
Denmark	2.1	2.1
Finland	2.2	-2.2
France	2.0	-1.3
Germany	29.3	18.8
Ireland	3.1	3.1
Italy	9.2	6.2
Jersey	4.7	4.6
Luxembourg	1.4	1.4
Netherlands	4.3	4.3
Spain	4.6	-4.6
Sweden	1.7	-0.2
Switzerland	4.7	0.5
UK	30.9	18.4
US	6.2	-1.3
Other	3.0	2.1

Market Cap	Gross%	Net%
>£2bn	7.4	2.3
£700m - £2bn	13.1	-3.7
£200m - £700m	35.3	10.3
<£200m	53.6	43.0

Sector	Gross%	Net%
Construction	14.7	14.6
Consumer	6.7	2.8
Energy	5.7	-2.2
Financial	4.2	2.2
Food	2.1	-0.1
Industrials	15.4	7.0
Leisure	4.4	-2.1
Materials	1.2	-0.1
Media	19.0	13.1
Medical	2.4	-2.4
Property	4.1	4.1
Services	10.4	7.1
Technology	15.8	7.7
Telecoms	1.9	0.8
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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