Ennismore European Smaller Companies Fund

Investor Newsletter for the month of July 2010

Issued on 11 August 2010

Notice

Our website www.ennismorefunds.com has been up and running for several months with all our past newsletters and reports. As a small step towards trying to reduce, however modestly, the environmental and financial cost of producing printed documents for shareholders we would also like to offer shareholders the opportunity to receive future annual and interim reports and the annual valuation statement from the Fund by email rather than in hard copy. Please call Jo-Anne Osilade on +44 (0) 20 7368 4227 or email jo@ennismorefunds.com if you would like to change to email distribution of these documents.

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 July. Total assets under management by Ennismore Fund Management were GBP 136m.

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 July 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
July 10	**52.63**	**2.4**	**6.7**	**63.27**	**0.8**	**5.1**	**5.9**
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
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
2010 to date	**52.63**	**7.6**	**1.3**	**63.27**	**15.0**	**7.8**	**-1.2**
Annualised return[5]		**15.7**	**8.4**		**13.9**	**6.7**	**1.8**
Since launch (27/01/99)		**436.2**	**152.6**		**349.3**	**110.9**	**22.6**

[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 increased by 2.4% in July. Longs contributed 3.5% and shorts cost 1.3%. The largest positive contributions, both adding 0.5%, came from Diploma and Quarto. Sto cost the Fund 0.6%.

Specialist distributor Diploma was written up in the stock comment for our March newsletter. Since then the company has reported strong interim results and made two positive announcements on current trading, the latest coming only last week. Strong trading has been reflected in the share price, which is up by about a third since we added to our position in April, but the business remains attractively valued at 14 times current year (to the end of September) earnings with 10% of its market cap in cash. Given strong momentum, management's recent comments on the increased likelihood of being able to do deals in the current economic environment and their excellent track record making acquisitions, reflected in a pre-tax return on capital across the last cycle of over 30%, the earnings multiple could well be close to only ten times next year's profits.

Book publisher Quarto has been a holding for many years and, so far, has been a poor investment for us. The company produces short run special interest titles, primarily for the US and UK consumer markets. The shares rose strongly in July after a very positive update (given management's usually measured comments on trading) at the AGM.

After several months of very strong contributions Sto finally let us down last month. Towards the end of the month the company also announced that its finance director had resigned. This came as a surprise to us but having spoken with CEO Jochen Stotmeister we have no concerns about the continuing strong operating performance of the business and expect they will at least meet their fairly conservative guidance for earnings in 2010. We are planning to meet with Mr Stotmeister and the new finance director in early September and are very positively surprised by how the company has handled this change, calling all major shareholders directly to discuss it – a big difference from the difficult relations that existed until a few years ago between outside investors and a business still controlled by its founding family. This improvement can only increase the market valuation of Sto, which continues to be overlooked by much of the investing community, to the benefit of all shareholders.

Portfolio Activity

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

As at 30th July the Fund was invested in 71 (72)* stocks. Although the number of positions and gross and net exposures were little changed during the month we were more than usually active, opening up five new long positions and one new short. We also exited three longs, including training company Melorio where the tender offer by publisher Pearson was completed, and three shorts.

JD Sports (UK apparel retailer, 2.8% NAV)

JD Sports operates a premium sports apparel chain (mainly branded JD, 80% of turnover) and a general fashion chain (branded Bank and Scotts) in the UK. In 2004 Peter Cowgill rejoined the company as Executive Chairman, having previously been Finance Director up to 2001, and began aggressively restructuring loss making shops. Two acquisitions - Scotts in 2004 and Allsports in 2005 - added scale but needed work to improve profitability. Strong increases in gross margin and sales densities followed, driven by better sourcing of product and more own label ranges. Estate restructuring charges have also been lowered significantly, increasing reported operating profit from GBP 8m in 2004 to GBP 62m in 2009. We expect further growth this year with strong trading reported for the four months.

The sports fashion chain is well positioned at the premium end of the market serving mostly younger customers with half of sales from footwear and half from apparel. It accounts for substantially all of the company's profits. Margins are good due to a strong own label offer (30% of apparel sales) and limited discounting, which in turn has created strong relationships with the main footwear brands who provide them with a significant amount of product on an exclusive basis. This premium positioning means JD does not suffer from aggressive discounting by mass market operators, notably Sports Direct, and despite a weak UK economy has been able to deliver strong same store sales growth over the past three years.

JD Sports also has the potential to grow profits from the general fashion division which, while it has improved significantly over the last few years due to increased scale from the 2007 acquisition of Bank, currently generates only very low margins. Management see good potential to both grow sales densities and repeat their own label success in this division. The company also recently acquired Chaus Sport (for GBP 8m in key money) as a low risk way to test their business model in France and several small apparel brands, the most exciting being rugby union brand Canterbury (acquired for GBP 7m) which may have excellent licensing potential.

JD Sports's valuation is very attractive. The current market cap is GBP 365m with GBP 60m of net cash compared to revenue of GBP 770m and operating profit of GBP 62m for the year to January 2010. With good trading reported so far we expect operating profits to increase almost 20% this year, implying a price to earnings ratio of a little over seven times. The low multiple is partly a reflection of JD Sports's limited free float with 57% of the share owned by Pentland Group, which owns various brands, and 12% by mass market competitor Sports Direct. However given the competitive strength of JD's niche positioning and cash rich balance sheet, offset somewhat by a limited free float, we believe the stock should be trading on a price to earnings ratio of at least 12 times by the end of the year – giving upside of over 65%.

Top Five Holdings as at 30 July 2010

	Company	Country	Sector	% of NAV
1	Sto	Germany	Construction	8.1
2	Xing	Germany	Technology	4.6
3	Diploma	United Kingdom	Industrials	4.0
4	Informa	Jersey	Media	3.8
5	Buzzi Unicem	Italy	Construction	3.7
				24.2

Exposures as at 30 July 2010

Longs %	Shorts %	Gross Exposure %	Net Exposure %
83.0 (80.7)	31.5 (28.7)	114.5 (109.4)	51.5 (51.9)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Denmark	2.1	2.1
Finland	2.3	-2.3
France	2.0	-1.2
Germany	30.0	18.2
Ireland	3.0	3.0
Italy	9.3	6.4
Jersey	5.9	4.2
Luxembourg	1.2	1.2
Netherlands	4.1	4.1
Spain	5.2	-5.2
Sweden	1.7	-0.3
Switzerland	4.3	0.3
UK	34.4	19.8
US	6.4	-0.6
Other	2.6	1.8

Market Cap	Gross%	Net%
>£2bn	8.1	1.9
£700m - £2bn	12.0	-4.7
£200m - £700m	40.8	10.5
<£200m	53.6	43.8

Sector	Gross%	Net%
Construction	14.3	14.3
Consumer	10.0	4.6
Energy	6.2	-2.2
Financial	3.8	0.9
Food	2.1	-0.1
Industrials	16.6	6.8
Leisure	4.3	-2.0
Materials	1.2	-0.2
Media	18.6	14.7
Medical	2.5	-2.5
Property	4.3	4.3
Services	9.7	6.5
Technology	16.0	8.0
Telecoms	3.3	-0.9
Other	1.6	-0.7

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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