Ennismore European Smaller Companies Fund

Investor Newsletter for the month of August 2010

Issued on 7 September 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 31st August. Total assets under management by Ennismore Fund Management were GBP 134m. Further background information, including all past newsletters, can be found on our website www.ennismorefunds.com.
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 August 2010

Period	GBP Fund NAV[1] Per Share	GBP Fund NAV[2] Per Share % Change	GBP HSBC Index[3] % Change	EUR Fund NAV[1] Per Share	EUR Fund NAV[2] Per Share % Change	EUR HSBC Index[3] % Change	MSCI Index[4] % Change
August 10	**51.85**	**-1.5**	**-2.0**	**62.70**	**-0.9**	**-1.5**	**-2.2**
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
2010 to date	**51.85**	**6.1**	**-0.8**	**62.70**	**13.9**	**6.2**	**-3.4**
Annualised return[5]		**15.4**	**8.1**		**13.7**	**6.5**	**1.6**
Since launch (27/01/99)		**428.3**	**147.4**		**345.2**	**107.7**	**19.9**

[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 by 1.5% in August. The long book cost 1.4% and the short exposure added 0.4%.
On the long side the Fund's investment in cement manufacturer Buzzi Unicem continued to perform poorly, costing 0.5%. The Fund's position in Russian advertising publisher Trader Media East, which is being valued based on the latest net asset value reported by the company, was reduced by 12% following the publication of its half year results largely due to currency translation of its intangible assets. This cost the Fund 0.3% in August.
On the positive side the Fund's largest short position, in a German solar manufacturer, contributed 0.5%. The company continues to be in financial distress due to its low underlying profitability and heavy debt burden. Reductions in government subsidies for solar investments mean that market conditions are only likely to get tougher in the second half of the year and we expect the Fund to profit further from this position.

Portfolio Activity

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

As at 31st August the Fund was invested in 71 (71)* stocks.

Surteco – German manufacturer of decorative materials (0.6% of NAV)

Surteco is the largest manufacturer of edgings and laminates used for surface decoration in furnishing and interior design. The company has led the consolidation of its industry over the last 15 years, backed by the main founding families that still own 77% of the shares. The business is divided into two units - plastic (60% of 2009 revenue) and paper (40%) products. Overall Surteco is largely indifferent to the long term structural shift in demand from paper to plastic and, indeed, is currently benefitting from price sensitive customers moving back to paper, a market it now dominates. Surteco generates more than a third of its sales in Germany, a little over 40% in the rest of Europe and the remainder in America, Australia and Asia.
Surteco ticks a lot of the boxes on our list of the qualities we want in the businesses we own. It operates in highly consolidated niche markets and is by far the largest player in most of these. In paper edge bandings it will have a 70% global market share boosted by its quiet acquisition of the inventory and customers of competitor Impress earlier this year. In the larger plastic edge bandings segment Surteco's global market share is over 30% and it is significantly larger than the next biggest manufacturer. This scale gives the company better purchasing power which translates into higher margins. At the same time pricing pressure from customers is relatively limited. The products Surteco sells are relatively low cost compared to the total value of the end products they are used in -

but they provide a visible benefit by allowing customers to differentiate product through design. The customer base is also highly diversified with the ten largest accounting for only around 10% of sales. Lastly, but not necessarily least, Surteco is quite a boring business that is unlikely to get the investment community over excited. This gives us the opportunity to buy into its shares at a very attractive valuation.

Surteco revenue declined 15% to EUR 341m in 2009 but operating profit was only modestly lower than in 2008 as management streamlined capacity, reducing the workforce by 10%, generating annualised savings of EUR 10m. In the first half of this year sales were up 13% and we expect good sales growth to continue for the rest of the year. Profitability in the paper unit has improved significantly due to the improved cost structure and higher utilisation, with most of the benefits of the Impress acquisition still to come in the second half. While margins were under pressure in the plastics unit in the first half this was largely down to inflation of raw materials linked to the oil price, which has levelled off. This should be passed through in price increases later in the year, further boosting profitability.

We expect Surteco to generate operating profit before depreciation of fixed assets of EUR 65m this year, with net profit of EUR 23m. At the current market cap of EUR 200m this means Surteco shares are trading at well under ten times this year's earnings. We have followed Surteco for a long time and refrained from buying into the shares earlier due to a relatively high debt level – which resulted from a EUR 150m loan the company took out in 2007 to push forward industry consolidation - and the purchase of a 3% stake in wood products manufacturer Pfleiderer. With net debt reduced from EUR 171m to 123m in 2009 and most of the balance sheet value of the Pfleiderer investment impaired we think Surteco is a very attractive investment. Liquidity is tight due to the family stake in the business and this is the only thing that prevents us from making it a very large position in the Fund. Even so the current market valuation is simply too cheap - without considering the potential for growth from further consolidation and emerging markets - and we see at least 50% upside for the shares over the next year.

Top Five Holdings as at 31 August 2010

	Company	Country	Sector	% of NAV
1	Sto	Germany	Construction	8.3
2	Xing	Germany	Technology	4.7
3	Informa	Jersey	Media	3.8
4	Diploma	United Kingdom	Industrials	3.6
5	Kentz Corp	United Kingdom	Industrials	3.6
				24.0

Exposures as at 31 August 2010

Longs %	Shorts %	Gross Exposure %	Net Exposure %
82.2 (83.0)	31.3 (31.5)	113.5 (114.5)	51.0 (51.5)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Denmark	2.0	2.0
Finland	1.2	-1.2
France	2.0	-1.3
Germany	29.2	18.2
Ireland	3.1	3.1
Italy	8.8	6.2
Jersey	6.0	4.1
Luxembourg	1.2	1.2
Netherlands	3.5	3.5
Spain	5.1	-5.1
Sweden	1.7	-0.4
Switzerland	4.8	-0.1
UK	34.8	19.3
US	6.8	-1.1
Other	3.3	2.6

Market Cap	Gross%	Net%
>£2bn	6.9	2.9
£700m - £2bn	12.4	-6.0
£200m - £700m	34.6	12.1
<£200m	59.6	42.0

Sector	Gross%	Net%
Construction	14.1	14.1
Consumer	9.6	4.8
Energy	5.4	-1.8
Financial	3.6	1.0
Food	2.1	-0.2
Industrials	17.0	6.2
Leisure	4.5	-2.1
Materials	1.4	-0.1
Media	18.7	14.6
Medical	2.6	-2.6
Property	4.3	4.3
Services	9.2	5.4
Technology	16.5	7.8
Telecoms	4.1	-0.8
Other	0.4	0.4

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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