Ennismore European Smaller Companies Fund

Investor Newsletter for the month of September 2010

Issued on 12 October 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 90m as at 30th September. Total assets under management by Ennismore Fund Management were GBP 140m. 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 Eleanor Scott on +44 (0) 20 7368 4218 or email subs@ennismorefunds.com. Redemptions can be made through the Administrator in the usual way.

Performance as at 30 September 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
September 10	**53.63**	**3.4**	**10.4**	**61.90**	**-1.3**	**5.5**	**5.3**
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
2010 to date	**53.63**	**9.7**	**9.6**	**61.90**	**12.5**	**12.1**	**1.8**
Annualised return[5]		**15.7**	**9.0**		**13.5**	**7.0**	**2.0**
Since launch (27/01/99)		**446.4**	**173.3**		**339.5**	**119.2**	**26.3**

[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.

In sterling the Fund's NAV rose by 3.4% in September but in euros it decreased by 1.3%. Our long book contributed 6.2% and shorts cost 2.4%.

On the long side the strongest contributors were Sto (0.7%), Kentz Corp (0.7%) and (Xing 0.5%). Kentz reported very good first half results and continued strong trading, with order backlog up 7% in the first half of the year. Also on the long side, Mount Engineering added 0.3% to overall performance after receiving two takeover bids.

Portfolio Activity

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

As at 30th September the Fund was invested in 77 (71)* stocks. Our short exposure increased more than our long exposure during the month, partly due to five new short positions, resulting in a somewhat lower net position. We added three new longs and sold two existing positions.

Worldspreads – Irish financial spread betting company (0.9% of NAV)

Worldspreads takes financial spread bets from customers wishing to gain exposure to various financial instruments, mostly indices (40%) and currencies (30%). Most bets are taken online and the customer base is mass market. The company does not naturally hedge all of its trades and therefore some of its revenue is theoretically exposed to market movements, but has never had a losing month – even during a very turbulent last couple of years. This track record and the low value of individual stakes give us confidence that the overall risk taken in trading positions is low and well diversified. About 60% of revenue is generated through partner branded websites. Worldspreads' exposure to these distribution channels is not highly concentrated with the top three accounting for less than 20% of overall revenue and management plan to focus more on promoting their own branded site in future. Partner agreements typically last 3 years and so far no partner has ended their relationship.

Worldspreads reported revenue of almost EUR 13m for the year to March 2010 with about 65% coming from the UK and 35% from their international division, with strong growth of well over 50% in both. The international division is expected to grow faster in future with more local partners likely to be added in new geographies. The most recent trading statement in September confirmed growth plans are on target for the first half. Management are reinvesting much of the revenue growth this year in marketing and the infrastructure of the company so although the top line is expected to increase over 40% profits will improve by less. Next year cost growth will slow substantially and significant operating leverage should mean profits grow faster than revenue again.

Management are well aligned with shareholders, owning over 18% of the company. There is about EUR 9m of free cash on the balance sheet and the company owns 5% of its own shares. It is also due EUR 3.2m deferred consideration over the next two years from the disposal of its Irish division which was sold in December 2009. The current market cap of Worldspreads is EUR 32m, giving an enterprise value of about EUR 20m – compared to operating profit of EUR 3m for the year for the year to March 2010, which we expect to increase 20% this year to over EUR 3.5m and by significantly more the following year as investment is reduced. Overall we expect the market valuation of Worldspreads to at least double over the next two years which would still only put the stock on an enterprise value of about nine times March 2012 net operating profit after tax. We also believe there is scope for dividends and potentially share buybacks given their very comfortable financial situation.

Top Five Holdings as at 30 September 2010

	Company	Country	Sector	% of NAV
1	STO	Germany	Construction	8.6
2	Xing	Germany	Technology	5.1
3	Informa	Jersey	Media	3.9
4	Diploma	United Kingdom	Industrials	3.8
5	Kentz Corp	United Kingdom	Industrials	3.7
				25.1

Exposures as at 30 September 2010

Longs %	Shorts %	Gross Exposure %	Net Exposure %
84.6 (82.2)	37.4 (31.3)	122.0 (113.5)	47.2 (51.0)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Bermuda	1.7	-0.7
Denmark	2.1	2.1
France	2.3	-1.1
Germany	31.0	18.4
Ireland	3.9	3.9
Italy	9.0	6.3
Jersey	6.3	3.8
Luxembourg	1.1	1.1
Netherlands	3.1	3.1
Spain	4.9	-4.9
Sweden	1.7	-0.4
Switzerland	4.6	-0.2
UK	39.6	16.7
US	7.2	-2.2
Other	3.5	1.3

Market Cap	Gross%	Net%
>£2bn	9.9	0.3
£700m - £2bn	10.8	-4.1
£200m - £700m	47.8	8.6
<£200m	53.5	42.4

Sector	Gross%	Net%
Construction	15.6	15.8
Consumer	10.5	4.0
Energy	5.1	-2.0
Financial	3.5	1.0
Food	3.6	-1.7
Industrials	18.7	5.7
Leisure	4.2	-2.2
Materials	1.6	-0.1
Media	18.5	14.2
Medical	2.3	-2.3
Property	4.2	4.2
Services	8.8	4.7
Technology	19.4	7.8
Telecoms	5.6	-2.3
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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