Ennismore European Smaller Companies Fund

Investor Newsletter for the month of October 2010

Issued on 10th November 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 91m as at 31st October. Total assets under management by Ennismore Fund Management were GBP 143m. 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 4217 or email subs@ennismorefunds.com. Redemptions can be made through the Administrator in the usual way.

Performance as at 31st October 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
October 10	**54.87**	**2.3**	**3.6**	**63.12**	**2.0**	**3.2**	**3.0**
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
2010 to date	**54.87**	**12.2**	**13.5**	**63.12**	**14.7**	**15.7**	**4.8**
Annualised return[5]		**15.8**	**9.3**		**13.6**	**7.2**	**2.3**
Since launch (27/01/99)		**459.1**	**183.1**		**348.2**	**126.3**	**30.1**

[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 rose by 2.3% in October. The long book added 3.5% and our short exposure cost the Fund 0.4%. Our two largest holdings, Sto and Xing, contributed 1.0% and 0.5% respectively. Photographic hardware manufacturer Vitec, covered in our May stock comment, upgraded guidance for this year. The company's move into supplying the defence and security industry continues to go well, with a second order from the FBI, which should benefit next year's results. The shares rose 13% in October contributing 0.3% to performance.

Portfolio Activity

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

As at 31st October the Fund was invested in 78 (77)* stocks.

Washtec – German manufacturer of carwash equipment (0.7% of NAV)

Washtec is the largest manufacturer of carwash equipment in the world with a very dominant position in Europe. After its IPO in 1997 the company, originally called Wesumat, acquired one of its largest competitors (California-Kleindienst) to form Washtec in the year 2000. This merger was initially not a success and led to a large cost restructuring to reduce overcapacity, with the closure of redundant sites. Since the completion of this rigorous restructuring, and a successful capital increase in 2005, the company has been able to reap the benefits of the dominant market position in Europe achieved through the merger with an average annual pre-tax return on capital employed of 20% since 2005.

Washtec is purely focussed on washing equipment and generates most of its revenues in Europe (88%) with Germany its largest single market at around 38% of sales. France is the second largest market followed by the US, which accounts for most of their non-European revenue after the acquisition of MARK VII in 2006. Washtec manufactures and sells mostly roll-over washing systems, but also truck-washing, self-wash and tunnel systems. 40% of sales are recurring revenues from servicing and spare parts, chemical consumables and car wash operations. The company has the largest installed base in Europe - of the four major players Washtec is by far the largest, twice the size of its closest peer - which in turn funds the largest sales and service network which customers need to ensure uptimes of close to 100%. This scale represents a high entry barrier - without a large service network it is not possible to take care of customers so well and it makes no sense to invest in a large service team if you don't already have a large installed base providing stable recurring revenues. We believe this is the principal reason why their competitor Kärcher, which is financially strong and has the leading brand in self-wash systems, has been unable to establish a significant position in the roll-over washing machines market after more than 10 years trying.

At a share price of EUR 8.50 Washtec's market capitalization is close to EUR 120m with net debt of around EUR 30m expected by the end of 2010. In 2009 Washtec was able to generate healthy operating cash flow of more than EUR 20m despite an 11% decline in revenue. We are forecasting moderate sales growth in 2010 as customers remain reluctant to invest in new equipment, but profitability will improve due to lower production costs. In 2011 profitability should return to levels closer to the ones achieved before the recession, when operating profit averaged around EUR 25m. Based on our estimates for 2010 Washtec is valued at an enterprise value of eight times operating profit. In our opinion this does not adequately reflect Washtec's strong and sustainable business model, high operating cash flow generation and growth opportunities available in new markets and from an increasing share of services and consumables. The Fund was a shareholder in Washtec back in 2005 through the capital increase and we think that it is now time to buy in again. The stock is overlooked by most investors and we expect it to appreciate by more than 50% in the next 12 months as results improve.

Top Five Holdings as at 31st October 2010

	Company	Country	Sector	% of NAV
1	Sto	Germany	Construction	9.4
2	Xing	Germany	Technology	5.5
3	Informa	Jersey	Media	4.0
4	Buzzi Unicem	Italy	Construction	3.6
5	Kentz Corp	United Kingdom	Industrials	3.4
				25.9

Exposures as at 31st October 2010

Longs %	Shorts %	Gross Exposure %	Net Exposure %
89.6 (84.6)	34.7 (37.4)	124.3 (122.0)	54.8 (47.2)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Bermuda	1.5	-0.5
Denmark	2.2	2.2
France	2.9	-1.1
Germany	33.1	22.1
Ireland	3.5	3.5
Italy	10.0	6.5
Jersey	6.3	3.9
Luxembourg	1.2	1.2
Netherlands	3.0	3.0
Spain	4.0	-4.0
Sweden	1.7	-0.2
Switzerland	4.4	-0.2
UK	40.3	18.1
US	7.3	-2.1
Other	2.9	2.4

Market Cap	Gross%	Net%
>£2bn	8.4	2.0
£700m - £2bn	11.4	-4.3
£200m - £700m	45.6	13.6
<£200m	58.9	43.5

Sector	Gross%	Net%
Construction	16.6	16.5
Consumer	11.8	3.3
Energy	5.0	-1.7
Financial	4.2	0.6
Food	3.0	-1.1
Industrials	18.8	6.0
Leisure	4.0	-2.1
Materials	1.5	0.0
Media	19.0	14.8
Property	4.3	4.3
Services	9.2	5.2
Technology	19.2	9.6
Telecoms	5.3	-2.0
Transport	1.9	1.9
Other	0.5	-0.5

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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