Ennismore European Smaller Companies Fund

Investor Newsletter for the month of November 2010

Issued on 10 December 2010

Important Notice

For the first time since launching the Fund more than a decade ago we went on a roadshow to meet potential new investors in November. Our target is to raise EUR 70m of new money across the two funds managed by Ennismore Fund Management, after which we will again hard close the Fund by capping the number of shares in issue. The purpose of this fundraising is to diversify further our client base and we remain absolutely committed to limiting assets under management. We are looking for like-minded investors who are both willing and able to invest for the long term. Further details can be found in our roadshow presentation which is available on our website www.ennismorefunds.com. If you would like to subscribe please call Eleanor Scott on +44 (0) 20 7368 4219 or email subs@ennismorefunds.com. Redemptions can be made through the Administrator in the usual way.

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 November. Total assets under management by Ennismore Fund Management were GBP 141m. Further background information, including all past newsletters, can be found on our website.

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.

Performance as at 30 November 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
November 10	**54.64**	**-0.4**	**-4.7**	**65.37**	**3.6**	**-1.1**	**-3.3**
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
2010 to date	**54.64**	**11.8**	**8.1**	**65.37**	**18.8**	**14.4**	**1.3**
Annualised return[5]		**15.6**	**8.7**		**13.8**	**7.0**	**2.0**
Since launch (27/01/99)		**456.7**	**169.7**		**364.2**	**123.8**	**25.7**

[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 slightly in sterling in November, primarily due to the weakness of the euro which was impacted by the bailout of the Irish state. The Fund's long and short books both contributed positively, adding 0.2% and 0.1% respectively. In euro NAV increased by 3.6%.

The most significant contribution (0.4%) came from financial security software publisher Norkom Group which announced that it had received a preliminary takeover approach. We have owned the company in the past and built up a new position in Norkom following the company's profit warning in September as we felt the market's reaction – the shares fell around 40% - undervalued the company's long term potential.

Our largest holding, Sto, also performed well after the company upgraded its revenue and operating profit guidance for 2010 with growth of around 5% now expected. We slightly reduced our holding in November to keep the position below 10% of Fund NAV but it remains a key investment for us. Sto should end the year with net cash of close to EUR 100m and, with a current market cap of EUR 575m, is valued at only five and a half times this year's operating profit despite being both non-cyclical (operating profit increased in 2008 and declined only marginally in 2009) and well positioned in a growing market segment (retro-fitted building insulation).

Portfolio Activity

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

As at 30th November the Fund was invested in 78 (78)* stocks. We added one significant new position on the long side. Mount Engineering exited the portfolio following completion of the tender offer.

Piquadro – Italian consumer goods manufacturer (0.9% of NAV)

Piquadro is a producer of premium leather goods with a focus on business and travel bags and luggage. The company prides itself on being innovative in its designs while also being stylish. Their prices typically range from around EUR 200 up to EUR 800. The company sells wholesale (c.80% of sales) and also to around 90 own brand stores (c.20%), of which 40% are directly owned and 60% franchised. The number of own brand stores is growing strongly and management's strategy is to continue to add around 30 each year. Geographically the company still has a strong bias to Italy (c.75% of turnover) although this is likely to fall over time as the company profits from growth in own brand stores, especially in China which now accounts for over 15% of the network.

The company has traded very well this year with turnover growth of close to 20% in the first half year with strong growth across the distribution channels and like for like sales up over ten percent in its own stores. Although the company has significant exposure to a weak economic situation in Italy the quality of their new product lines has led to good growth there which gives some confidence in the ability of the company to do well even when times are tough. The company's management are very long term in their outlook, helped no doubt by CEO and founder Marco Palmieri's 67% holding in the company, which he has increased frequently. We believe Mr. Palmieri to be a top class, long term thinker with respect to how to grow the company in a low risk sustainable manner. Piquadro is highly profitable with operating margins of over 20% for the last five years, helped by its own low cost manufacturing facility in China which supports value added margins of c.80%. The company also generates excellent returns on capital employed of over 25% after tax. The balance sheet is strong with a good track record of cash generation and net debt at the half year of only EUR 7m, after paying the previous year's EUR 4m dividend. For this financial year (ending in April) we forecast the company will grow operating profit by around 20% to EUR 14m with similar growth going forward. The stock is trading on an enterprise value to after tax operating profit (EV / NOPAT) multiple of around 11 times this year's forecast earnings. Given the excellent track record, strong margins and niche product positioning we believe the company should be valued on 14 times April 2012 EV / NOPAT which would give a fair equity value of over EUR 150m, or 60% upside over the next 18 months.

Top Five Holdings as at 30 November 2010

	Company	Country	Sector	% of NAV
1	Sto	Germany	Construction	9.4
2	Xing	Germany	Technology	5.7
3	Diploma	United Kingdom	Industrials	3.3
4	Buzzi Unicem	Italy	Construction	3.2
5	Informa	Jersey	Media	3.1
				24.7

Exposures as at 30 November 2010

Longs %	Shorts %	Gross Exposure %	Net Exposure %
91.2 (89.6)	35.2 (34.7)	126.4 (124.3)	56.0 (54.8)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Bermuda	1.5	-0.5
Denmark	2.3	2.3
France	3.5	-1.0
Germany	34.3	21.5
Ireland	4.1	4.1
Italy	8.3	6.6
Jersey	5.2	3.3
Luxembourg	1.1	1.1
Netherlands	3.3	3.3
Spain	2.6	-2.5
Sweden	1.5	-0.2
Switzerland	4.1	0.1
UK	44.0	18.5
US	8.1	-2.7
Other	2.5	2.1

Market Cap	Gross%	Net%
>£2bn	10.8	-2.3
£700m - £2bn	10.4	-4.1
£200m - £700m	47.6	17.9
<£200m	57.6	44.5

Sector	Gross%	Net%
Construction	16.4	16.5
Consumer	12.3	2.8
Energy	4.8	-1.0
Financial	3.9	0.8
Food	2.4	-0.5
Industrials	16.4	5.5
Leisure	5.0	-3.1
Materials	1.6	-0.1
Media	18.6	14.3
Property	6.8	6.8
Services	10.1	5.6
Technology	20.5	9.0
Telecoms	5.7	-2.5
Transport	1.8	1.8
Other	0.1	0.1

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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