Ennismore European Smaller Companies Fund

Investor Newsletter for the month of January 2011

Issued on 9 February 2011

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. To date we have received approximately EUR 42m in new money and firm commitments.

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.

Please also note that on 4th January 2011 Northern Trust International Fund Administration Services (Ireland) Limited was appointed as Administrator.

In connection with the fundraising process three additional share classes have been created in the Fund with initial offer periods that ran during January. The primary purpose of this change was to create distinct GBP and EUR share classes. Performance data on all classes will be provided in future newsletters. Data below relates to GBP "A" Shares.

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 104m as at 31st January. Total assets under management by Ennismore Fund Management were GBP 162m.

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 31 January 2011

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
January 11	**59.56**	**2.9**	**0.4**	**69.58**	**3.0**	**0.7**	**1.9**
December 10	57.90	6.0	12.7	67.57	3.4	10.0	5.5
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
2011 to date	**59.56**	**2.9**	**0.4**	**69.58**	**3.0**	**0.7**	**1.9**
Annualised return[5]		**16.2**	**9.7**		**14.2**	**7.9**	**2.5**
Since launch (27/01/99)		**506.8**	**205.0**		**394.1**	**147.9**	**35.1**

[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 2.9% in January. Our long book contributed 4.3% while the Fund's short exposure cost 0.3%.

The strongest contribution came from Kentz Corp, adding 0.7%, which gave a strong trading update and guided for 2010 earnings ahead of consensus expectations. Spir Communciation, Xing and Norkom each added 0.6%.

Portfolio Activity

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

As at 31st January the Fund was invested in 74 (73)* stocks. We sold our position in Norkom after the company agreed to be acquired by BAE Systems.

RealDolmen – Benelux provider of IT services (0.7% of NAV)

RealDolmen is a provider of IT solutions in the Benelux region with a focus on the area around Brussels, created via the merger of Real Software and Dolmen ICT in 2008. Management have actively avoided the high end of the market, where competition is fierce, and are instead focused on medium-sized companies, where RealDolmen is the biggest player in Belgium. A typical project for the business could be anything from a CRM implementation through to full outsourcing of a customer's IT activities.

With its focus on mid-size companies, RealDolmen occupies a sheltered position. The larger players are typically focused on the major multinational customers and are relatively inflexible, whilst smaller players typically can't meet all the needs of a medium-sized enterprise. Due to the full range of services covered larger suppliers such as Microsoft are now bringing customer leads to RealDolmen and we expect the company to continue gaining share in the medium-term as customers move towards single-sourcing of IT support. Customers are also relatively sticky – management estimate that at least 45% of revenues are either contractually recurring or "de-facto recurring" since RealDolmen is a core part of the customer's operation. IT has become a critical component for most businesses and we believe there is limited propensity to switch suppliers purely on the basis of price.

The key attraction of RealDolmen is its extremely low valuation. The business has a substantial level of tax losses stemming from ill-advised acquisitions in the US in the Real Software business in the early 2000s. The management team responsible for those decisions was removed in 2005 and we are confident that the new team are managing with shareholders' best interests in mind. Unusually the company also owns most of its operating buildings and the recent merger has led to excess real estate, which management are considering divesting. Taking a conservative estimate of the value of its tax losses and excess property, we believe RealDolmen currently trades on an enterprise-value-to-operating-profit ratio in 2010/11 (March year end) of less than six times. Cash earnings are also substantially higher than reported earnings due to depreciation of a legacy car pool. The company has a small amount of net debt (less than one times operating profit) but net profit is currently suppressed by a convertible bond that will be redeemed in 2012. Stripping out the impact of the bond, we estimate that the price-to-earnings ratio for 2010/11 is just over eight times and the free cashflow yield is close to 15%. We think the business is worth at least 50% more than the current price in a conservative scenario and potentially much more if the IT market picks up in 2011 and beyond. We take additional comfort from recent management share purchases, suggesting that they share our view that the business is being undervalued by the market.

Top Five Holdings as at 31 January 2011

	Company	Country	Sector	% of NAV
1	Sto	Germany	Construction	8.5
2	Xing	Germany	Technology	6.0
3	Buzzi Unicem	Italy	Construction	3.5
4	Kentz Corp	United Kingdom	Industrials	3.1
5	LSL Property Services	United Kingdom	Property	2.7
				23.8

Exposures as at 31 January 2011

Longs %	Shorts %	Gross Exposure %	Net Exposure %
85.5 (87.0)	29.2 (31.1)	114.7 (118.1)	56.4 (55.9)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 31 January 2011

Country	Gross%	Net%
Bermuda	2.6	-1.4
Denmark	2.3	2.3
France	4.2	-0.7
Germany	32.7	23.1
Ireland	3.3	3.3
Isle Of Man	0.9	0.9
Italy	8.4	7.1
Jersey	5.1	2.0
Netherlands	2.9	2.9
Spain	2.1	-2.1
Sweden	1.3	-0.1
Switzerland	3.9	0.3
UK	38.9	15.5
US	4.1	1.3
Other	2.0	2.0

Market Cap	Gross%	Net%
>£2bn	5.5	0.7
£700m - £2bn	12.5	-1.6
£200m - £700m	48.8	17.4
<£200m	47.9	39.9

Sector	Gross%	Net%
Construction	17.1	17.1
Consumer	11.0	2.2
Energy	3.4	-0.8
Financial	4.2	1.4
Food	2.9	-1.2
Industrials	13.7	5.9
Leisure	4.1	-2.7
Materials	1.7	0.2
Media	17.1	13.3
Property	6.4	6.4
Services	8.2	4.5
Technology	16.6	9.8
Telecoms	5.1	-2.9
Transport	2.4	2.4
Other	0.8	0.8

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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