Ennismore European Smaller Companies Fund

Investor Newsletter for the month of March 2011

Issued on 7 April 2011

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 165m as at 31st March. Total assets under management by Ennismore Fund Management were GBP 208m.

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. For more information or 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.

Performance as at 31 March 2011

	Share Class[2]					HSBC Index[3]		MSCI Index[4]
	GBP A £	GBP A €	GBP B	EUR A	EUR B	GBP	EUR	(local)
NAV per Share[1]	**63.00**	**71.16**	**10.63**	**10.26**	**10.27**			
Period			% Change				% Change	
March 11	**5.3**	**1.0**	**5.2**	**1.9**	**1.8**	**2.9**	**-1.1**	**-1.9**
February 11	0.5	1.3	0.4	0.7	0.9	0.7	1.3	2.1
January 11	2.9	3.0				0.4	0.7	1.9
December 10	6.0	3.4				12.7	10.0	5.5
November 10	-0.4	3.6				-4.7	-1.1	-3.3
October 10	2.3	2.0				3.6	3.2	3.0
2011 to date[6]	**8.8**	**5.3**	**6.3**	**2.6**	**2.7**	**4.0**	**0.9**	**2.1**
Annualised return[5]	**16.5**	**14.2**				**9.9**	**7.8**	**2.5**
Since launch[5]	**541.9**	**405.3**				**216.0**	**148.4**	**35.4**

[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 of GBP A share class on 27/01/99 to date. [6]From launch to date for GBP B, EUR A, and EUR B share classes. GBP B launched 19/01/11, EUR A and EUR B launched 31/01/11. 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. 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 5.3% in March in sterling, in euros the comparable increase was 1.0%. Our long book contributed 3.7% while the Fund's short exposure added 1.2%.

The largest contribution came from Sto, adding 1.6%. The shares were up over 20% in March and probably benefitted from generally positive sentiment towards renewable energy, with the German government in particular proposing new subsidies that should increase demand for Sto's insulation products.

Claim against Lehman Brothers International (Europe)

Due to increasing transparency over the value of the Fund's USD 7.8m claim in the administration of Lehman Brothers International (Europe) and increasing evidence of the transfer of such claims in the secondary market, a value of GBP 1.5m has been attributed to the claim in determining the Fund's NAV with effect from 9th March 2011.

Portfolio Activity

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

As at 31st March the Fund was invested in 69 (73)* stocks. We have sold our long held investment in Diploma, a UK based specialist distributor. The company reported continued strong trading and, with the shares up about 20% year to date, we took the opportunity to sell out at what we believe to be a fair valuation. This is a top quality business, which is reflected in its return on capital over the past decade, and we will continue to follow it closely. We would be very happy to be shareholders in the company in future.

Howden Joinery (UK kitchen manufacturer, 2.4% of NAV)

Howden Joinery is the UK's largest manufacturer of kitchens (c. 80% of group sales, the rest being joinery) supplying around 20% of the total market. The company's business model is to sell solely through tradesmen rather than direct to consumers which differentiates it from all its main competitors. In the trade distribution channel we believe it has a market share of around 40%.

Howden's business model is to operate large depots with market leading availability - typically next day delivery compared with a minimum of four weeks for most of their competitors. Howden achieves this in part by only producing for its own depots (in comparison Nobia, one of its main competitors with the Magnet retail brand, also manufactures for other companies) which reduces the number of ranges produced and simplifies the supply chain. This extremely high level of availability is obviously appealing to the end consumer but also to the trade as it means sales, profit and cash come through much more quickly than with alternative suppliers. While depot staff are not allowed to sell direct to the consumer, as it is crucial that they do not compete with their customers, tradesmen often heavily favour Howden when suggesting kitchens to the consumer because of the benefits they get from a quick turnaround. Howden clearly profits from this too, with industry leading returns - gross and operating margins have been increasing over time, reaching 59.5% and 13.2% respectively in 2010, up from 55.5% and 8.7% in 2005. Pre-tax returns on net operating assets were close to 50 percent in 2010 showing the high quality of this company.

The company had 490 depots at the end of 2010 and has been adding an average of thirty a year, with a target of 650 which they see as their potential capacity. Staff in the depots are well incentivised with both managers and other employees earning bonuses based on the profit of the depot they work in. Typically depots have a six to seven year maturity profile due to the time it takes to build up relationships with tradesmen in the local area, with an ideal turnover of GBP 1.8 – 2.0m per depot (if a depot's turnover exceeds this level they look to open another nearby as they don't want to over trade and risk poorer customer service) and operating margins of over 20%. This maturity profile helped the business to grow on a per depot basis even in the recent weak economic environment as they took further market share. Currently only about 60% of its network has reached maturity and profitability should continue to benefit from this for several years.

The Howden business was previously part of the MFI Group, which was predominantly a retail business that went into administration in 2008. This left Howden with a legacy portfolio of onerous leases and a significant pension deficit. Over the last two years the company has had to focus on reducing these liabilities while still ensuring the business performed well operationally in a weak consumer environment. From the end of 2008 to 2010 the company's financial risk has fallen hugely from a net debt (including onerous leases and the pension deficit) to operating profit ratio of 3.5 times to a relatively low risk 1.1 times, primarily due to cash generation of over GBP 200m driven by strong profit growth.

We believe the quality of this company, proven by its ability to generate strong profitability even in weak economic times, has not been properly recognised by the market. With growth coming from new depot rollouts and maturing existing depots we view the stock as significantly undervalued. For this year we only assume flat operating profits, after they grew by a third in 2010, as we expect consumers to continue to tighten their belts. At 112p this means the stock is trading on a price to earnings ratio of 9.5 times for 2011 and an enterprise value to operating profit of 7.4 times. We conservatively estimate fair value is closer to 15 times enterprise value to net operating profit after tax, which implies upside of over 50% in the next 12 months.

Top Five Holdings as at 31 March 2011

	Company	Country	Sector	% of NAV
1	Sto	Germany	Construction	7.1
2	Xing	Germany	Technology	5.3
3	Buzzi Unicem	Italy	Construction	3.9
4	Kentz Corp	United Kingdom	Industrials	2.6
5	JD Sports	United Kingdom	Consumer	2.5
				21.4

Exposures as at 31 March 2011

Longs %	Shorts %	Gross Exposure %	Net Exposure %
74.9 (76.4)	31.5 (30.9)	106.4 (107.3)	43.5 (45.4)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Belgium	1.3	-0.2
Bermuda	2.3	-0.6
Denmark	2.0	2.0
France	5.6	-1.0
Germany	31.2	20.8
Ireland	2.4	2.4
Italy	9.0	7.9
Jersey	3.6	1.8
Netherlands	2.3	2.3
Spain	1.7	-1.7
Sweden	2.1	-1.2
Switzerland	3.3	0.2
UK	34.0	8.1
US	2.7	1.6
Other	2.9	1.1

Market Cap	Gross%	Net%
>£2bn	4.3	0.6
£700m - £2bn	22.8	-0.8
£200m - £700m	38.1	14.1
<£200m	41.2	29.6

Sector	Gross%	Net%
Construction	16.1	16.2
Consumer	12.0	0.2
Energy	4.7	-2.8
Financial	3.4	1.3
Food	3.0	0.1
Industrials	12.1	4.2
Leisure	4.4	-3.3
Materials	1.3	0.2
Media	14.4	10.3
Property	5.7	5.0
Services	6.3	2.7
Technology	15.5	9.0
Telecoms	4.6	-2.1
Transport	1.9	1.9
Other	1.0	0.6

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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