Ennismore European Smaller Companies Fund

Investor Newsletter for the month of April 2011

Issued on 10 May 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 167m as at 28th April. Total assets under management by Ennismore Fund Management were GBP 210m.

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 28 April 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]	**63.30**	**71.09**	**10.69**	**10.25**	**10.27**			
Period			**% Change**				**% Change**	
April 11	**0.5**	**-0.1**	**0.6**	**-0.1**	**0.0**	**3.1**	**2.5**	**3.4**
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
2011 to date[6]	**9.3**	**5.2**	**6.9**	**2.5**	**2.7**	**7.2**	**3.4**	**5.6**
Annualised return[5]	**16.4**	**14.1**				**10.1**	**7.9**	**2.8**
Since launch[5]	**545.0**	**404.8**				**225.7**	**154.7**	**39.9**

[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. Since 9th March 2011 a value of GBP 1.5m has been attributed to the Fund's claim for USD 7.8m in the administration of Lehman Brothers International (Europe). 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 0.5% in April. Our long book contributed 2.1% while the Fund's short exposure cost 1.2%. The largest positive contribution came from our investment in Xing, adding 0.7%. LSL Property Services, PubliGroupe and Elexis all added 0.4%. with Elexis reporting very strong Q1 11 results with revenue and order intake both up by about 40% and profitability way ahead of the same quarter last year. In early May the company received a takeover offer from SMS Group.

Portfolio Activity

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

As at 28th April the Fund was invested in 75 (69)* stocks. We conditionally accepted a takeover bid by private equity firm Inflexion for UK TV shopping channel Ideal Shopping Direct in April.

Ringkjoebing Landbobank (Danish bank, 1.3% of NAV)

Ringkjoebing Landbobank is a Danish regional bank focussed on the Jutland peninsula, where it has around 75% of its loan book. It also has a strong niche position in the wind farm sector (18% of the loan book). The bank's market share is 50% in the west of Jutland and 15% in the central region. The company has a very strong track record with an average return on equity of 17% over the last 10 years with the low a still healthy 12%. The resilience of its earnings in these tough times is very instructive in our view.

The bank generated income of DKK 796m in 2010 of which 75% came from net interest income with a solid 3.3% margin versus the asset base. The remaining revenue comes from various fee income streams and less than 10% of total turnover is from volatile areas such as trading. The DKK 13bn loan book is split two thirds business, one third private (mostly secured). The business segment includes a strong, very low risk, niche position financing wind farms, all linked to Denmark by wind farm location or by nationality of the owner. In the wind sector the company takes various layers of collateral which has led to an excellent accumulated provision of only DKK 9m versus a total of DKK 3bn of loans. Other strong niches include doctors and dentists (c. 5% of the loan book) and farming (c.7%), reflecting its geographic exposure.

As well as solid revenue streams, Ringkjoebing Landbobank has a very efficient cost structure. Its core cost to income ratio in 2010 of around 30% was industry leading. The balance sheet is very conservatively positioned with almost 90% of its loan book covered by deposits and so it has very low reliance on other banks for funding. Capital strength is also very high with a core tier one ratio of 18.6%, which compares to industry peers who are targeting between 10 and 13%. We believe the company is over capitalised - were DKK 600m of capital (17% of its current market cap) paid out Ringkjoebing Landbobank would still be left with a core tier one ratio of about 14%. Management has also built up an extraordinarily prudent 900% provision coverage with respect to non-performing loans, equating to almost 4% of the loan book. The loan loss provision ratio has been just over 1% of the loan book for the last two years and we expect this to decline going forward as provisions in the farming sector (a quarter of balance sheet provisions) and the Copenhagen region (17% of the loan book) should reduce, due to high loan coverage and property price stability respectively.

We expect earnings will grow to about DKK 340m in 2011 (a 14% return on equity). This is based on our forecasts for interest income to grow modestly as low loan growth and interest rates are still hindering the interest margin. However we also expect Ringkjoebing Landbobank to continue to take market share in customer deposits helped by its well deserved reputation for financial solidity. Any upward move in interest rates may be beneficial with, on our calculations, a 100 basis point increase potentially boosting the company's profits by up to 15% compared to our current 2011 expectations as much of the increase isn't likely to be passed on fully to all customers.

Overall Ringkjoebing Landbobank is a very conservative, well managed regional bank with an excellent track record of earnings growth and stability, with no loss making years in the last twenty. Simply by paying out its excess capital (which we expect to occur over time) the return on equity in the business would increase to over 18% and, given our expectation that provisions will now start to reduce significantly, we believe a return of over 20% in the coming years is highly achievable. We value Ringkjoebing Landbobank on the basis of two times 2012 NAV and on a price to earnings ratio of ten times for the same year, adjusted for our estimate of excess capital, which leads us to conservatively estimate upside of over 40% for the shares.

Top Five Holdings as at 28 April 2011

	Company	Country	Sector	% of NAV
1	Sto	Germany	Construction	6.7
2	Xing	Germany	Technology	6.0
3	Buzzi Unicem	Italy	Construction	3.9
4	Kentz Corp	United Kingdom	Industrials	2.7
5	JD Sports	United Kingdom	Consumer	2.7
				22.0

Exposures as at 28 April 2011

Longs %	Shorts %	Gross Exposure %	Net Exposure %
78.2 (74.9)	36.3 (31.5)	114.6 (106.4)	41.9 (43.5)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 28 April 2011

Country	Gross%	Net%
Belgium	1.4	-0.2
Bermuda	2.4	-0.5
Denmark	2.0	2.0
France	5.7	-0.9
Germany	32.5	21.6
Ireland	2.5	2.5
Italy	9.3	8.1
Jersey	4.6	0.8
Netherlands	1.8	1.8
Spain	1.6	-1.6
Sweden	2.9	-2.0
Switzerland	4.8	-0.5
UK	36.4	7.4
US	2.9	1.4
Other	3.8	2.0

Market Cap	Gross%	Net%
>£2bn	4.3	0.6
£700m - £2bn	25.8	0.3
£200m - £700m	48.9	14.2
<£200m	35.6	26.8

Sector	Gross%	Net%
Construction	15.7	15.7
Consumer	13.4	-0.2
Energy	4.7	-2.9
Financial	3.6	1.5
Food	3.0	0.2
Industrials	14.0	5.0
Leisure	4.2	-3.2
Materials	1.3	0.2
Media	14.2	10.2
Property	6.1	5.4
Services	7.3	1.6
Technology	17.8	9.2
Telecoms	6.2	-3.5
Transport	2.0	2.0
Other	1.1	0.7

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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