Ennismore European Smaller Companies Fund

Investor Newsletter for the month of May 2011

Issued on 8 June 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 170m as at 31st May. Total assets under management by Ennismore Fund Management were GBP 215m.

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 May 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]	**63.20**	**72.36**	**10.67**	**10.40**	**10.42**			
Period	% Change					% Change		
May 11	**-0.2**	**1.8**	**-0.2**	**1.5**	**1.5**	**-1.8**	**-0.2**	**-1.4**
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
2011 to date[6]	**9.2**	**7.1**	**6.7**	**4.0**	**4.2**	**5.2**	**3.2**	**4.0**
Annualised return[5]	**16.3**	**14.2**				**9.9**	**7.8**	**2.6**
Since launch[5]	**543.9**	**413.8**				**219.8**	**154.0**	**37.9**

[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 decreased by 0.2% in May. The long book cost 0.5% while the Fund's short exposure contributed 1.1%.
The main positive contribution on the long side came from our investment in professional network Xing, adding 0.7%. The initial public offering (IPO) of its US peer LinkedIn was very well received with the shares currently trading at more than twice the initial indicated price range. While our investments are not made based on relative valuation the difference between Xing and LinkedIn is striking given how similar the two services are – LinkedIn trades at an enterprise value (EV) of 24 times historic sales and 400 times operating profit, Xing on 4 and 17 times respectively. LinkedIn should grow faster but this is partly a reflection of Xing's success in already monetising its more active and geographically concentrated user base, which has meant it has been profitable since 2007. One of the reasons given by LinkedIn for its IPO is to provide it with resources to make acquisitions and, if they plan to be a truly global service, they will need to buy in several key countries where they have not been able to dislodge the local market leader, most notably Xing's home turf of Germany. An acquisition would provide very large synergies as these are largely fixed cost businesses (the largest expense for Xing is software developers) offering the same service. If we assume a third of Xing's cost base could be saved this would roughly double our estimate for profitability this year, suggesting LinkedIn can afford to pay a significant premium to the current share price and still get a prized asset at an attractive valuation.

Portfolio Activity

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

As at 31st May the Fund was invested in 77 (75)* stocks.

Compugroup – German software developer for healthcare service providers (1.0% of NAV)

Compugroup is the leading developer of software solutions for healthcare service providers in Europe. It was founded in 1987 by its current CEO Frank Gotthardt and today serves a widespread, fragmented customer base of doctors, dentists and hospitals. Around 46% of the shares outstanding are owned by the founding family and we think it is very positive that they have increased their stake repeatedly over the past three years. The company has actively consolidated the market and established significant market shares in countries like Germany (>40%), Austria (>40%), Norway (>70%), Sweden (>60%) and Denmark (>40%). It still generates around 50% of its revenues in its home market Germany with most of the remainder coming from rest of Europe. The business has two main segments: Health Provider Services (HPS) offers workflow software solutions to its broad customer base of doctors and hospitals, generating EUR 251m revenues and 58m earnings before interest, tax, depreciation and amortization (EBITDA) in 2010. The Health Connectivity Services (HCS) segment capitalizes on Compugroup's access to more than 380,000 healthcare providers by selling advertising solutions within the physician's software to pharmaceutical companies and decision support solutions to health insurance companies. This division generated EUR 64m revenues and 21m EBITDA.

We like Compugroup's business model for several reasons. Firstly, it has strong pricing power - maintenance fees charged to customers represent only a small share of their budgets whereas switching costs are high (reflected in a low churn rate of only 2% p.a.). For example, in 2009 Compugroup was able to offset lower advertising revenue by increasing maintenance fees by 30%, with no negative impact on churn rates. Second, its dominant market position in several countries, giving access to a large network of healthcare providers, enables Compugroup to sell services to pharmaceutical companies and health insurers – the bigger its share in a market the more attractive Compugroup's data is to them and so scale allows the business to generates higher returns. Third the company is benefiting from positive long term trends as there is a need for all industrialised countries to curtail health care costs as their populations age. Compugroup's software solutions increase efficiency and so can help providers to save money. Last but not least competition is low in mature markets - high switching costs for customers and economies of scale are likely to be effective barriers to potential new entrants.

The quality of its business model enables Compugroup to generate predictable operating cash flows which have in turn funded its steady consolidation of the market. Return on capital employed (before tax) has been well above 10% historically and should increase strongly if the company starts scaling back acquisitions. For the time being, though, we expect Compugroup to grow strongly both organically and through further consolidation. We expect revenue of EUR 400m and EBITDA of EUR 86m in 2011. The company is currently valued at a market capitalisation of EUR 550m and has net debt of EUR165m. Reported profit is burdened by amortisation of purchase price allocations and, stripping these out, the enterprise value for Compugroup is currently nine times forecast earnings before interest, tax and amortization (EBITA) and eleven and a half times free cashflow. Given the strong business model, non-cyclical demand and attractive growth drivers in place we think the stock is too cheap and see 50% upside in the next twelve months.

Top Five Holdings as at 31 May 2011

	Company	Country	Sector	% of NAV
1	Xing	Germany	Technology	6.6
2	Sto	Germany	Construction	6.4
3	Buzzi Unicem	Italy	Construction	3.3
4	Howden Joinery	United Kingdom	Construction	2.9
5	JD Sports	United Kingdom	Consumer	2.8
				22.0

Exposures as at 31 May 2011

Longs %	Shorts %	Gross Exposure %	Net Exposure %
79.2 (78.2)	35.5 (36.3)	114.7 (114.6)	43.7 (41.9)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Belgium	1.3	-0.1
Bermuda	2.3	-0.3
Denmark	2.0	2.0
France	5.0	-0.1
Germany	33.3	22.7
Ireland	2.3	2.3
Italy	8.4	7.1
Jersey	4.5	1.1
Netherlands	1.9	1.9
Spain	1.5	-1.5
Sweden	1.9	-0.8
Switzerland	4.6	-0.2
UK	39.4	5.7
US	2.8	1.2
Other	3.5	2.7

Market Cap	Gross%	Net%
>£2bn	4.3	0.8
£700m - £2bn	20.0	-7.0
£200m - £700m	51.9	24.1
<£200m	38.5	25.8

Sector	Gross%	Net%
Construction	14.8	14.7
Consumer	15.4	-2.8
Energy	4.4	-2.7
Financial	3.3	1.3
Food	2.9	0.3
Industrials	14.2	4.7
Leisure	4.0	-3.3
Materials	1.2	0.3
Media	14.4	10.5
Property	6.7	5.9
Services	6.0	2.7
Technology	17.9	11.6
Telecoms	5.7	-2.9
Transport	2.0	2.0
Other	1.8	1.4

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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