Ennismore European Smaller Companies Fund

Investor Newsletter for the month of July 2011

Issued on 9th August 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 180m as at 29th July. Total assets under management by Ennismore Fund Management were GBP 225m.

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 29 July 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]	**65.53**	**74.85**	**11.06**	**10.79**	**10.78**			
Period			**% Change**				**% Change**	
July 11	**-0.7**	**2.4**	**-0.7**	**1.9**	**1.8**	**-6.2**	**-3.2**	**-4.5**
June 11	4.4	1.0	4.4	1.8	1.6	-1.0	-4.1	-1.6
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
2011 to date[6]	**13.2**	**10.8**	**10.6**	**7.9**	**7.8**	**-2.3**	**-4.3**	**-2.2**
Annualised return[5]	**16.4**	**14.3**				**9.1**	**7.1**	**2.1**
Since launch[5]	**567.7**	**431.5**				**197.0**	**135.7**	**29.6**

[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 fell by 0.7% in July. Due to the weakness of the euro the Fund's NAV increased by around 2% in that currency. Our long book cost 1.7% while the Fund's short exposure contributed 1.6%. The best contribution came from Xing, adding 0.5%, while our position in Buzzi Unicem cost the Fund 0.8%.

Portfolio Activity

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

As at 29th July the Fund was invested in 74 (76)* stocks.

Tonnellerie François Frères – French manufacturer of wine barrels (0.8% of NAV)

Tonnellerie François Frères (TFF) is the world's leading producer of oak barrels used for ageing vintage wines. Barrels are only used in mid-to-high end wines (typically defined as costing more than EUR 10 per bottle) and represent a niche market; TFF estimate that less than 5% of wine production uses a barrel. Supply is concentrated with the top five manufacturers accounting for around 70% of global production and TFF is the industry leader, with a market share of around 20%. Its sales are well spread geographically with around 40% in Europe, 35% in the US and 25% in Latin America and Asia.

The barrel is critically important to TFF's customers, the vineyards, since it plays a key role in developing the taste of a wine. Most are small, family-owned businesses that tend to be very conservative in their choice of suppliers. Our conversations with TFF customers confirmed they have often stuck with the same barrel manufacturer for generations. These long-term relationships create a significant barrier to entry, which is further enhanced by the need to dry wood for three years before it can be made into barrels; any new entrant would have to tie up significant capital for that period and would have no guarantee of sales. Most of the volume sold is for replacement, usually after two to three years, as barrels impart less flavour to the wine over time. But we also expect to see gradual long term growth due to increasing consumption and production in emerging markets, where producers typically want French oak for its prestige and flavour. The stability of TFF's business is reflected in its return on capital employed (ROCE) which averaged more than 20% over the last decade in spite of a relatively capital intensive model. ROCE has fallen recently due to a decline in sales following the financial crisis but we see no reason why it won't return to historic levels over time, as sales recover and stock levels normalise. TFF lifted prices for the first time in two years in May which should provide a further boost to returns.

TFF has a market cap of EUR 155m. It will be cash neutral by the end of this year and currently offers a 2% dividend yield that is four times covered by earnings. We estimate that barrel sales fell from a peak of EUR 95m in 2008 to EUR 75m in 2010. This decline was driven by vineyards cutting back on production as orders from restaurants and retailers dried up during the financial crisis. We are confident that these sales will return in the medium term as markets recover. Additional growth should come from their range of lower-end flavouring products, known as oenology products, that was launched recently. They are used to improve the taste of wines where an oak barrel is seen as too expensive and as such should open up a new market rather than substituting for barrels. These products only represent around 6% of revenue but sales grew almost 100% in 2010. The remainder of TFF's sales (EUR 30m) come from Speyside, a Scottish business that is the leading player in the production and trading of whisky barrels. We don't expect significant growth here but believe it's an appealing niche. Speyside was acquired opportunistically in 2008 for a price of around four times operating profit; the low price gives us confidence in management's focus on creating value - TFF is run by the fourth generation of the François family, who still own 70% of the share capital. Overall we estimate that TFF's profit will be flat in 2011 at around EUR 15m and that this represents a trough for the wine industry. TFF therefore trades on a price to earnings multiple of just over 10 times. We expect that a gradual recovery in the industry will drive a more significant recovery in profit on a two to three year view. Given its relatively small free float liquidity in TFF shares is modest and we have sized the position accordingly at less than 1% of NAV. Taking all of this into account we expect to see a return of at least 50% on our investment in the medium term with scope for this to be substantially higher if the market for oenology products takes off.

Top Five Holdings as at 29 July 2011

	Company	Country	Sector	% of NAV
1	Xing	Germany	Information Technology	7.1
2	Sto	Germany	Materials	6.4
3	Howden Joinery	United Kingdom	Consumer Discretionary	3.0
4	Buzzi Unicem	Italy	Materials	2.8
5	Vib Vermoegen	Germany	Financials	2.7
				22.0

Exposures as at 29 July 2011

Longs %	Shorts %	Gross Exposure %	Net Exposure %
75.8 (77.6)	35.4 (35.1)	111.3 (112.7)	40.4 (42.6)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 29 July 2011

Country	Gross%	Net%
Austria	1.8	1.8
Bermuda	2.4	-0.5
Denmark	1.7	1.7
France	4.7	0.9
Germany	31.2	22.7
Ireland	2.3	2.3
Italy	7.3	6.0
Jersey	5.8	0.3
Netherlands	1.8	1.8
Singapore	1.0	1.0
Sweden	2.2	-1.1
Switzerland	3.9	0.2
UK	37.1	4.1
US	4.0	-0.7
Other	4.1	-0.1

Market Cap	Gross%	Net%
>£2bn	4.0	0.9
£700m - £2bn	23.3	2.6
£200m - £700m	44.7	14.8
<£200m	39.3	22.1

Sector	Gross%	Net%
Consumer Discretionary	37.7	8.3
Consumer Staples	3.7	-1.5
Energy	1.7	1.7
Financials	10.5	8.1
Health Care	2.2	-0.6
Industrials	18.7	9.8
Information Technology	22.0	6.5
Materials	10.5	10.5
Telecommunication	3.6	-1.7
Utilities	0.7	-0.7
Other	0.0	0.0

Geographic analysis relates to country of incorporation or listing. This may not represent the underlying economic exposure of the operating business. Sector analysis is based on the Global Industry Classification Standard ("GICS"). Source: Bloomberg.

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