Ennismore European Smaller Companies Fund

Investor Newsletter for the month of August 2011

Issued on 5 September 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 184m as at 31st August. Total assets under management by Ennismore Fund Management were GBP 229m.

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 August 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]	**65.39**	**73.95**	**11.04**	**10.65**	**10.67**			
Period	% Change					% Change		
August 11	**-0.2**	**-1.2**	**-0.2**	**-1.3**	**-1.0**	**-9.2**	**-10.3**	**-9.5**
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
2011 to date[6]	**12.9**	**9.4**	**10.4**	**6.5**	**6.7**	**-11.3**	**-14.1**	**-11.6**
Annualised return[5]	**16.3**	**14.1**				**8.2**	**6.1**	**1.3**
Since launch[5]	**566.2**	**425.1**				**169.6**	**111.5**	**17.2**

[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 NAV fell by 0.2% in August. Our long book cost 6.8% but the Fund's short exposure contributed 6.9%. Only a handful of our long positions posted positive performances in what was overall a very weak month for equity markets, with most indices off by around 10%. Despite starting the month with net exposure of 40% the strong relative performance of our short book offset this almost completely. The weighted average decline in the share prices of our long positions was about 9%, roughly in line with markets overall, but for our shorts it was 22%.

Portfolio Activity

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

As at 31st August the Fund was invested in 68 (74)* stocks. Overall net exposure increased significantly from 40% to 50% during the month. Short exposure declined due to the weak performance of the stocks underlying our short positions. Long exposure increased overall despite lower prices as we took the opportunity to open three new positions and add to some of our existing holdings, including Informa which is covered in the stock comment below. The only long position sold during the month was Nexus.

Informa – professional publisher (4.4% of NAV)

Informa's business has not changed since we last wrote a stock comment on it back in July 2009. It is a publisher and events organiser serving academic, professional, commercial and government customers. Its key products are journals and books, industry specific data subscriptions and live events (exhibitions, conferences and training), each of which accounts for roughly a third of earnings. Since the start of July Informa's share price has fallen by nearly 20%. As a result the valuation is also now similar to when we initially invested in the company two years ago and we have taken this opportunity to significantly increase our position.

While it is tempting to reprint much the same comment as we originally published this note instead focuses on the one big area of uncertainty we had at the time – just how cyclical are Informa's businesses? By mid 2009 the answer was already clear for the Events division with profits down by a third that year. Since then they have recovered steadily but remain well below their 2008 peak. The real question was to what extent the publishing businesses, and therefore Informa as a whole, would fluctuate over the cycle. For academic journals and books there was good reason to expect a very resilient performance. As a standalone business Taylor & Francis, which merged into Informa in 2004, grew operating profit every year from 1999 to 2003. This confidence was not misplaced – Informa's Academic Information division grew organic revenues and profits in 2009 and 2010 and will do again this year (and, we believe, next year as well). The really good news, though, is that overall the Professional and Commercial Information division has done almost as well. Organic revenues were marginally down in 2008 and 2009 but up again in 2010 and the first half of 2011. Profit will be similar this year to 2009, which was well up on 2008, and should benefit next year as the integration of Datamonitor (acquired in 2007) is completed. Management have guided for annual savings of GBP 8 to 10m from this which, all others things being equal, will add close to 10% to the division's profit next year.

Two years ago we said we believed Informa was one of the least cyclical listed media companies. Nothing has changed our view since then. Management have, rightly, been cautious about the strength of the economic recovery and remain so. But they, like us, continue to expect profit growth in 2011 which implies Informa is trading on a price to earnings ratio of about eight and a half times next year's earnings. Informa's capital structure, with net debt of roughly two and a half times operating profit, is appropriate for a business that generates most of its earnings from subscription businesses with very low rates of churn. This quality is reflected in a borrowing cost of a little over 4%. In contrast we believe an equity free cash flow yield of 11%, including a dividend yield of 4%, is far too low for such a defensive business. We are not optimistic about the economic environment but believe Informa can continue to deliver profit growth in 2012 and should therefore be valued at least a third above its current market price.

Top Five Holdings as at 31 August 2011

	Company	Country	Sector	% of NAV
1	Xing	Germany	Information Technology	5.7
2	Sto	Germany	Materials	5.5
3	Informa	Jersey	Consumer Discretionary	4.4
4	Buzzi Unicem	Italy	Materials	2.9
5	Howden Joinery	United Kingdom	Consumer Discretionary	2.8
				21.3

Exposures as at 31 August 2011

Longs %	Shorts %	Gross Exposure %	Net Exposure %
77.8 (75.8)	28.3 (35.4)	106.1 (111.3)	49.5 (40.4)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Austria	2.1	1.4
Bermuda	1.9	-0.2
Denmark	2.1	1.4
France	4.4	2.2
Germany	26.1	20.5
Ireland	2.0	2.0
Israel	2.0	-2.0
Italy	7.0	5.5
Jersey	7.0	3.0
Netherlands	4.2	4.2
Sweden	2.4	-1.1
Switzerland	3.8	0.2
UK	34.9	10.0
US	2.3	0.6
Other	3.9	1.8

Market Cap	Gross%	Net%
>£2bn	10.4	7.2
£700m - £2bn	7.7	-0.3
£200m - £700m	49.8	16.3
<£200m	38.2	26.3

Sector	Gross%	Net%
Consumer Discretionary	42.0	16.8
Consumer Staples	3.2	-1.0
Energy	1.4	1.4
Financials	9.5	7.8
Health Care	1.9	-1.0
Industrials	17.2	9.1
Information Technology	17.6	8.3
Materials	9.8	9.8
Telecommunication	3.1	-1.3
Utilities	0.4	-0.4
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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