Ennismore European Smaller Companies Fund

Investor Newsletter for the month of September 2011

Issued on 6 October 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 181m as at 30th September. Total assets under management by Ennismore Fund Management were GBP 226m.

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 30 September 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]	**65.28**	**75.79**	**11.02**	**10.88**	**10.88**			
Period	% Change					% Change		
September 11	**-0.2**	**2.5**	**-0.2**	**2.2**	**2.0**	**-10.5**	**-7.8**	**-4.6**
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
2011 to date[6]	**12.7**	**12.2**	**10.2**	**8.8**	**8.8**	**-20.6**	**-20.8**	**-15.6**
Annualised return[5]	**16.1**	**14.2**				**7.2**	**5.4**	**0.9**
Since launch[5]	**565.1**	**438.2**				**141.2**	**94.9**	**11.8**

[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 decreased by 0.2% in September. Our long book cost 2.9% while the Fund's short exposure contributed 3.1%.

Portfolio Activity

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

As at 30th September the Fund was invested in 65 (68)* stocks. We added one new long position in September and sold two relatively small existing positions. On the short side we closed four positions and opened four new ones but overall the Fund's short exposure has reduced quite significantly. Mostly as a result of this, net exposure has increased to 54% from 50% at the start of the month (and 40% at the start of July, when the heavy selloff in global equity markets really started).

Mayr-Melnhof Karton – Austrian cartonboard and packaging manufacturer (0.7% NAV)

It is hard to think of many less exciting products than cardboard – but when a cardboard manufacturer has a very strong, consistently improving competitive position, which is overlooked by the market, it could hardly be more exciting to an investor. Mayr-Melnhof, with a market capitalization of EUR 1.3bn, is the world's largest manufacturer of recycled cartonboard and the largest European producer of packaging cartons, the main end product for cartonboard. The company has a history going back more than a hundred years and began expanding across Europe in the 1980s. Today Germany accounts for about a quarter of group revenue, followed by the UK (14%) and France (8%), with Eastern Europe combined another 25%. Although listed since 1994 the founding family has retained a controlling majority stake of almost 60%.

Although Mayr-Melnhof is vertically integrated both divisions generate very strong returns in their own right. Recycled cartonboard, which generates 40% of operating profit, is typically used for food packaging. Mayr-Melnhof is by far the largest player in Europe for board made from recycled paper with a market share of more than 30%. Debt laden Italian competitor Reno de Medici has around 20% but Mayr-Melnhof's greater ability to invest (given its net cash position) and superior efficiency mean we should see the gap between the two widen further over the coming years. Even including cartonboard made from virgin fibres the supply side is very concentrated and net industry capacity in Europe has decreased in each of the last 5 years, resulting in utilisation rates of close to 100% for Mayr-Melnhof in 2010 and 2011. This, combined with industry leading efficiency, has enabled the company to generate very strong returns from this division.

The packaging division, which generates 60% of operating profit, produces boxes from both new and recycled cartonboard. This is a less capital-intensive, and much more fragmented (the top 5 in Europe account for about a third of the market), part of the value chain. Mayr-Melnhof's strategy is to act as the consolidator, a process which really began with its IPO in 1994. The company is around three times larger than its nearest competitor, benefitting from economies of scale in purchasing and a broad enough manufacturing base to supply multinationals' needs across Europe. Mayr-

Melnhof will continue to grow by further consolidating this market, by acquiring smaller competitors and through organic investment, but only at the right price - in 2009/10 the company bought back 10% of its own shares because the valuation multiples (and risks) were lower than those for potential acquisitions. The proof of their success in this strategy is the returns they are able to generate from this division, which are even better than those from its cartonboard unit.

Mayr-Melnhof has a track record of excellent, sustained returns on capital of close to 20% (before tax) over the past decade - the trough return, in 2008, was 16% which is a reflection of the non-discretionary nature of the end demand for their packaging products, particularly food and cigarettes. Despite an excellent start to 2011 (first half revenue up 14.5%, operating profit up 19.5%) and net cash of close to EUR 200m by year end, Mayr-Melnhof is only valued at around eleven times expected 2011 earnings with a prospective dividend yield of over 3% (covered three times by its net income). We think the company's strategy of investing cashflow into consolidation of the packaging sector will deliver steady growth of more than 5% for many years to come and are happy to own this high quality, low risk business at what we believe is a very attractive price. We see upside of more than 50% for the shares over the next 18 months, as earnings prove (again) to be resilient even in a very tough economy, and we expect to be shareholders for much longer than that.

Top Five Holdings as at 30 September 2011

	Company	Country	Sector	% of NAV
1	Xing	Germany	Information Technology	6.2
2	Sto	Germany	Materials	5.7
3	Informa	Jersey	Consumer Discretionary	4.2
4	Howden Joinery	United Kingdom	Consumer Discretionary	3.1
5	Kentz Corp	United Kingdom	Industrials	2.7
				21.9

Exposures as at 30 September 2011

Longs %	Shorts %	Gross Exposure %	Net Exposure %
78.8 (77.8)	24.8 (28.3)	103.7 (106.1)	54.0 (49.5)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 30 September 2011

Country	Gross%	Net%
Austria	2.1	1.4
Bermuda	2.4	-0.4
Denmark	2.6	1.5
France	4.1	2.0
Germany	27.0	20.4
Ireland	3.1	3.1
Israel	1.9	-1.9
Italy	6.1	4.8
Jersey	4.8	4.8
Netherlands	4.2	4.2
Sweden	2.1	-1.1
Switzerland	3.0	0.5
UK	34.9	11.2
US	1.9	1.1
Other	3.5	2.4

Market Cap	Gross%	Net%
>£2bn	5.8	2.7
£700m - £2bn	12.5	2.6
£200m - £700m	46.5	21.0
<£200m	38.9	27.7

Sector	Gross%	Net%
Consumer Discretionary	41.2	16.0
Consumer Staples	3.5	-1.3
Energy	1.6	1.6
Financials	11.1	9.4
Health Care	1.7	-0.9
Industrials	17.0	8.2
Information Technology	15.1	11.8
Materials	9.8	9.8
Telecommunication	2.4	-0.3
Utilities	0.3	-0.3
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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