Ennismore European Smaller Companies Fund

Investor Newsletter for the month of October 2011

Issued on 10 November 2011

Important Notice

This time last year we went on a roadshow to meet potential new investors, for the first time since launching the Fund more than a decade ago. Our target was to raise EUR 70m of new money across the two funds managed by Ennismore Fund Management and we achieved this gradually over the course of the past year, staggering subscriptions to ensure that returns for existing shareholders were not diluted. The purpose of the fundraising was to diversify further our client base and we have been successful in this aim – combined the ten largest external investors now account less than half of total assets under management.

We remain absolutely committed to limiting assets under management and have again hard closed both funds. We have a waiting list of clients that want to invest as and when capacity becomes available through redemptions. If you would like to be included on this 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.

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 194m as at 28th October. Total assets under management by Ennismore Fund Management were GBP 241m. Further details can be found on our website www.ennismorefunds.com.

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 28 October 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]	**67.17**	**76.50**	**11.34**	**11.02**	**11.02**			
Period			% Change				% Change	
October 11	**2.9**	**0.9**	**2.9**	**1.3**	**1.3**	**10.5**	**8.1**	**10.9**
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
2011 to date[6]	**16.0**	**13.2**	**13.4**	**10.2**	**10.2**	**-12.3**	**-14.4**	**-6.4**
Annualised return[5]	**16.3**	**14.2**				**8.0**	**6.0**	**1.7**
Since launch[5]	**584.4**	**443.2**				**166.5**	**110.7**	**24.0**

[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 increased by 2.9% in October. Our long book contributed 5.7% while the Fund's short exposure cost 2.0%.

Portfolio Activity

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

As at 28th October the Fund was invested in 70 (65)* stocks.

XP Power (UK manufacturer of power control hardware, 1.2% NAV)

XP Power designs and manufactures components used in the regulation and enhancement of critical power in electrical products. The company sells into many industrial sectors (45% of sales) as well as more specialised uses in non-consumer electronics (30%) and medical products (25%). They manufacture most of the products themselves in Asia with design spread globally across various locations. The end markets for these components are mainly North America and Europe, each accounting for about 45% of sales, but the their customer base is well diversified with no one accounting for more than 5% of revenue.

XP Power's components go into products that have an average life cycle of seven years. Because they are critical to the viability of a product, requiring safety approval, they cannot realistically be replaced by an alternative component once production begins. This gives the company close to annuity revenues from the products they are designed in to. As end sales do not usually peak until later in the product cycle new launches provide fairly predictable growth for several years. Management, who own 20% of the equity, say they are winning over 20% of the designs they pitch for, which is encouraging given its market share of around 10% in its main markets. The visibility coming from its existing revenue streams and the success in taking market share lead us to expect good medium term growth in the top line in spite of the worsening economic outlook.

Revenue growth has been supplemented by a strategic shift to control more of the value chain, reflected in gross margin improving from 37% five years ago to almost 50% today. In 2006 XP Power began a manufacturing joint venture with a Chinese partner and this became wholly owned in early 2009. The vast majority of the components they sell are now own brand although management believe there are still further improvements to come from increasing the proportion that is also designed in house (they are targeting 75% compared to 55% today). The net result of these changes has been strong profit growth and increasing returns on capital employed.

We forecast revenue will grow 15% this year to GBP 106m and operating profit by 35% to more than GBP 26m. Net debt should be around GBP 15m at the year end which, with the shares having halved from their peak earlier in the year, leaves the stock trading on a price to earnings multiple of less than nine times. While the company is not immune to the economic cycle we still expect operating profit growth in the high single digits next year and believe this high quality, niche business is at least 50% undervalued.

Top Five Holdings as at 28 October 2011

	Company	Country	Sector	% of NAV
1	Xing	Germany	Information Technology	5.9
2	Sto	Germany	Materials	5.1
3	Informa	Jersey	Consumer Discretionary	4.5
4	Howden Joinery	United Kingdom	Consumer Discretionary	3.6
5	Vib Vermoegen	Germany	Financials	3.4
				22.5

Exposures as at 28 October 2011

Longs %	Shorts %	Gross Exposure %	Net Exposure %
78.8 (78.8)	28.4 (24.8)	107.2 (103.7)	50.5 (54.0)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Austria	2.3	1.7
Bermuda	3.2	-1.4
Denmark	2.8	1.2
France	4.4	2.1
Germany	27.4	19.5
Ireland	3.3	3.3
Italy	6.4	5.0
Jersey	5.1	5.1
Netherlands	3.9	3.9
Singapore	1.2	1.2
Sweden	2.7	-1.8
Switzerland	3.5	1.2
UK	35.6	9.7
US	2.7	0.0
Other	2.7	-0.2

Market Cap	Gross%	Net%
>£2bn	10.6	5.5
£700m - £2bn	13.5	1.0
£200m - £700m	44.4	16.1
<£200m	38.7	27.9

Sector	Gross%	Net%
Consumer Discretionary	41.9	15.9
Consumer Staples	3.2	-1.3
Energy	2.6	0.6
Financials	11.1	9.5
Health Care	1.8	-1.0
Industrials	18.0	7.4
Information Technology	16.5	11.0
Materials	9.3	9.3
Telecommunication	2.6	-0.7
Utilities	0.2	-0.2
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.

For further information please contact:	Geoff Oldfield, Ennismore Fund Management	+44 (0) 20 7368 4223	go@ennismorefunds.com
For dealing please contact:	Northern Trust International Fund Administration Services (Ireland) Ltd	+353 (0) 1 434 5103	Ennismore_TA@ntrs.com

Ennismore Fund Management Limited, Kensington Cloisters, 5 Kensington Church Street, London, W8 4LD
Registered in England and Wales No. 3598371 Authorised and regulated by the Financial Services Authority