Ennismore European Smaller Companies Fund

Investor Newsletter for the month of November 2011

Issued on 13 December 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 189m as at 30th November. Total assets under management by Ennismore Fund Management were GBP 234m.

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 November 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]	**64.48**	**75.33**	**10.89**	**10.76**	**10.81**			
Period	% Change					% Change		
November 11	**-4.0**	**-1.5**	**-4.0**	**-2.4**	**-1.9**	**-8.0**	**-5.6**	**-4.0**
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
2011 to date[6]	**11.4**	**11.5**	**8.9**	**7.6**	**8.1**	**-19.3**	**-19.2**	**-10.2**
Annualised return[5]	**15.8**	**14.0**				**7.2**	**5.5**	**1.4**
Since launch[5]	**557.0**	**434.9**				**145.2**	**98.9**	**19.0**

[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 fell by 4.0% in November. Our long book cost 6.3% while the Fund's short exposure contributed 2.0%. The NAV decline in sterling partly reflects the relative weakness of the euro, down 2.5% for the month.

Portfolio Activity

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

As at 30th November the Fund was invested in 73 (70)* stocks. Our net exposure declined over the month, partly due to declining market values and partly as a result of increasing some short positions.

Spir Communications - French media publisher and distribution business (1.7% NAV)

Spir Communications is a media publisher and distribution business and is controlled by the privately owned French newspaper group Sofiouest. Spir's most valuable asset is Car and Boat Media, a collection of auto and boat classified portals including France's leading website for car ads, LaCentrale. About 9,000 dealerships, roughly half the total in France, advertise on the site and this number is growing steadily at about 20% a year. The only serious competitor is LeBonCoin which dominates ads for private sales. The two businesses were formerly owned as a joint venture between Spir and Norwegian newspaper publisher Schibsted, with the latter buying full control of LeBonCoin in 2010 (and selling its half of Car and Boat Media to Spir at the same time). Although pricing is much lower than in countries where one player dominates, as AutoTrader does in the UK for example, LaCentrale is a very attractive business. In the last twelve months the Car and Boat Media division reported revenues of about EUR 44m. In 2010 the EBITDA margin was 37% and this improved in the first half of this year. Over the next three to five years we expect LaCentrale will reach close to 90% penetration of car dealerships in France which, if we very conservatively assume no increase in pricing or operational leverage, would imply revenues of about EUR 80m and operating profit of over EUR 30m p.a..

Spir's second, more hidden, gem is Logic-Immo, a real estate magazine that is the clear number two online to SeLoger for property advertising in France. In the last twelve months the business had revenues of about EUR 72m, 40% (EUR 29m) coming from the website. Online revenue has grown at over 40% p.a. for the past two years and we expect strong growth to continue for several years, with profitability improving even more sharply. Spir do not disclose this separately but we think that it can easily get to a margin of 30%, about half the level of market leader SeLoger. The magazine is also profitable and grew by about 10% over the last year (excluding the discontinued Dutch edition). Overall we see Logic-Immo reaching operating profit of perhaps EUR 20m in the medium term with online revenues becoming an ever larger share of the mix.

Spir's third key asset is Adrexo, a direct mail distribution company. This is a duopoly with the Mediapost division of the nationalised post office La Poste, each having about 45% of the market. This is a steady business with revenues of about EUR 300m in each of the past 3 years and an operating margin of around 5%, or EUR 15m p.a..

We estimate that these three businesses combined generated operating profit of EUR 35m over the last twelve months. We believe this could be more like EUR 65m in five years' time. By comparison Spir's current market capitalisation is EUR

126m, with no net debt. If Spir only had these businesses we would expect it to trade at at least twice this valuation today and be worth over EUR 500m in the medium term. There are two big reasons why it does not, both of which we expect to improve dramatically over the next year or two.

Spir has a legacy free sheets business, Regicom. These are advertising publications distributed door to door carrying local promotions. A large part of the revenue used to come from classified ads, which have now shifted online leaving a fixed cost base of about 600 staff and annual losses of EUR 25m. This was historically a duopoly but larger competitor Comareg began liquidation in November, having failed to find a viable turnaround plan or a buyer since going into bankruptcy protection a year ago. We believe this has been a major factor persuading Spir management to continue running Regicom at a loss up to now - in 2010 Comareg reported EUR 227m of revenue and if around 20% of this shifts to Regicom, which we estimate had revenue of about EUR 80m over the last year and is the only remaining free sheet publisher in most areas, it could easily be breakeven from next year. If not we would expect it to be wound down over the next few years.

Spir's other big loss maker is parcel distribution, where it is challenging the incumbent La Poste. The company has effectively admitted defeat in this battle by signing a partnership with multinational TNT Express this year. We don't expect any value to come to shareholders from this but it could eliminate losses of over EUR 10m p.a. relatively quickly.

We began building a position in Spir Communication almost a year ago following the asset swap with Schibsted which left the company with no net debt. Since then its core online assets have performed well and its main competitor in free sheets has all but disappeared but the share price is down 20%. We expect the company's reported profitability will improve dramatically over the next two years as losses in its weakest businesses are reduced and this should lead to at least 100% upside for the shares as the true value of the three profitable divisions becomes clear.

Top Five Holdings as at 30 November 2011

	Company	Country	Sector	% of NAV
1	Xing	Germany	Information Technology	5.3
2	Sto	Germany	Materials	5.0
3	Informa	Jersey	Consumer Discretionary	4.6
4	Howden Joinery	United Kingdom	Consumer Discretionary	3.9
5	Vib Vermoegen	Germany	Financials	3.3
				22.1

Exposures as at 30 November 2011

Longs %	Shorts %	Gross Exposure %	Net Exposure %
77.3 (78.8)	31.7 (28.4)	109.0 (107.2)	45.6 (50.5)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Austria	1.9	1.4
Bermuda	4.3	-2.2
Denmark	2.4	1.5
France	4.3	2.1
Germany	26.3	16.9
Ireland	3.2	3.2
Italy	5.5	4.3
Jersey	6.2	4.1
Netherlands	3.7	3.7
Singapore	1.3	1.3
Sweden	2.4	-1.6
Switzerland	4.8	3.0
UK	35.8	8.1
US	4.5	-0.4
Other	2.4	0.2

Market Cap	Gross%	Net%
>£2bn	11.8	3.7
£700m - £2bn	14.7	-0.5
£200m - £700m	43.6	15.7
<£200m	38.9	26.7

Sector	Gross%	Net%
Consumer Discretionary	40.8	14.9
Consumer Staples	3.9	-2.0
Energy	2.9	0.6
Financials	11.1	9.6
Health Care	1.5	-0.9
Industrials	17.8	7.2
Information Technology	19.4	8.0
Materials	8.9	8.9
Telecommunication	2.5	-0.5
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.

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