

Ennismore European Smaller Companies Fund

Investor Newsletter for the month of January 2012

Issued on 13 February 2012

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 size was GBP 189.8m as at 31st January. Total assets under management by Ennismore Fund Management were GBP 232m. Our funds are hard closed to new investment with the number of shares in issue capped and 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.

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 January 2012

	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	63.92	77.06	10.80	10.92	10.99			
Period	% Change					% Change		
January 12	0.5	1.2	0.6	0.9	1.1	7.8	8.6	3.4
December 11	-1.4	1.0	-1.4	0.6	0.6	-1.7	0.7	1.0
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
2012 to date ⁶	0.5	1.2	0.6	0.9	1.1	7.8	8.6	3.4
Annualised return ⁵	15.5	14.0				7.6	6.2	1.7
Since launch ⁵	551.3	447.2				160.0	117.5	24.3

¹Source: Administrator, Net Asset Value. ²Source: Administrator, Net Asset Value, net income reinvested. ³Source: Bloomberg, HSBC Smaller European Total Return Index. ⁴Source: Bloomberg, MSCI Europe Index, local currencies, total return. ⁵Since inception of GBP A share class on 27/01/99 to date. ⁶From 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 0.5% in January. In generally strong equity markets our long book contributed 5.1% but the Fund's short exposure cost 4.5%.

Portfolio Activity

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

As at 31st January the Fund was invested in 72 (74)* stocks. The Fund remains cautiously positioned with a net exposure of less than 45%. During the month we sold out of five long positions including oil and gas engineering firm Kentz, which has been one of the top contributors to the Fund over the past three years with the share price up almost fivefold. We began building up one new long position. On the short side we also closed five positions and opened one new one.

4imprint Group Plc – UK Promotional Merchandise Supplier (1.4% NAV)

4imprint sells promotional merchandise. In its main market, the United States, its Direct Marketing division is the number one player in a large (c.USD 12bn), highly fragmented market with revenue of GBP 145m. The company sells a broad range of products – over 100,000 different items - ranging from clothing to tools and, of course, stationery. The company acquires its customers via various sources including 20m catalogues sent out, samples sent to existing customers, online search, and emails. Finished products are then customised by 4imprint's suppliers to meet the end customer's specifications. Customers are mostly smaller businesses with none accounting for a significant share of revenues, while the supplier base is well diversified (the ten largest make about half of the products they sell) and competitively tendered. This is essentially a sales business with marketing costs accounting for 80% of operating costs. The impressive increase in the number of orders from existing customers from 80,000 in 2006 to 230,000 in 2010 (and up 20% in the 1st half of 2011) is key as prior customers have a much higher response rate (more than 30% repeat order in the following year) as opposed to less than 1% response rates for catalogues sent to potential new buyers. Therefore over time the same marketing spend will yield higher sales and profits and a larger marketing budget to reinvest in acquiring more direct customers, creating a virtuous circle. The division has been growing revenue at about 15% a year, with only a small decline even in 2009 when the market for promotional products declined by about 20%, and they should be able to continue this for many years given their low market share. The second largest player is 60% of their size and only sells pens while most competitors are very small regional companies with little buying power compared to 4imprint. Strong revenue growth combined with a steady increase in operating margin should mean profit growth of around 20% p.a. from the Direct Marketing division.

4imprint's Brand Addition division is UK focused with revenue of GBP 65m. The business model is different here, acting as a category manager for large corporates buying promotional products. As a result the customer base is more concentrated, with the average account generating GBP 2m revenue a year, and 4imprint is required to hold inventory in already customised product (although this is usually underwritten by the customer). Revenue can be lumpier as it can be impacted by the level of corporate

rebranding. This is a solid business, with an operating margin of around 7.5%, that should continue to grow, albeit not as strongly as the US business.

At the current share price of 253p 4imprint has a market capitalisation of GBP 65m, no net debt and a pension deficit of around GBP 15m, which is being funded by additional payments of GBP 2m p.a.. We expect the business will have made operating profit of over GBP 12m last year, implying it is trading on a historic price to earnings ratio of just over seven times. It pays a dividend yield of more than 5.5%. We think fair value for the resilient, fast growing Direct Marketing business is more like 14 times current year earnings, and 11 times for the solid Brand Addition division. Taking into account the business mix we believe 4imprint is worth around GBP 115m, giving upside of more than two thirds.

Top Five Holdings as at 31 January 2012

Company	Country	Sector	% of NAV
1 Xing	Germany	Information Technology	5.4
2 Informa	Jersey	Consumer Discretionary	4.9
3 Sto	Germany	Materials	4.9
4 Howden Joinery	United Kingdom	Consumer Discretionary	3.9
5 Vib Vermoegen	Germany	Financials	3.5
			22.6

Exposures as at 31 January 2012

Longs %	Shorts %	Gross Exposure %	Net Exposure %
78.9 (78.1)	34.5 (31.6)	113.3 (109.7)	44.4 (46.5)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 31 January 2012

Country	Gross%	Net%	Market Cap	Gross%	Net%	Sector	Gross%	Net%
Austria	1.1	0.6	>£2bn	10.8	3.4	Consumer Discretionary	42.7	12.2
Bermuda	4.2	-2.0	£700m - £2bn	13.1	-4.0	Consumer Staples	3.7	-1.9
Denmark	2.5	1.7	£200m - £700m	48.4	17.3	Energy	2.9	0.7
France	4.7	2.6	<£200m	41.0	27.7	Financials	12.8	11.4
Germany	26.5	17.6				Health Care	2.5	-2.1
Ireland	3.7	3.7				Industrials	16.2	5.7
Italy	5.9	3.4				Information Technology	19.2	9.3
Jersey	8.3	5.0				Materials	10.1	10.1
Netherlands	3.1	2.1				Telecommunication	2.8	-0.6
Singapore	1.8	1.8				Utilities	0.4	-0.4
Sweden	2.8	-1.9				Other	0.0	0.0
Switzerland	5.0	3.2						
UK	36.2	5.7						
US	4.3	0.4						
Other	3.2	0.5						

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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