Ennismore European Smaller Companies Fund

Investor Newsletter for the month of February 2012

Issued on 7 March 2012

Fund Details

Daily dealing UCITS and Irish Central Bank 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 195m as at 29th February. Total assets under management by Ennismore Fund Management were GBP 239m. 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 29 February 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]	**65.72**	**78.48**	**11.10**	**11.14**	**11.21**			
Period			% Change				% Change	
February 12	**2.8**	**1.8**	**2.8**	**2.0**	**2.0**	**6.5**	**5.5**	**4.3**
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
2012 to date	**3.4**	**3.1**	**3.4**	**3.0**	**3.1**	**14.8**	**14.5**	**7.9**
Annualised return[5]	**15.6**	**14.0**	**9.8**	**10.5**	**11.2**	**8.1**	**6.5**	**2.0**
Since launch[5]	**569.6**	**457.3**	**11.0**	**11.4**	**12.1**	**176.9**	**129.4**	**29.7**

[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 , GBP B share class on 19/01/11 to date, EUR A and EUR B share classes on 31/01/11 to date.
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 2.8% in February. Our long book contributed 5.5% while the Fund's short exposure cost 1.9%. On the long side the largest contributions came from Sto (0.6%), Informa (0.5%) and power control manufacturer XP Power (0.5%). Informa reported 2011 results in line with expectations and confirmed guidance for 2012, and unexpectedly increased its dividend payout by 20%. XP Power reported strong growth in 2011, although results were a little below our expectations when we wrote about the stock in our October newsletter reflecting weaker trading in the final months of the year. However our investment case remains unchanged.

Portfolio Activity

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

As at 29th February the Fund was invested in 68 (72)* stocks. The Fund remains cautiously positioned with a net exposure of 44.8%. During the month we sold out of three positions on the long side and opened one new one. On the short side we opened two new positions and closed out one existing position.

AZ Electronic Materials (UK speciality chemicals manufacturer, 0.5% NAV)

AZ Electronic Materials manufactures chemicals and other materials used in the production of semiconductors (integrated circuits, or ICs) and flat panel displays (FPDs). The IC division is by far the most important, representing 70% of sales and almost 80% of profit, mostly generated from selling chemicals used during the manufacture of memory chips. The Optronics division makes up the remaining 30% of sales, mainly selling photoresist, which is used in producing modern LED and LCD flat screens. The majority of sales (80%) are to Asia where most semiconductor and display manufacturing is done, but volume is ultimately driven by the growing demand for consumer electronics globally. We believe AZ is an attractive way to benefit from this growing demand due to its strong positioning and relatively modest valuation.

AZ has almost fully penetrated the potential customer base for memory chips and so future growth will largely depend on overall market demand. Volume growth is expected to be strong for many years as consumer electronic devices become more ubiquitous and more complicated, requiring additional layers within semiconductor chips to be treated with AZ's chemicals. Growth in the IC division has clearly reflected this trend in recent years, with volumes sold increasing faster than chip volumes, and we expect this to continue in the medium term. In addition AZ is only beginning to serve the logic segment of the semiconductor market (microprocessors to most of us), with a first qualification at Intel in 2011. This could become a material part of sales over time as logic chips become ever smaller, making AZ's chemical expertise more important. The company spends about 7% of sales on R&D each year (all expensed) and this could open up further new end markets over time.

Strong demand growth for the industry is only really valuable to AZ if it can maintain its market share and pricing; we are confident that it can, principally because almost 80% of revenue comes from patented products. It is typically the market leader in its product categories, with market shares ranging from 40% to above 80% in some segments, but despite this the company has in fact continued to grow market share (winning a first contract with Intel and a major Japanese customer in 2011, for example). We believe that price pressure is relatively limited, primarily because the chemicals AZ makes are critical for ensuring the quality of the end product but represent less than 3% of the total cost of production. Customer switching costs are also relatively high as qualification on a new production line take six to eighteen months and, once qualified, AZ has never been displaced by a competitor. Trading in recent years appears to demonstrate AZ's strong competitive position: even in 2009, when chip volumes declined 20%, AZ's selling prices were only marginally lower (down 2-3%), suggesting AZ has an unusual level of pricing power within the semiconductor industry.

AZ is highly cash generative, with a pre-tax return on net operating assets of around 70% , and conservatively financed - net debt is 1.5 times operating profit. It currently pays a 2.5% dividend yield, which is well covered by earnings. Despite its strong position and exposure to fast growing end markets AZ trades on a historic price to earnings ratio of under 13 times, giving an enterprise value of less than nine times operating profit. The current macroeconomic environment makes it hard to make specific forecasts for 2012 but we are confident sales and profit will both grow this year and, more importantly, we expect profit will be very significantly higher in the medium term than it is today. We think AZ is an extremely attractive way to play the continuing growth in the semiconductor industry and expect to see at least 70% upside from the current price in the next two years.

Top Five Holdings as at 29 February 2012

	Company	Country	Sector	% of NAV
1	Xing	Germany	Information Technology	5.5
2	Sto	Germany	Materials	5.4
3	Howden Joinery	United Kingdom	Consumer Discretionary	4.1
4	Vib Vermoegen	Germany	Financials	3.7
5	Informa	Jersey	Consumer Discretionary	3.3
				22.0

Exposures as at 29 February 2012

Longs %	Shorts %	Gross Exposure %	Net Exposure %
79.8 (78.9)	34.9 (34.5)	114.7 (113.3)	44.8 (44.4)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 29 February 2012

Country	Gross%	Net%
Austria	1.2	0.6
Bermuda	3.9	-1.5
Denmark	2.6	1.8
France	5.2	3.0
Germany	26.7	20.5
Ireland	3.8	3.8
Italy	5.7	2.9
Jersey	7.2	2.7
Netherlands	3.2	2.0
Singapore	1.7	1.7
Sweden	5.1	-0.6
Switzerland	4.6	1.6
UK	35.9	6.1
US	4.9	-0.2
Other	3.0	0.4

Market Cap	Gross%	Net%
>£2bn	6.9	3.9
£700m - £2bn	17.6	-0.8
£200m - £700m	51.1	16.7
<£200m	39.1	25.0

Sector	Gross%	Net%
Consumer Discretionary	44.2	12.3
Consumer Staples	4.1	-2.6
Energy	1.9	1.9
Financials	13.1	11.8
Health Care	2.7	-2.3
Industrials	14.3	5.1
Information Technology	20.0	9.9
Materials	10.3	10.3
Telecommunication	3.6	-1.1
Utilities	0.5	-0.5
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