Ennismore European Smaller Companies Fund

Investor Newsletter for the month of March 2012

Issued on 12 April 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 30th March. 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 30 March 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**	**78.85**	**11.10**	**11.19**	**11.26**			
Period			% Change				% Change	
March 12	**0.0**	**0.5**	**0.0**	**0.4**	**0.4**	**-0.8**	**-0.3**	**-0.3**
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
2012 to date	**3.4**	**3.6**	**3.4**	**3.4**	**3.6**	**13.9**	**14.2**	**7.6**
Annualised return[5]	**15.5**	**14.0**	**9.1**	**10.1**	**10.7**	**8.0**	**6.5**	**2.0**
Since launch[5]	**569.6**	**459.9**	**11.0**	**11.9**	**12.6**	**174.6**	**128.8**	**29.3**

[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 NAV was little changed in March. Our long book contributed 1.6% while the Fund's short exposure cost 1.3%.

The most significant attribution of -1.0% resulted from the decision to write down the value of the Fund's holding in Trader Media East (TME) to zero. This decision was taken following publication of TME's 2011 results which showed a substantial decline in underlying operating profitability and increasing reliance on its parent company for funding. TME is a classified advertising publisher, predominantly in Russia. Historically the company derived most of its revenue from print titles. In Moscow these have begun to show strong sales declines and this will no doubt continue. TME has built a successful online offering which accounts for over 20% of revenue but in the short term they are investing heavily in advertising behind this, in the face of competition from new entrants to the market, to establish themselves as the clear market leader online and this is depressing profitability. Shares in TME remain completely illiquid and this combined with the increasingly uncertain outlook for the business led to the decision to write down the holding.

Portfolio Activity

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

As at 30th March the Fund was invested in 69 (68)* stocks.

Inficon – Swiss manufacturer of gas instruments (2.2% NAV)

Inficon makes instruments for the analysis, measurement and control of gases used in a wide range of industries. The largest single sector that they supply is semiconductors, which accounted for around 20% of the company's USD 312m turnover in 2011, followed by refrigeration and air conditioning at 16%. Both the manufacturing base and Inficon's end markets are well spread globally. Inficon is typical of many niche manufacturing firms based in Switzerland with significant market share across its product offering, in some cases supplying more than half the market. This is driven by a high level of R&D spend (8% of turnover) which is crucial to innovation and means that a quarter of sales in any one year typically come from products created in the previous two years. The value added from this development is reflected in a gross margin of close to 50%.

While demand is of course partly cyclical the real story with Inficon has been secular growth, driven by expansion in the end markets it serves in. Over the last decade turnover and operating profit grew at annualised rates of 8% and 15% respectively, largely organically as the company only made small bolt-on acquisitions. Although the operating margin does fluctuate with the business cycle – for example, we expect a couple of points reduction in 2012 from the very impressive 17.5% achieved in 2011 – on an underlying basis there has been clear long term progress due to operating leverage from sales growth and some gross margin improvement. Inficon has also shown superb cash conversion of more than 100% of profits over the last 10 years. Capital requirements are low and the post-tax return on invested capital has averaged more than 15% over the same period. This excellent cashflow profile has allowed Inficon to operate with a strong balance sheet (with more than USD 60m net cash, after deducting deferred consideration) and to pay a high proportion of profits as dividends, giving a yield of 7% on the current USD 480m market capitalisation.

Overall we view Inficon as a high quality, niche manufacturer and believe this shows in the numbers – steady long term turnover growth, high and improving operating margins and return on capital, and excellent cash flow. We believe the historic multiple of 10 times enterprise value to operating profit after tax (EV / NOPAT) materially undervalues the stock. Conservatively valuing the stock on 14 times our forecast 2013 EV / NOPAT tax leads us to expect upside of more than 45% over the next two years.

Top Five Holdings as at 30 March 2012

	Company	Country	Sector	% of NAV
1	Xing	Germany	Information Technology	6.3
2	Sto	Germany	Materials	5.2
3	Howden Joinery	United Kingdom	Consumer Discretionary	4.4
4	Vib Vermoegen	Germany	Financials	3.9
5	Informa	Jersey	Consumer Discretionary	3.4
				23.2

Exposures as at 30 March 2012

Longs %	Shorts %	Gross Exposure %	Net Exposure %
83.5 (79.8)	35.6 (34.9)	119.1 (114.7)	47.9 (44.8)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 30 March 2012

Country	Gross%	Net%
Austria	0.9	0.8
Bermuda	3.6	-1.1
Denmark	2.6	1.9
France	3.8	3.8
Germany	28.8	21.7
Ireland	3.6	3.6
Italy	6.0	2.6
Jersey	7.4	0.6
Netherlands	3.2	2.0
Singapore	1.5	1.5
Sweden	5.2	-0.3
Switzerland	5.5	1.6
UK	39.1	8.7
US	4.9	-0.1
Other	3.0	0.6

Market Cap	Gross%	Net%
>£2bn	6.9	4.1
£700m - £2bn	17.4	0.2
£200m - £700m	57.2	15.9
<£200m	37.6	27.7

Sector	Gross%	Net%
Consumer Discretionary	45.8	12.8
Consumer Staples	3.6	-1.8
Energy	1.8	1.8
Financials	13.6	12.2
Health Care	1.6	-1.2
Industrials	14.7	6.3
Information Technology	23.5	9.4
Materials	10.2	10.2
Telecommunication	3.8	-1.3
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.

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