Ennismore European Smaller Companies Fund

Investor Newsletter for the month of April 2012

Issued on 9 May 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 192m as at 30th April. Total assets under management by Ennismore Fund Management were GBP 235.7m. 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 April 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]	**64.81**	**79.52**	**10.95**	**11.23**	**11.30**			
Period			**% Change**				**% Change**	
April 12	**-1.4**	**0.8**	**-1.4**	**0.4**	**0.4**	**-3.1**	**-0.8**	**-2.5**
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
2012 to date	**1.9**	**4.5**	**2.0**	**3.8**	**4.0**	**10.4**	**13.2**	**4.9**
Annualised return[5]	**15.3**	**13.9**	**7.4**	**9.8**	**10.3**	**7.7**	**6.4**	**1.8**
Since launch[5]	**560.3**	**464.7**	**9.5**	**12.3**	**13.0**	**166.2**	**126.9**	**26.1**

[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 fell by 1.4% during the month. Our long book cost 1.1% and the Fund's short exposure cost 0.2%.

The main positive contribution on the long side came from our long held position in Augusta Technologie (adding 0.3%) after it received two takeover bids from TKH Group. The second, higher bid is at EUR 23.60 per share (including dividend), a premium of one third to the share price at the end of March. We first took a position in Augusta back in 2005 at an average price of less than EUR 6 and believe the current offer fairly values the business.

Portfolio Activity

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

As at 30th April the Fund was invested in 73 (69)* stocks. We added two new long positions and six new short positions during the month and closed one existing long position and four shorts.

i:FAO – German travel management software developer (0.8% NAV)

i:FAO has come a long way from where it started in 1977, as a travel agency at the Frankfurt opera house (hence the name "Flugbüro Am Openplatz"). Today the company provides Europe's most widely used online software solution for the planning, booking and billing of business travel. Having survived the internet boom and bust - which gave them a sky high valuation, too much cash to spend on risky, unsuccessful international ventures and ultimately led to a predictable restructuring of the business - since 2005 the company has focussed on its core software product. This has delivered sustained, profitable growth with sales nearly doubling from EUR 6.2m in 2005 to EUR 12.3m in 2011 and operating profit more than tripling to EUR 3.7m over the same period.

i:FAO's software solution helps companies to manage their business travel needs more efficiently by selecting the cheapest rates available across the market, by automatically enforcing corporate travel policies and by reducing complex administration. It is provided via the software as a service ("SaaS") model and so is easy to integrate into a company's existing IT at low cost and with an immediately visible return on investment - on average their business travel eProcurement solution reduces customers' direct travel costs by 12% and indirect travel costs by 55%. Once its use is established at a customer the software has proven to be extremely sticky with virtually no churn. The company has around 40 direct customers, mainly large German multinationals (55% of sales) and more than 3,200 indirect customers supplied through large travel agencies. Close to 90% of their revenue is essentially recurring, a combination of monthly maintenance charges and a minimum fixed fee per booking, and has been growing steadily in recent years. Most of this still comes from Germany where i:FAO has a very dominant position. We expect i:FAO's good growth will continue as the penetration of business travel procurement software in Europe remains very low at around 15%, which compares to over 50% in the USA. i:FAO is well set to profit from this with an increased focus on commercialising its product and plans to double the size of its sales force (albeit from a low level). Given the operating leverage inherent in a software business profits should grow faster than the top line despite the increased cost base.

i:FAO has a strong product and its earnings are also very high quality. The company accounts for costs conservatively with no capitalisation of software development. As a result close to 30% of revenue is converted into free cash flow and most of this is distributed to investors, with a dividend yield of nearly 7%. The balance sheet is equally strong with virtually no intangible assets, an equity ratio of over 90% and net cash equivalent to more than 15% of the current market cap of EUR 52m. In addition to this the company holds nearly 5% of its own shares as treasury and has tax loss carry forwards of over EUR 30m, one positive legacy from the dot com bubble. Management and investors' interests are well aligned with founder and CEO Louis Arnitz still owning close to 45% of the shares. Adjusting for the excess cash on the balance sheet i:FAO shares currently trade on an enterprise value of 11 times forecast 2012 earnings which we do not believe reflects the solid growth outlook for the business. Over time we expect that an increasing free float will attract a broader base of potential investors and we see more than 30% upside for the shares in the next twelve months.

Top Five Holdings as at 30 April 2012

	Company	Country	Sector	% of NAV
1	Xing	Germany	Information Technology	6.4
2	Sto	Germany	Materials	5.4
3	Howden Joinery	United Kingdom	Consumer Discretionary	4.6
4	Vib Vermoegen	Germany	Financials	4.1
5	Informa	Jersey	Consumer Discretionary	3.2
				23.7

Exposures as at 30 April 2012

Longs %	Shorts %	Gross Exposure %	Net Exposure %
84.8 (83.5)	36.9 (35.6)	121.7 (119.1)	48.0 (47.9)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Austria	1.0	1.0
Bermuda	3.4	-0.9
Denmark	2.6	1.9
France	3.8	3.8
Germany	29.4	22.6
Ireland	3.7	3.7
Italy	6.2	3.1
Jersey	6.8	0.8
Netherlands	3.0	1.9
Singapore	1.6	1.6
Sweden	5.2	-0.3
Switzerland	5.5	1.7
UK	40.8	7.2
US	5.7	-0.9
Other	3.0	0.8

Market Cap	Gross%	Net%
>£2bn	6.0	4.3
£700m - £2bn	21.6	-3.5
£200m - £700m	58.4	18.8
<£200m	35.7	28.4

Sector	Gross%	Net%
Consumer Discretionary	48.2	12.1
Consumer Staples	3.3	-1.6
Energy	1.9	1.9
Financials	13.5	12.0
Health Care	1.4	-1.4
Industrials	14.7	6.7
Information Technology	23.8	10.4
Materials	10.2	10.2
Telecommunication	4.2	-1.8
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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