Ennismore European Smaller Companies Fund

Investor Newsletter for the month of June 2012

Issued on 6 July 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 29th June. Total assets under management by Ennismore Fund Management were GBP 235m. 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 June 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]	**64.60**	**79.84**	**10.91**	**11.26**	**11.33**			
Period	**% Change**					**% Change**		
June 12	**1.6**	**0.8**	**1.6**	**1.0**	**1.0**	**3.6**	**3.0**	**5.3**
May 12	-1.9	-0.4	-1.9	-0.7	-0.7	-8.8	-7.3	-6.5
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
2012 to date	**1.6**	**4.9**	**1.6**	**4.1**	**4.2**	**4.4**	**8.1**	**3.3**
Annualised return[5]	**15.1**	**13.8**	**6.2**	**8.8**	**9.2**	**7.1**	**5.9**	**1.6**
Since launch[5]	**558.2**	**466.9**	**9.1**	**12.6**	**13.3**	**151.6**	**116.6**	**24.1**

[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 increased by 1.6% in June. Our long book contributed 2.1% and the Fund's short exposure contributed 0.1%.

Most of the Fund's larger positions performed positively during the month. Home Retail Group (0.2% contribution), which we covered in last month's stock comment, surprised us and the market positively with a trading statement showing modest growth at its main Argos retail chain in the first quarter, a big improvement on last year's trading.

The only real disappointment came from our investment in Promethean World (-0.3% contribution), the number two manufacturer of interactive whiteboards for school classrooms. After stabilising in the second half of last year trading has been weaker than expected in 2012, particularly in the United States, and the business is likely to make a small loss this year. The company's net cash position means it is better positioned to weather this downturn than its only significant competitor, Smart Technologies, but in the short term there is no visibility on when demand will improve.

Portfolio Activity

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

As at 29th June the Fund was invested in 68 (72)* stocks.

Byggmax – Swedish building materials retailer (0.9% NAV)

Byggmax is a leading do-it-yourself (DIY) retailer in the Nordics with more than 90 outlets. Founded in 1993 in Sweden the chain began to expand across the Nordics by entering Norway in 2007 followed by Finland in 2008. In its home market, where Byggmax generates more than 70% of its sales, it has grown to become the number two player and continues to improve its position with market share up from 6% in 2008 to close to 8% today. Its success is based on its very clear low cost offering. The Byggmax brand is built on always having the lowest price possible for high quality building materials - without campaigns, sales or discounts - guaranteeing that all customers get the same low price every day. If a customer does find a product cheaper elsewhere they will offer it for 10% less. This very clear marketing message has worked with most men surveyed in Sweden believing Byggmax has the lowest pricing and the brand also has the highest awareness of any DIY chain, even beating bigger rival Bauhaus. However low pricing alone is not enough to make an excellent business, as the example of struggling German DIY retailer Praktiker shows. The cost structure has to match and Byggmax's success is built on extremely disciplined cost management. Stores are located away from premium sites, the product range is restricted to only 1,300 items (a fraction of the number stocked by most large DIY retailers) and purchasing and warehousing are centralised for all markets to maximise efficiency. What really convinced us, though, was meeting CEO Magnus Agervald on a trip to Sweden. It was clear from this visit that the low cost culture is ingrained in the business from the top down. Head office is in a small town outside Stockholm. Lunch was in the canteen, shared with other companies. We have even heard that Mr Agervald stays in youth hostels when he travels! Byggmax still has a lot of room to grow and we expect that it can double the number of outlets it operates over time, all organically and funded from internal cashflow. Management's long term targets are for 15% annual growth and an operating margin of 11%, both very ambitious for a mature market like DIY retail. In 2011 they were a little behind this with growth of 8% and a 9% margin, but given general consumer concerns and higher interest rates in the Nordics this was still a good result and meant they gained more market share. 2012 started very strongly but we are cautious for the year as a whole with very wet weather likely to hurt Q2 sales and Eurozone uncertainty hurting consumer confidence more generally. Nevertheless we still expect operating profit to grow by 10% from last year's SEK 278m and, with a market cap of around SEK 2,150 and SEK 400m of net debt, Byggmax is modestly valued at an enterprise value of about eight times this year's operating profit. Given its strong franchise and industry leading efficiency (reflected in a pretax return on capital employed of more than 20%) and potential to grow more than 10% a year organically we believe this is too cheap and see upside of more than 40% over the next twelve months.

Top Five Holdings as at 29 June 2012

	Company	Country	Sector	% of NAV
1	Xing	Germany	Information Technology	5.2
2	Sto	Germany	Materials	5.1
3	Howden Joinery	United Kingdom	Consumer Discretionary	5.0
4	Vib Vermoegen	Germany	Financials	4.1
5	Informa	Jersey	Consumer Discretionary	3.1
				22.5

Exposures as at 29 June 2012

Longs %	Shorts %	Gross Exposure %	Net Exposure %
82.3 (80.2)	32.7 (34.0)	115.0 (114.3)	49.7 (46.2)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Austria	1.1	1.1
Bermuda	3.0	-0.7
Denmark	2.9	1.4
France	3.9	3.9
Germany	25.2	20.6
Ireland	3.4	3.4
Italy	4.6	3.5
Jersey	5.7	1.5
Netherlands	1.0	0.1
Singapore	1.6	1.6
Sweden	5.1	0.2
Switzerland	6.3	0.3
UK	43.0	12.0
US	5.8	-1.1
Other	2.4	1.9

Market Cap	Gross%	Net%
>£2bn	4.3	1.9
£700m - £2bn	19.5	-0.5
£200m - £700m	55.3	17.5
<£200m	35.9	30.8

Sector	Gross%	Net%
Consumer Discretionary	46.3	14.4
Consumer Staples	2.9	-1.0
Energy	1.6	1.6
Financials	13.8	11.4
Health Care	0.5	-0.4
Industrials	12.2	7.0
Information Technology	22.1	9.4
Materials	10.3	10.3
Telecommunication	4.8	-2.5
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.

Key Investor Information Document ("KIID")

From 1 July 2012 it is a requirement of European regulations that all investors are provided with a KIID prior to making any investment in a UCITS fund. The KIID provides a summary of the Fund's investment objectives and performance data and also includes some new information, for example we are required to include a standard risk reward rating for the Fund based on the historic volatility of returns. The KIID for the Fund is available on our website www.ennismorefunds.com and should you wish to subscribe or top-up your investment in the Fund it is a requirement that you confirm that you have read the KIID prior to investing. Please contact us for revised application forms and top-up forms that include the required confirmation prior to making any investment in the Fund.

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