Ennismore European Smaller Companies Fund

Investor Newsletter for the month of July 2012

Issued on 13 August 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 189m as at 31st July. Total assets under management by Ennismore Fund Management were GBP 231m. 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 July 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]	**63.28**	**80.51**	**10.69**	**11.30**	**11.38**			
Period			**% Change**				**% Change**	
July 12	**-2.0**	**0.8**	**-2.0**	**0.4**	**0.4**	**-0.5**	**2.2**	**2.8**
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
2012 to date	**-0.5**	**5.8**	**-0.5**	**4.4**	**4.7**	**3.8**	**10.5**	**6.2**
Annualised return[5]	**14.8**	**13.8**	**4.5**	**8.5**	**9.0**	**7.0**	**6.1**	**1.8**
Since launch[5]	**544.7**	**471.7**	**6.9**	**13.0**	**13.8**	**150.3**	**121.4**	**27.7**

[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 NAV fell by 2.0% in July. Our long book cost 1.4% and the Fund's short exposure cost 0.2%. The weakness of the euro significantly affected returns with NAV in that currency up 0.8% for the month.

The main positive contribution in the month came from Howden Joinery adding 0.4%, the main negative was Xing costing 0.7%. There was no news relating to Xing. Howden reported results showing that the business continues to trade well, especially given weak consumer demand overall in the UK, with revenue growth of 7% in the first half of the year (5% on a like for like basis). This compares very favourably with the 14% fall reported by its main competitor Magnet (owned by Nobia). In June Howden extended its banking facility out to 2016 and agreed a new pension deficit reduction timetable with the trustees, further reducing the company's already low financial risk.

Portfolio Activity

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

As at 31st July the Fund was invested in 66 (68)* stocks. We began building up three new long positions during the month. We closed three short positions and opened three new ones.

Amadeus Fire – German recruitment consultant (0.9% NAV)

Amadeus Fire is a German white collar recruitment consultancy with a market capitalisation of EUR 175m. The company generated EUR 130m of turnover in 2011, almost 90% from staffing (the remainder is training). Three quarters of revenue comes from temporary placements where they earn a gross margin in the mid 30% range. This is high compared to blue collar temping (typically less than 20%), reflecting their focus on specialist niches with strong market share in areas such as accountancy. As with all successful recruitment consultancies the return on capital employed is very high with only a limited amount of fixed investment needed. In recent years the sector has benefitted from strong cyclical and structural trends in the German market, where temporary staffing still has a relatively low penetration compared to many other developed labour markets. Amadeus Fire has exploited this opportunity very successfully, growing profit in each of the last five years. This has been done organically, by investing in sales people and new offices to take market share. While cyclical trends are hard to predict the utilisation rates for temporary staffers are currently close to mid cycle levels which suggests that current trading is not unsustainable and the longer term structural move towards more temporary employment should continue as German employers make the workforce more flexible.

Amadeus Fire is very conservatively run with a focus on steady organic growth – it has been listed since 1999 and grown operating profits from around EUR 2.5m then to EUR 22m in 2011 - and good cash generation. All of reported profit has been converted into cash over the last five years and, as a result, there is a very strong balance sheet with cash of over EUR 35m and a generous dividend payout ratio of 100%, giving a sustainable yield of around 8%. The stock is trading on an expected enterprise value to operating profit after tax of nine times which we believe materially undervalues the company. For a business with as strong a track record as Amadeus Fire in profit growth and cashflow generation we believe an enterprise value to operating profit after tax multiple of 13 times is fair implying upside of over 30%.

Top Five Holdings as at 31 July 2012

	Company	Country	Sector	% of NAV
1	Howden Joinery	United Kingdom	Consumer Discretionary	5.5
2	Sto	Germany	Materials	5.1
3	Xing	Germany	Information Technology	4.5
4	Vib Vermoegen	Germany	Financials	4.1
5	Informa	Jersey	Consumer Discretionary	3.1
				22.3

Exposures as at 31 July 2012

Longs %	Shorts %	Gross Exposure %	Net Exposure %
83.3 (82.3)	32.7 (32.7)	116.0 (115.0)	50.7 (49.7)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Austria	1.2	1.2
Bermuda	3.7	-1.2
Denmark	3.3	1.1
France	3.7	3.7
Germany	25.2	19.8
Ireland	3.3	3.3
Italy	4.9	3.8
Jersey	5.4	1.7
Netherlands	1.0	0.0
Singapore	1.5	1.5
Sweden	5.9	-0.4
Switzerland	6.6	-0.1
UK	41.8	15.1
US	5.9	-0.8
Other	2.6	2.0

Market Cap	Gross%	Net%
>£2bn	4.3	1.8
£700m - £2bn	19.0	2.5
£200m - £700m	49.5	9.5
<£200m	43.2	36.9

Sector	Gross%	Net%
Consumer Discretionary	44.5	17.3
Consumer Staples	4.3	-2.2
Energy	1.8	1.8
Financials	13.6	11.2
Health Care	1.8	0.9
Industrials	12.3	7.4
Information Technology	21.2	7.1
Materials	10.6	10.6
Telecommunication	5.4	-2.9
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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