Ennismore European Smaller Companies Fund

Investor Newsletter for the month of August 2012

Issued on 11 September 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 31st August. 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 31 August 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]	**64.86**	**81.72**	**10.95**	**11.48**	**11.56**			
Period			% Change				% Change	
August 12	**2.5**	**1.5**	**2.4**	**1.6**	**1.6**	**3.8**	**2.9**	**2.3**
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
2012 to date	**2.0**	**7.4**	**2.0**	**6.1**	**6.3**	**7.8**	**13.7**	**8.7**
Annualised return[5]	**14.9**	**13.8**	**5.8**	**9.1**	**9.6**	**7.3**	**6.2**	**2.0**
Since launch[5]	**560.8**	**480.3**	**9.5**	**14.8**	**15.6**	**159.9**	**127.7**	**30.6**

[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 rose by 2.5% in August. Our long book contributed 3.5% while the Fund's short exposure cost 0.2%.

The largest positive contribution came from Home Retail, adding 0.6%. There was no company specific news during the month. More generally there are some signs that pressure on the UK consumer may be easing with grocery retailer Asda's discretionary income tracker moving into positive territory for the first time in nearly two years.

The main negative contribution came from Xing, costing 0.5%. The company reported first half results and guided for full year operating profit to be about 10% below consensus with revenue from new products, which management have put in a lot of cost to develop, not yet coming through as expected. This was disappointing but we continue to believe in the long term value of this franchise. In particular our annual survey of professional network users in Germany, conducted in August, shows no increase in the currently low penetration for Xing's only significant competitor, US based LinkedIn.

Portfolio Activity

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

As at 31st August the Fund was invested in 68 (66)* stocks.

Duni – Swedish foodservice products manufacturer (1.4% NAV)

Duni manufactures consumable tabletop products, primarily for the foodservice market (hotels, restaurants and catering). Two thirds of its turnover comes from tissue based napkins and tablecloths, which it produces in house, with the remainder being other tabletop and serving products such as disposable cutlery and candles. Duni's focus is primarily on supplying professional customers, which account for close to 90% of operating profit, via wholesalers. Geographically the business is broadly spread across Europe with the main markets being the Nordic countries (20% of sales) and Germany (35%). Duni also sells its products via retailers (about 15% of revenue) and wholesales about half of its tissue production (10%).

Duni's commercial strategy is to drive sales of tabletop solutions - bundled offerings rather than single products - and at the premium end of the market using a 250 strong sales force. In tabletop solutions the company estimates it has a market share of 20%, twice the size of the number two player. Around 60% of the tissue based products sold to professional customers are premium products, typically priced at five times the basic alternative. This goes some way to explaining the c.13% operating margin the division serving professional customers achieves. It also means Duni should benefit from any structural shift away from linen (currently 90% of the table covering market and 50% for napkins) to higher end single use products.

With tough economic conditions across much of Europe Duni's turnover in the professional segment has shown no growth in the last few years. However operating margins have held up well suggesting we are right to have some confidence in the pricing power and market position the company has. In the first half of the year this trend continued with profits up about 8% on flat revenue. This gives a pre-tax return on capital employed (excluding goodwill) of over 20% for Duni as a whole, which is impressive for a vertically integrated manufacturer. We expect this return to be sustained going forward implying annual free cash flow of around SEK 300m, an 11% yield on the current market cap of SEK 2,655. The capital structure of the business is solid, with net debt around two times operating profit. We view Duni as a low growth but high quality cash cow that will benefit from the eventual recovery of the European economy. The share price of nine times expected 2012 earnings and a dividend yield of 6.5% do not fully reflect this and we see upside of 40% for the shares by the end of next year.

Top Five Holdings as at 31 August 2012

	Company	Country	Sector	% of NAV
1	Howden Joinery	United Kingdom	Consumer Discretionary	5.1
2	Xing	Germany	Information Technology	5.0
3	Sto	Germany	Materials	4.8
4	Vib Vermoegen	Germany	Financials	4.4
5	Informa	Jersey	Consumer Discretionary	3.3
				22.6

Exposures as at 31 August 2012

Longs %	Shorts %	Gross Exposure %	Net Exposure %
86.9 (83.3)	30.1 (32.7)	117.0 (116.0)	56.8 (50.7)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Austria	1.6	0.8
Bermuda	2.9	-0.1
Denmark	3.2	0.6
France	4.5	3.7
Germany	26.0	21.3
Ireland	3.4	3.4
Italy	4.9	3.6
Jersey	6.3	1.2
Netherlands	1.6	-0.6
Singapore	1.5	1.5
Sweden	5.4	0.1
Switzerland	6.8	0.1
UK	39.3	18.9
US	6.6	0.1
Other	3.0	2.2

Market Cap	Gross%	Net%
>£2bn	4.4	2.1
£700m - £2bn	22.2	8.1
£200m - £700m	46.8	8.4
<£200m	43.6	38.2

Sector	Gross%	Net%
Consumer Discretionary	44.3	20.3
Consumer Staples	3.1	-1.1
Energy	1.8	1.8
Financials	13.8	12.3
Health Care	2.0	1.6
Industrials	12.0	7.7
Information Technology	24.1	6.5
Materials	10.4	10.4
Telecommunication	5.1	-2.3
Utilities	0.4	-0.4
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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