Ennismore European Smaller Companies Fund

Investor Newsletter for the month of September 2012

Issued on 5 October 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 28th September. 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 28 September 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]	**64.82**	**81.37**	**10.95**	**11.44**	**11.51**			
Period	**% Change**					**% Change**		
September 12	**-0.1**	**-0.4**	**0.0**	**-0.3**	**-0.4**	**3.3**	**2.7**	**1.2**
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
2012 to date	**2.0**	**6.9**	**2.0**	**5.7**	**5.9**	**11.4**	**16.8**	**10.0**
Annualised return[5]	**14.8**	**13.7**	**5.5**	**8.4**	**8.8**	**7.5**	**6.4**	**2.1**
Since launch[5]	**560.4**	**477.8**	**9.5**	**14.4**	**15.1**	**168.5**	**133.9**	**32.1**

[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 was little changed in September. The long book contributed 1.8% but the Fund's short exposure cost 1.5%.

The largest positive contributions, adding 0.3% each, came from Xing and Buzzi Unicem. There was no significant company specific news in the month for either stock.

Portfolio Activity

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

As at 28th September the Fund was invested in 72 (68)* stocks.

Bijou Brigitte – German accessories retailer (1.3% NAV)

Bijou Brigitte is a business we know well. The Fund first bought shares in the company in April 2000. In our comment then we highlighted the business's excellent return on capital employed, modest valuation, large cash balance and high dividend yield. All of these attractions are there again today. But before we go through the positives it is worth looking at how the company has developed since we first invested in it. In many ways it is very much the same business, a niche retailer that dominates the fashion jewellery category in its core German market (which accounts for about half of its retail sales). Competition is perhaps tougher than it was ten years ago, not so much from other multiples (Bijou Brigitte's last acquisition was of its main domestic competitor - in 1996) but from clothing retailers all of which tend to carry some accessory lines these days. But the very consistent return on capital reported for the German operations doesn't suggest the company's dominance of its niche has weakened noticeably. The real story of the last ten years has been expansion outside of Germany, particularly into Spain, Portugal and more recently Italy. From only a small contribution in 2000, by 2007 Bijou Brigitte had a comparable number of stores and generated roughly the same profit from these three markets combined as in its German operation. Expansion looked to have been an unqualified success. This year German profits will be similar to 2007, southern Europe will contribute next to nothing. The cause of this sudden turnaround hardly needs mentioning.

So how does Bijou Brigitte today compare to the business we invested in back in 2000? Pretax return on capital employed (ROCE) remains very attractive, averaging close to 100% over the last three years, at roughly the same level we estimated back in 2000. This year profitability will be lower but we still expect ROCE to be over 50% despite almost no contribution from southern Europe. Management has given a wide range for profit guidance in 2012, initially indicating a low end of EUR 40-45m for pretax earnings if trading did not improve in Spain, Portugal and Italy. However cost savings from optimising the store network in these countries appear to be coming through faster than expected and in the interim results the guidance was changed slightly to indicate that EUR 50-55m is achievable if these savings can be maintained in the second half. We believe this is a lot more likely than any recovery in sales in southern Europe and therefore expect Bijou Brigitte will report operating profit of around EUR 50m for the year. With net cash of over EUR 150m and a market capitalisation of EUR 465m this implies the business is being valued at an enterprise value equivalent to nine times operating profit after tax, only a little higher than the multiple of seven times when we first invested (the cash balance then was about a quarter of the market capitalisation compared to one third today). In 2012 Bijou Brigitte paid a dividend of EUR 5.50 per share, a yield of nearly 10% at today's share price. While we would expect this payout to be lower in future the very high cash balance leads us to think that a yield comparable to the 7% we received in 2000 is sustainable as it should be more than covered by earnings.

On its own we believe the German retail business is worth the current market capitalisation of Bijou Brigitte, based on a fair value price to earnings ratio of fifteen times. On top of this we get one third of the price we have paid for it in cash. The fact that the business is controlled by its founding family and that they have avoided acquisitions for over 15 years and only expanded significantly in markets where they were able to generate attractive returns quickly (they stopped at six test stores in the USA in 2007), while always paying out a high dividend, gives us a lot of comfort that this money is safe. Valuing the southern European stores is of course more difficult but even today they are not a drag on earnings and Bijou Brigitte's high market shares there and the already evident flexibility in the cost base and store portfolio mean we would expect them to contribute positively in the medium term, albeit not at the level of recent years for some time yet. All in all we think Bijou Brigitte shares offer a very low risk investment that is at least a third too cheap.

Top Five Holdings as at 28 September 2012

	Company	Country	Sector	% of NAV
1	Xing	Germany	Information Technology	5.5
2	Howden Joinery	United Kingdom	Consumer Discretionary	5.2
3	Sto	Germany	Materials	4.5
4	Vib Vermoegen	Germany	Financials	4.3
5	Informa	Jersey	Consumer Discretionary	3.1
				22.6

Exposures as at 28 September 2012

Longs %	Shorts %	Gross Exposure %	Net Exposure %
89.1 (86.9)	33.9 (30.1)	123.1 (117.0)	55.2 (56.8)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 28 September 2012

Country	Gross%	Net%
Austria	1.7	0.8
Belgium	1.7	1.0
Bermuda	2.9	-0.4
Denmark	3.4	0.6
France	4.7	4.0
Germany	26.7	22.1
Ireland	3.8	3.8
Italy	5.0	3.6
Jersey	6.6	0.5
Netherlands	1.8	-0.7
Sweden	5.6	-0.1
Switzerland	7.0	-0.1
UK	42.2	17.4
US	6.7	0.2
Other	3.3	2.5

Market Cap	Gross%	Net%
>£2bn	4.2	1.9
£700m - £2bn	23.3	7.4
£200m - £700m	49.2	5.6
<£200m	46.4	40.3

Sector	Gross%	Net%
Consumer Discretionary	46.9	19.9
Consumer Staples	3.3	-1.4
Energy	2.2	2.2
Financials	13.8	12.4
Health Care	2.4	1.3
Industrials	12.4	7.7
Information Technology	25.3	6.4
Materials	10.5	10.5
Telecommunication	4.9	-2.4
Utilities	1.4	-1.4
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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