Ennismore European Smaller Companies Fund

Investor Newsletter for the month of October 2012

Issued on 20 November 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 199m as at 31st October. Total assets under management by Ennismore Fund Management were GBP 244m. 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 October 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]	**66.67**	**82.89**	**11.26**	**11.68**	**11.75**			
Period	% Change					% Change		
October 12	**2.9**	**1.9**	**2.8**	**2.1**	**2.1**	**2.0**	**1.2**	**1.1**
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
2012 to date	**4.9**	**8.9**	**4.8**	**7.9**	**8.1**	**13.6**	**18.1**	**11.2**
Annualised return[5]	**14.9**	**13.7**	**6.9**	**9.3**	**9.7**	**7.6**	**6.5**	**2.1**
Since launch[5]	**579.3**	**488.6**	**12.6**	**16.8**	**17.5**	**173.9**	**136.7**	**33.7**

[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 increased by 2.9% in October. Our long book contributed 3.3% and the Fund's short exposure contributed 0.5%. The main positive attributions were from Xing (adding 0.9%), Home Retail (0.8%) and Howden Joinery (0.8%).

Xing received a mandatory cash offer at EUR 44 per share from its largest shareholder, Burda Media, after they converted a position held via a derivative into a direct holding, taking their ownership above 30%. As Burda's press statement makes clear they do not plan to delist the company and we do not expect significant take up of the offer.

Home Retail reported first half results that showed a continuing modest improvement in like for like sales at its main chain, Argos. We expect this trend will continue to improve as the year progresses underpinned by a small rise in disposable incomes in the UK and market share gains, with electrical retailer Comet having gone into administration this month.

Portfolio Activity

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

As at 31st October the Fund was invested in 74 (72)* stocks.

Rofin-Sinar - a German manufacturer of industrial lasers (0.9% NAV)

Rofin-Sinar is a leading manufacturer of industrial lasers used in materials processing. Founded in 1975 in Germany the company has become a global player with the broadest product range in the market covering all key technologies and sales of more than USD 500m. Although cyclical the long term growth trend has been clear - revenue has grown at a compound annual rate of 8% over the last decade - driven by higher penetration of laser products in a variety of end markets. CO_2 lasers, for example, are most efficient for cutting thick metal sheets but have also been adopted for organic materials like wood or leather. Diode lasers are mostly used for welding plastics. Rofin's recent focus has been on developing fibre lasers – which are now commonly used for thin metal sheet cutting, welding and drilling and also for treating brass or copper – and has invested more than USD 100m in this since 2007. We visited the Euroblech trade show in October and this convinced us that Rofin will soon see very good payback on this investment, penetrating a part of the market that has so far been dominated by US player IPG Photonics. More generally customer feedback (Rofin has around 4,000 with the largest only 4% of sales) was very positive with its quality, reliability and service coverage really standing out.

For the fiscal year just ended in September Rofin reported sales of USD 540m and operating profit before interest and tax (EBIT) of USD 50m, down from the peak of USD 84m achieved in 2011. Lower profitability mostly reflects the overall weaker economic environment and to some extent higher investment in fibre laser technology, with all R&D expensed by the company. Although demand is highly cyclical Rofin has a significant and growing base of 42,000 installed lasers which generate more than 25% of its revenues, from aftermarket services and spare parts, providing a very good profit margin and stability to the business - even in the extreme downturn in 2009 service revenues held up well and helped Rofin to remain profitable. This year we expect EBIT to increase again to around USD 56m, which is close to the average achieved over the last business cycle. On this basis Rofin's valuation appears very attractive, with a market capitalisation of USD 530m and net cash of USD 80m equating to an enterprise value of eight times EBIT. Notably this is only slightly higher than the company's book value despite its very conservative accounting of R&D spend, which has averaged 7% of sales in the past. Rofin does not pay a dividend but instead tends to return capital to shareholders via buy backs with the current USD 20m program taking the total over the last 5 years to USD 170m. Two Board members also bought shares recently, for the first time since 2003 and 2007 respectively, with the former CEO increasing his holding by around half.

Rofin has a leading position in a structurally growing market which is hardly reflected in its current valuation. It also offers the comfort of a very defensive capital structure and recurring aftermarket profit stream. We don't expect this undervaluation to last and see upside of 50% for the shares in the next twelve months.

Top Five Holdings as at 31 October 2012

	Company	Country	Sector	% of NAV
1	Xing	Germany	Information Technology	6.2
2	Howden Joinery	United Kingdom	Consumer Discretionary	5.8
3	Sto	Germany	Materials	4.3
4	Vib Vermoegen	Germany	Financials	4.3
5	Home Retail	United Kingdom	Consumer Discretionary	3.6
				24.2

Exposures as at 31 October 2012

Longs %	Shorts %	Gross Exposure %	Net Exposure %
91.1 (89.1)	34.7 (33.9)	125.8 (123.1)	56.4 (55.2)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Austria	1.8	0.9
Belgium	2.3	1.1
Bermuda	3.2	-0.5
Denmark	3.1	0.8
France	4.6	3.7
Germany	26.9	23.5
Ireland	3.6	3.6
Italy	4.9	3.5
Jersey	5.9	0.7
Netherlands	1.8	-0.8
Sweden	5.4	0.0
Switzerland	7.2	-0.2
UK	43.0	18.7
US	7.9	-0.1
Other	4.2	1.5

Market Cap	Gross%	Net%
>£2bn	4.0	1.7
£700m - £2bn	28.9	5.2
£200m - £700m	46.7	7.9
<£200m	46.2	41.6

Sector	Gross%	Net%
Consumer Discretionary	48.3	20.4
Consumer Staples	4.3	-1.9
Energy	2.3	2.3
Financials	13.6	12.3
Health Care	3.3	0.4
Industrials	12.0	7.6
Information Technology	25.8	7.8
Materials	10.5	10.5
Telecommunication	4.6	-1.9
Utilities	1.1	-1.1
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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