Ennismore European Smaller Companies Fund

Investor Newsletter for the month of November 2012

Issued on 7 December 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 206.7m as at 30th November. Total assets under management by Ennismore Fund Management were GBP 251.6m. 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 30 November 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]	**68.38**	**84.26**	**11.55**	**11.89**	**11.96**			
Period			% Change				% Change	
November 12	**2.6**	**1.7**	**2.6**	**1.8**	**1.8**	**1.3**	**0.4**	**2.5**
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
2012 to date	**7.5**	**10.7**	**7.5**	**9.9**	**10.0**	**15.1**	**18.6**	**14.0**
Annualised return[5]	**15.1**	**13.8**	**8.0**	**9.9**	**10.3**	**7.7**	**6.5**	**2.3**
Since launch[5]	**596.7**	**498.3**	**15.5**	**18.9**	**19.6**	**177.5**	**137.7**	**37.1**

[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 2.6% in November. Our long book contributed 1.5% while the Fund's short exposure contributed 1.9%.

The largest single attribution (1.5%) came from one of our larger short positions, mobile marketing firm Velti, which announced very poor third quarter results that required a covenant waiver from its main lender HSBC. We do not expect the company will be able to deliver positive free cashflow in future and its equity may be worth very little.

Portfolio Activity

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

As at 30th November the Fund was invested in 78 (74)* stocks.

In November we agreed to sell our long held investment in book publisher Quarto to a consortium of shareholders seeking to remove the founder from his position as Chairman and CEO. We did not support this but given the extremely low level of liquidity in the shares we were happy to be able to sell at a significant premium to the average price over the past year.

Maison France Confort – French housebuilder (1.2% NAV)

Maison France Confort (MFC) is a construction company that designs and builds family homes in France. Unlike many other markets, in France there is virtually no development risk for the company because land is purchased separately by the customer and the house will only be built once it is fully financed. MFC's model is to provide a service designing the building and sub-contracting its construction. This ties up little capital and has allowed them to generate post-tax returns on net operating assets of 30% over the last 10 years.

The company was founded by the Vandromme family five generations ago and they still own over 30%. It is run by brothers Philippe and Patrick Vandromme who have built MFC into the largest player in what remains a very fragmented market, with a 6.6% share of the self-build market in the regions that it operates in (4.0% for France as a whole). MFC has consistently taken share over the last 15 years through organic growth and acquisitions, a trend we expect to continue. MFC benefits from its greater scale: its large number of architects give it a more extensive range of houses (particularly energy efficient homes), it has a more professional and bigger sales force, a strong brand name, greater capabilities to deal with regulations and bargaining power with subcontractors and raw materials suppliers. As a result, revenue grew at a compound annual rate of 15% from 2000 to 2011, of which over half was organic, while the market for single homes was broadly flat in volume terms.

MFC primarily serves the lower end of the market, particularly first time buyers, with the average house costing EUR 100,000 to build (excluding VAT). With general economic weakness in France, tighter lending conditions and uncertainty around the new government's incentives for homebuyers, housing starts are down 14% year on year for the nine months to September 2012 and MFC's order book is down a similar percentage on a like for like basis. However the cost base is highly flexible, we estimate around 90% is variable with demand, and this allowed the company to remain profitable even in very weak markets from 2007 to 2010 (we also like the fact that Philippe and Patrick waived their bonuses in each of these years). With net cash of EUR 59m (equivalent to a third of its EUR 174m market cap) MFC is in a good position to take advantage of the weak market and has a proven record of strong capital allocation, buying back shares at depressed levels and making small bolt-on acquisitions that typically have a 3-4 year payback. At the current share price of EUR 25.10 the historic dividend yield is more than 5% and MFC has an enterprise value that is 3.2 times its operating profit over the last year and only six times the trough profit achieved in 2009. This is far too low for a business that has consistently generated a high return on capital and we think the shares have at least 80% upside.

Top Five Holdings as at 30 November 2012

	Company	Country	Sector	% of NAV
1	Xing	Germany	Information Technology	6.1
2	Howden Joinery	United Kingdom	Consumer Discretionary	5.6
3	Vib Vermoegen	Germany	Financials	4.2
4	Sto	Germany	Materials	4.2
5	Home Retail	United Kingdom	Consumer Discretionary	3.4
				23.5

Exposures as at 30 November 2012

Longs %	Shorts %	Gross Exposure %	Net Exposure %
91.6 (91.1)	33.0 (34.7)	124.6 (125.8)	58.7 (56.4)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 30 November 2012

Country	Gross%	Net%
Austria	1.9	0.9
Belgium	2.3	1.2
Cayman Islands	2.6	-2.6
Denmark	3.0	1.0
France	5.3	4.5
Germany	27.8	23.5
Ireland	3.8	3.8
Italy	4.6	3.3
Jersey	4.6	2.1
Netherlands	1.7	-0.6
Sweden	5.2	-0.3
Switzerland	7.3	0.0
UK	42.2	18.0
US	7.7	0.3
Other	4.6	3.8

Market Cap	Gross%	Net%
>£2bn	4.1	1.7
£700m - £2bn	30.8	5.4
£200m - £700m	43.9	13.7
<£200m	45.8	37.9

Sector	Gross%	Net%
Consumer Discretionary	48.4	16.7
Consumer Staples	2.3	0.1
Energy	2.4	2.4
Financials	14.3	12.8
Health Care	3.2	0.4
Industrials	12.4	8.1
Information Technology	25.6	10.5
Materials	10.5	10.5
Telecommunication	4.1	-1.5
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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