Ennismore European Smaller Companies Fund

Investor Newsletter for the month of January 2013

Issued on 7 February 2013

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 225m as at 31st January. Total assets under management by Ennismore Fund Management were GBP 273m. 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 January 2013

	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]	**73.40**	**85.73**	**12.39**	**12.23**	**12.30**			
Period			**% Change**				**% Change**	
January 13	**6.5**	**0.9**	**6.5**	**2.0**	**2.0**	**9.7**	**4.2**	**5.1**
December 12	0.7	0.8	0.7	0.8	0.8	4.4	4.2	1.4
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
2013 to date	**6.5**	**0.9**	**6.5**	**2.0**	**2.0**	**9.7**	**4.2**	**5.1**
Annualised return[5]	**15.4**	**13.8**	**11.1**	**10.6**	**10.9**	**8.6**	**7.0**	**2.7**
Since launch[5]	**647.9**	**508.8**	**23.9**	**22.3**	**23.0**	**218.0**	**158.0**	**46.0**

[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 6.5% in January. Our long book added 9.9% to NAV, with most positions contributing positively, while the Fund's short exposure cost 1.8%.

Portfolio Activity

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

As at 31st January the Fund was invested in 76 (77)* stocks. We made a significant new investment in Oslo Bors VPS in January which is covered in detail in the stock comment below.

Oslo Bors VPS – Norwegian stock exchange and central securities depository (3.4% NAV)

Oslo Bors VPS is the combination of two Norwegian financial services businesses, the national stock exchange Oslo Bors and VPS which is the central securities depository (CSD). Oslo Bors is the main securities market in Norway. Although its monopoly position in equity trading has been steadily eroded since European markets were liberalised by MiFID legislation in 2008 (market share of trading in Norwegian listed equities has fallen from 87% of value traded in January 2009 to 48% in January 2013), in future revenues and profitability should be much more stable. In part this is because market share appears to be stabilising, with per trade fees now more comparable to the main competitor, BATS Chi-X. More importantly, though, these fees are only a small part of the sales mix (we estimate only about 15% for the Oslo Bors division in 2013) with most revenue coming from fixed fees charged to issuers, member brokers and for access to market data. The technology platform is now supplied by the London Stock Exchange which makes the investment needed by Oslo Bors itself predictably low and may even allow them to reduce their own cost base a little. Overall we expect Oslo Bors to make stable operating profit of around NOK 200m a year for the foreseeable future.

Most of VPS's revenue is very stable, with Norwegian law requiring public companies to be registered with a CSD and private individuals to hold shares in a CSD account. Although not mandated by law many private firms and funds also use the service. Altogether fees from maintaining shareholder registers and accounts, where VPS is effectively a monopoly supplier, generate more than three quarters division revenue and should grow steadily over time (as they are partly a function of the value). The remaining part of VPS revenue is related to the settlement of transactions. Historically this accounted for close to half of VPS revenue but beginning in 2010 and 2011 it was significantly reduced by the adoption of central counterparty clearing which netted off much of the transaction volume. We expect it to account for perhaps 20% of division revenue in 2013 and to decline in the longer term with Norwegian adoption of the ECB's T2S settlement system, possibly from 2018. With a relatively fixed cost base we expect VPS to make a profit of at least NOK 100m a year.

Oslo Bors VPS is overlooked by many investors because it trades via the OTC market in Norway. This is due to a restriction imposed by the Norwegian government which blocked the company's attempt to list on Oslo Bors last year due to perceived conflicts of interest. The government also prevents any shareholder from owning more than 20% of the company although this is being legally challenged by the European Free Trade Area Surveillance Authority. Oslo Bors VPS has a market cap of NOK 2,150m which on our estimates puts the company on a 2013 price to earnings ratio of well under ten times. The company also has net cash of around NOK 750m (including c.NOK 180m proceeds expected from the sale of the Clearing division to SIX), of which NOK 500m is required regulatory capital. Other than this Oslo Bors VPS has low capital needs and so can pay out a high dividend, typically between 70 and 90% of net profit, and we expect a yield of 8% this year. We expect Oslo Bors VPS will at least maintain its 2013 level of profitability for the foreseeable future and think it is far too cheap for a business with such a strong competitive position. We believe it is worth at least 50% more than the current NOK 50 share price.

Top Five Holdings as at 31 January 2013

	Company	Country	Sector	% of NAV
1	Xing	Germany	Information Technology	4.7
2	Howden Joinery	United Kingdom	Consumer Discretionary	4.6
3	Vib Vermoegen	Germany	Financials	4.5
4	Sto	Germany	Materials	4.5
5	Oslo Bors	Norway	Financials	3.4
				21.7

Exposures as at 31 January 2013

Longs %	Shorts %	Gross Exposure %	Net Exposure %
95.6 (91.0)	30.3 (32.6)	125.9 (123.6)	65.3 (58.4)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 31 January 2013

Country	Gross%	Net%
Austria	1.9	1.0
Belgium	2.5	1.1
Denmark	3.0	1.1
France	6.1	5.3
Germany	28.9	23.6
Ireland	4.2	4.2
Italy	4.7	3.2
Jersey	3.1	-0.5
Netherlands	1.9	-0.7
Norway	3.4	3.4
Sweden	4.8	0.2
Switzerland	8.0	0.4
UK	40.0	17.4
US	8.6	1.5
Other	4.8	4.1

Market Cap	Gross%	Net%
>£2bn	2.0	-0.3
£700m - £2bn	31.2	11.8
£200m - £700m	49.7	18.8
<£200m	43.0	35.0

Sector	Gross%	Net%
Consumer Discretionary	41.4	19.0
Consumer Staples	1.1	-1.1
Energy	2.5	2.5
Financials	18.9	17.5
Health Care	3.9	0.5
Industrials	14.2	9.6
Information Technology	26.6	9.8
Materials	11.1	10.8
Telecommunication	4.7	-1.8
Utilities	1.5	-1.5
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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