Ennismore European Smaller Companies Fund

Investor Newsletter for the month of February 2013

Issued on 12 March 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 232m as at 28th February. Total assets under management by Ennismore Fund Management were GBP 281m. 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 February 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]	**75.38**	**87.53**	**12.73**	**12.50**	**12.57**			
Period	**% Change**					**% Change**		
February 13	**2.7**	**2.1**	**2.7**	**2.2**	**2.2**	**3.5**	**2.8**	**0.9**
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
2013 to date	**9.4**	**3.1**	**9.5**	**4.3**	**4.2**	**13.5**	**7.1**	**6.0**
Annualised return[5]	**15.6**	**13.8**	**12.1**	**11.3**	**11.6**	**8.8**	**7.2**	**2.8**
Since launch[5]	**668.0**	**521.5**	**27.3**	**25.0**	**25.7**	**229.0**	**165.2**	**47.3**

[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 2.7% in February. Our long book contributed 4.4% and the Fund's short exposure cost 0.8%. The main long contributions were from Zynga (0.7%), Hargreaves Services (0.5%) and Howden Joinery (0.5%). Howden announced stronger than expected results for 2012 and Hargreaves also reported, with results reassuringly in line with expectations.

Zynga is a games developer which we bought into late last year when its market cap was only a little higher than the net cash on its balance sheet. The stock has rallied strongly since, mostly on expectations that it will benefit from the liberalisation of online gambling now underway in the United States (in February New Jersey joined Nevada and Delaware in passing legislation to legalise this). Zynga has one of the largest poker networks in the world with around 35 million monthly users. So far it has not allowed players to play for real money but this is launching shortly, initially in the UK through a partnership with bwin.party, and it has applied for gambling license in Nevada.

Portfolio Activity

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

As at 28th February the Fund was invested in 77 (76)* stocks.

Goals Soccer Centres – UK leisure operator (1.1% NAV)

Goals Soccer Centres operates five-a-side football pitches in the UK. This market remains fragmented as most capacity is still run by local authorities and with 43 sites Goals is one of the largest operators (the only other operator with similar scale is Power League, which is now privately owned). New capacity is limited by the availability of suitable sites and the experience, reputation and time needed to gain planning permission. Size also allows the two leading players to benefit from significant scale benefits, for example in advertising where Goals recently partnered with Talk Radio nationally.

Revenue has proven to be remarkably stable despite many years of pressure on discretionary consumer spending in the UK. The worst like for like growth the company has ever reported was down 4% in 2010, a year badly impacted by snowfall, and in 2012 this was flat. Around three quarters of its GBP 32m turnover comes from fees for playing football with most customers reluctant to give up their weekly fix even in tough times. The remaining revenue comes from ancillary turnover such as bar and vending sales. This year management are focusing on cashflow from existing sites with no new openings planned but there are a number of factors that should help

boost organic growth. On the demand side there is more focus on the better use of social media and mobile technology to drive bookings. They should also benefit from increased pricing, initially in some of the openings made over the last four years (around 30% of the estate). The priority on opening these sites was perhaps too zealously centred on capacity utilisation at the expense of price and this could be rebalanced over the next couple of years. In November prices went up by 2-3% on average across the estate. Longer term, once the consumer environment improves, we expect Goals will be able to increase pricing annually in line with inflation.

To value Goals we prefer to look at it as a property company of sorts, given its very long lease lengths of over 60 years on average. It has a rental yield of over 10% on its sites which leads to a return on equity of 11%. We are very comfortable with debt levels at around half the book value of the sites and expect this will reduce steadily over the next few years as a result of strong cash flow generation. In 2013, with no new openings and low maintenance capex requirements, we expect Goals to produce around GBP 8m of free cash which compares very favourably to its GBP 63m market capitalisation. In 2012 Ontario Teachers' Pension Plan failed with a bid to take the company private at a 144 pence per share, a small premium to the current share price, and we would not rule out a higher bid in future. Currently the stock is trading on a price to earnings ratio for 2013 of only around ten times. In our view Goals Soccer Centres should be trading on a free cash flow yield (excluding capital expenditure to grow the estate) of less than 10%, which leads us to expect upside of over 50% in the next two years.

Top Five Holdings as at 28 February 2013

	Company	Country	Sector	% of NAV
1	Xing	Germany	Information Technology	4.8
2	Sto	Germany	Materials	4.5
3	Vib Vermoegen	Germany	Financials	4.3
4	Oslo Bors	Norway	Financials	3.6
5	Home Retail	United Kingdom	Consumer Discretionary	3.4
				20.6

Exposures as at 28 February 2013

Longs %	Shorts %	Gross Exposure %	Net Exposure %
93.8 (95.6)	30.6 (30.3)	124.4 (125.9)	63.1 (65.3)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 28 February 2013

Country	Gross%	Net%
Austria	1.7	1.2
Belgium	2.4	1.1
Bermuda	1.5	1.5
Denmark	2.6	0.7
France	5.9	5.0
Germany	30.7	24.4
Ireland	4.3	4.3
Italy	5.0	3.7
Jersey	1.8	-1.0
Norway	3.6	3.6
Sweden	4.7	0.1
Switzerland	8.6	0.1
UK	38.4	13.8
US	8.5	2.4
Other	4.7	2.2

Market Cap	Gross%	Net%
>£2bn	0.8	-0.8
£700m - £2bn	34.4	8.6
£200m - £700m	56.1	27.7
<£200m	33.1	27.6

Sector	Gross%	Net%
Consumer Discretionary	38.4	15.9
Consumer Staples	1.3	-1.3
Energy	2.9	2.9
Financials	17.9	16.7
Health Care	4.1	0.9
Industrials	15.2	9.5
Information Technology	26.8	10.7
Materials	11.6	11.1
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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