Ennismore European Smaller Companies Fund

Investor Newsletter for the month of March 2013

Issued on 9 April 2013

Fund Details

Daily dealing UCITS and Irish Central Bank regulated open-ended investment company with Financial Conduct Authority recognition, registered in Ireland and listed on the Irish Stock Exchange. The Fund size was GBP 235m as at 28th March. Total assets under management by Ennismore Fund Management were GBP 285m. 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 March 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]	**76.51**	**90.47**	**12.92**	**12.87**	**12.95**			
Period			% Change				% Change	
March 13	**1.5**	**3.4**	**1.5**	**3.0**	**3.0**	**-1.8**	**0.2**	**0.9**
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
2013 to date	**11.1**	**6.5**	**11.1**	**7.3**	**7.4**	**11.4**	**7.3**	**6.9**
Annualised return[5]	**15.6**	**14.0**	**12.4**	**12.4**	**12.7**	**8.6**	**7.1**	**2.8**
Since launch[5]	**679.5**	**542.4**	**29.2**	**28.7**	**29.5**	**223.0**	**165.7**	**48.6**

[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 1.5% in March. Our long book contributed 1.6% and the Fund's short exposure contributed 0.4%.
The largest positive contribution came from UK retailer Home Retail, adding 0.7%. The company reported a further increase in like-for-like sales for its main Argos chain in the last period of its financial year and a higher than expected net cash position of nearly GBP 400m (equivalent to one third of its market cap). Argos's sales performance has been stronger sooner than we expected a year ago when we made our investment, partly driven by the collapse of electricals retailer Comet (which had been the second largest in the UK with a similar level of sales to Argos) before Christmas. Home Retail remains modestly valued – we estimate the current enterprise value is less than eight times this year's operating profit - with the potential for earnings to recover very significantly if consumer spending growth improves in the UK.

Portfolio Activity

Figures in brackets refer to previous month end; * = positions > 0.5% of NAV.
As at 28th March the Fund was invested in 74 (77)* stocks.

TAG Immobilien – a German residential real estate landlord (1.0% NAV)

TAG Immobilien is a residential real estate landlord in Germany with significant assets around Berlin (23%) and Hamburg (17%). The current portfolio is the product of the 2008 financial crisis, when many German real estate owners ran into trouble as financing dried up, and the new management that came in as a result. In the summer of 2009 Rolf Elgeti took over as CEO to turn around a business which had historically shown very weak cash flow. The strategy was to focus only on residential properties and to grow this estate significantly, from around 5,000 units in 2008 to close to 70,000 units today. As debt financing was all but impossible at this stage TAG instead funded the transformation by issuing new shares at net asset value (NAV), which was above the share price at the time, and some convertible debt to reduce the NAV dilution to existing shareholders. By the end of 2012 the benefits of this strategy were clear with TAG reporting its first significantly positive funds from operations (FFO) of close to EUR 40m. Having achieved critical size, and with fewer acquisitions to come, management is now turning its attention towards consolidating the businesses it has acquired to generate synergies. We expect that TAG will be able to grow its funds from operations significantly over the next few years by reaping the benefits of scale, streamlining its property management further and increasing rental income. The portfolio currently generates a rental income of 7% overall, a solid result for residential real estate, but vacancy rates are still high at 9.9% (its closest peers all have rates well below 5%). In part this reflects the asset mix in the portfolio with, for example, the properties acquired from Colonia Real Estate in the Salzgitter region (11% of TAG's portfolio) having a rate of 24.4% which has so far been reduced to 21.3% by TAG. Further reducing this, combined with steady increases in rents, should lead to good growth in overall rental income. The current low interest environment is also very favourable, enabling TAG to lower its average long term financing cost materially.

TAG trades at a discount of 12% to its last reported NAV of EUR 9.96 per share. For 2013 we would expect NAV to increase by close to 10% largely as a result of the improved financial performance. We also expect funds from operations to grow above EUR 70m, providing a yield of 6%, and the dividend to increase by 40% from 25 to around 35 cents - a net yield after tax of 4%. Given the uncyclical nature of residential assets and still moderate rents across most of Germany, alongside the lowest unemployment rate for 20 years and increasing incomes, we think the outlook for TAG remains bright - a view which seems to be shared by management who continue to buy shares of the company. We believe that the current discount to NAV is unjustified and will not continue if TAG's operational performance improves as expected. This leads us to expect a total return of more than 25% from this investment over the next twelve months.

Top Five Holdings as at 28 March 2013

	Company	Country	Sector	% of NAV
1	Xing	Germany	Information Technology	4.8
2	Sto	Germany	Materials	4.4
3	Vib Vermoegen	Germany	Financials	4.4
4	Oslo Bors	Norway	Financials	3.7
5	Home Retail	United Kingdom	Consumer Discretionary	3.5
				20.8

Exposures as at 28 March 2013

Longs %	Shorts %	Gross Exposure %	Net Exposure %
92.9 (93.8)	27.8 (30.6)	120.7 (124.4)	65.0 (63.1)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Austria	1.6	1.1
Belgium	2.3	1.1
Bermuda	1.4	1.4
Denmark	2.4	0.9
France	6.0	5.2
Germany	30.1	24.8
Ireland	4.4	4.4
Italy	4.6	3.4
Norway	3.7	3.7
Singapore	1.4	1.4
Sweden	4.4	0.1
Switzerland	8.8	0.3
UK	38.1	13.5
US	7.7	2.5
Other	3.8	1.2

Market Cap	Gross%	Net%
>£2bn	0.8	-0.8
£700m - £2bn	33.6	7.7
£200m - £700m	46.8	24.4
<£200m	39.5	33.7

Sector	Gross%	Net%
Consumer Discretionary	38.0	14.9
Consumer Staples	1.1	-1.1
Energy	2.8	2.8
Financials	17.1	16.1
Health Care	3.9	0.9
Industrials	15.9	11.0
Information Technology	24.9	12.7
Materials	11.2	10.7
Telecommunication	4.2	-1.4
Utilities	1.6	-1.6
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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