Ennismore European Smaller Companies Fund

Investor Newsletter for the month of May 2013

Issued on 12 June 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 239m as at 31st May. Total assets under management by Ennismore Fund Management were GBP 290m. 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 May 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]	**77.20**	**90.31**	**13.03**	**12.88**	**12.95**			
Period			**% Change**				**% Change**	
May 13	**1.8**	**0.9**	**1.8**	**1.1**	**1.1**	**4.2**	**3.2**	**2.5**
April 13	-0.9	-1.1	-0.9	-1.0	-1.1	1.7	1.4	1.9
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
2013 to date	**12.1**	**6.3**	**12.0**	**7.4**	**7.4**	**18.1**	**12.2**	**11.7**
Annualised return[5]	**15.5**	**13.8**	**11.9**	**11.5**	**11.7**	**9.0**	**7.4**	**3.1**
Since launch[5]	**686.6**	**541.3**	**30.3**	**28.8**	**29.5**	**242.2**	**178.0**	**55.2**

[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 1.8% in May. Our long book contributed 5.5% but the Fund's short exposure cost 3.0%.

Most of the portfolio contributed positively in the month with the largest positive attribution coming from Xing (adding 1.1% to NAV). The position is covered in more detail in an updated stock comment below.

One position did cost the Fund materially in May. We held a short position in online grocery retailer Ocado (with an attribution of -2.0%) and the company announced a lucrative contract to provide the home delivery infrastructure for the UK's fourth largest supermarket chain, WM Morrison. Although a deal was widely anticipated the commercial terms were much more favourable for Ocado than we expected.

Portfolio Activity

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

As at 31st May the Fund was invested in 77 (76)* stocks.

Xing – German professional network (5.8% NAV)

Xing is a networking website for professionals in the DACH region (Germany, Austria and German speaking Switzerland). The network can be a valuable source of business leads for freelancers and small businesses, salespeople and, in particular, recruitment agencies and human resources departments. Basic membership is free, and for many members it is simply the place to keep an up to date CV, but to exploit the network commercially (e.g. to see detailed information on other members or to contact them) about one in six members pay a monthly subscription starting at five euros. The company also sells advertising on the site, mostly for jobs targeted to members' profiles. Direct competition is limited as the business benefits from a powerful network effect. The main competitor is US based LinkedIn, which is number one in most other countries worldwide. LinkedIn launched in German speaking countries at the start of 2009 but has so far failed to make a significant impact – Xing still gets around three times as much usage in Germany. We waited to see how LinkedIn's launch developed before investing and are confident that barriers to entry are extremely high. In the long run we would not be surprised to see LinkedIn acquire Xing.

This year should see Xing begin to return to strong profit growth after a slightly disappointing 2012. Their most important new product, a corporate recruitment tool called Xing Talentmanager (XTM), came late and was not fully developed last year. This led to a change of CEO with Thomas Vollmoeller brought in. XTM is priced at EUR 250 a month, replacing the previous recruiter product that cost EUR 40 and had about 7,000 subscribers. This transition is key to Xing's growth over the next two to three years. LinkedIn's comparable product (which is significantly more expensive) accounts for over half of their revenue compared to less than 5% for Xing's existing recruitment subscription, so the opportunity is clear. If current recruiter subs can be moved over to the new product the revenue uplift is over EUR 14m, most of which will drop through to operating profit as the cost of developers behind the product and the salesforce selling it are already in place. But even more significant than this is the medium term opportunity to further penetrate corporate human resources departments in Germany as LinkedIn has done so successfully in other markets. Xing's plan is to double overall sales in four years and this will be a key part of that strategy.

Late last year Xing's main shareholder Burda Media bid EUR 44 per share but made it clear its preference was to keep Xing listed and only take its ownership over 50% (which it achieved) to consolidate it within the group. At its current share price of just over EUR 50 Xing is valued at a market cap of EUR 280m, with net cash of close to EUR 60m (having paid a special dividend of c.EUR 20m in early 2012). In 2013 it should generate operating profit of EUR 15m, similar to the level made in 2012, with revenue growth accelerating as the year progresses. By 2016 we expect this profit figure will have more than doubled. For comparison, LinkedIn is currently valued at USD 18bn, over seventy times forecast operating profit for this year. Given its real strategic value and potential for sustained growth we think Xing is worth at least 50% more than its current market valuation.

Top Five Holdings as at 31 May 2013

	Company	Country	Sector	% of NAV
1	Xing	Germany	Information Technology	5.8
2	Vib Vermoegen	Germany	Financials	4.9
3	Sto	Germany	Materials	4.5
4	Oslo Bors	Norway	Financials	3.5
5	Home Retail	United Kingdom	Consumer Discretionary	3.3
				22.0

Exposures as at 31 May 2013

Longs %	Shorts %	Gross Exposure %	Net Exposure %
92.5 (91.3)	30.1 (31.6)	122.6 (122.8)	62.4 (59.7)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Austria	1.3	1.3
Belgium	2.3	1.0
Bermuda	1.5	1.5
Denmark	3.7	0.0
France	5.3	4.7
Germany	31.7	26.4
Ireland	4.8	4.8
Italy	6.1	2.8
Norway	3.5	3.5
Spain	0.9	-0.9
Sweden	4.3	-1.5
Switzerland	7.7	-0.1
UK	39.1	15.4
US	7.7	1.1
Other	2.7	2.4

Market Cap	Gross%	Net%
>£2bn	3.9	2.7
£700m - £2bn	34.1	6.4
£200m - £700m	47.5	21.6
<£200m	37.1	31.7

Sector	Gross%	Net%
Consumer Discretionary	34.9	14.2
Consumer Staples	1.0	-1.0
Energy	4.1	2.6
Financials	18.6	15.8
Health Care	4.3	0.8
Industrials	17.8	11.3
Information Technology	24.9	10.8
Materials	11.0	11.0
Telecommunication	4.3	-1.4
Utilities	1.7	-1.7
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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