



Value Investors in European Smallcaps

**European
Smallcaps GmbH**

FORUM



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Mission Statement

- As part of a German Family Office, FORUM European Smallcaps GmbH (FES) invests in **quality businesses displaying high customer ‘stickiness’ and robust competitive advantages.**
- We select companies from the European Smallcap universe with a market capitalization of € 50-500 m. / £ 35-350 m. as we believe this segment presents us with the most market inefficiencies.
- We target an **absolute return of 20-25 % p.a.** over a 5-10 year investment cycle.
 - a) **15-20 % increase in the intrinsic value of the equity** we own in a business
 - b) 5 % from **multiple expansion**, owing to the discount from intrinsic value

Investment Philosophy: Business Level

- We look for '**one-of-a-kind**' **businesses** displaying high customer stickiness, run by dedicated managers for the long-term.
- Such characteristics should translate into **compounding economics** – a high return on capital and the ability to reinvest returns to achieve outstanding organic growth
- Our investment philosophy is characterized by consistent application of the principles of value investing: **avoid any risk for permanent loss of capital** and ensure downside protection with **a margin of safety**.

We align ourselves with the **Buffett / Fisher School** (“**internal-compounding**”) rather than with Graham (“cheap assets”).

Investment Philosophy: Portfolio Level

- We seek to **know what we own**: implying a highly concentrated portfolio
 - the maximum allocation is 25 % to protect us against event risks.
- We allocate capital based on expected returns. As market prices and earning estimates evolve we try to **rebalance our portfolio**.
- We'd prefer to stay invested forever, but will sell when:
 - valuations are stretched and **risk-adjusted returns turn negative**
 - we **lose confidence in the management** or disagree with major strategic decisions.

As a result our portfolio churn has averaged 10-15 % p.a

FORUM „Circle of Competence“

	Industries with Priority	Opportunistic	Avoided Sectors
1	Brands: Goods, Services and „Verticals“. Also: Discounting Concepts	Any Business with one-of-a-kind Characteristics	Technology Companies
2	Direct Marketing and Subscription-based Businesses	Specialty Finance	Telecommunication Businesses
3	Media	Software Companies	Manufacturers with <30% After-Sales Business
4	B-to-B Service Companies		Logistics Companies
5	Manufacturers with >30% After-Sales Business		
6	Med Tech and Healthcare Services		

Investment Spectrum

Universe

Capitalisation € 50 m to 500 m

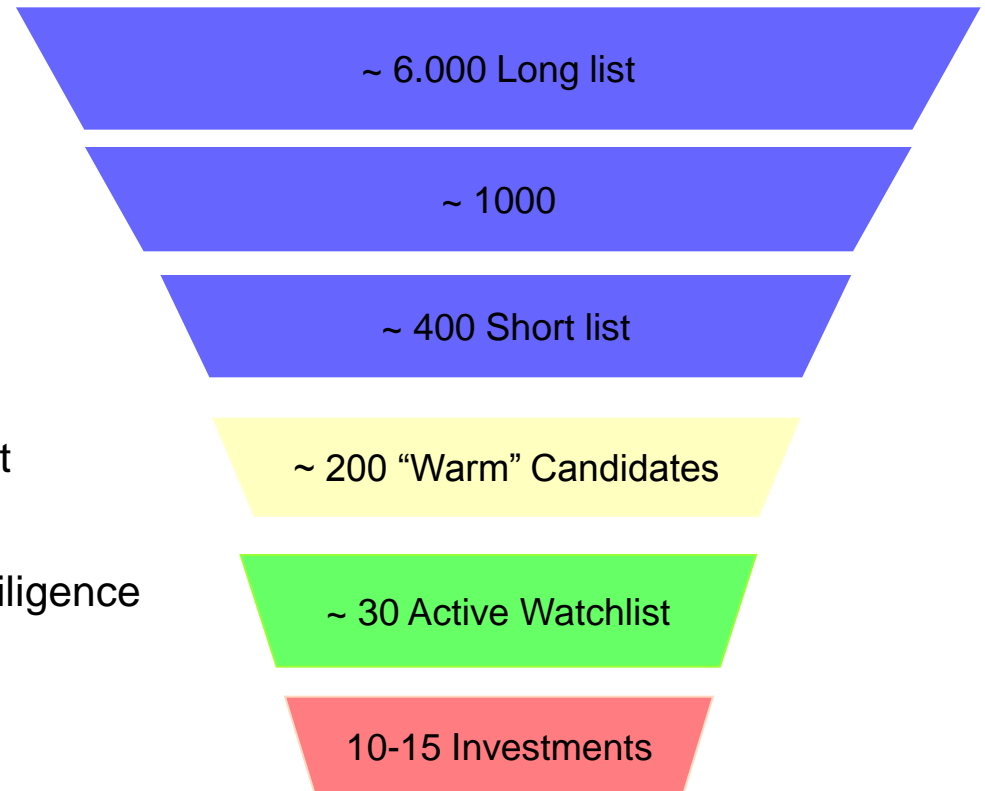
Business Quality sufficient

ROCE > 20% or ROE > 25%

Added to Watchlist after Company Visit

Ready to Invest after Additional Due Diligence

Investments



Sources of Screening

Primary Information	Sell-Side Research	Buy-Side Sources	News
Full List Screening for Interesting Businesses	Broker Reports a) Individual Companies b) Monthly Overviews	Magazines for Retail Investors	Business Newspapers
Investor Conferences		Online Threads	Spin-Off Announcements
		Insider Purchases	
		Exchange of Ideas with Value Investors	

How We Like to Do Due Diligence

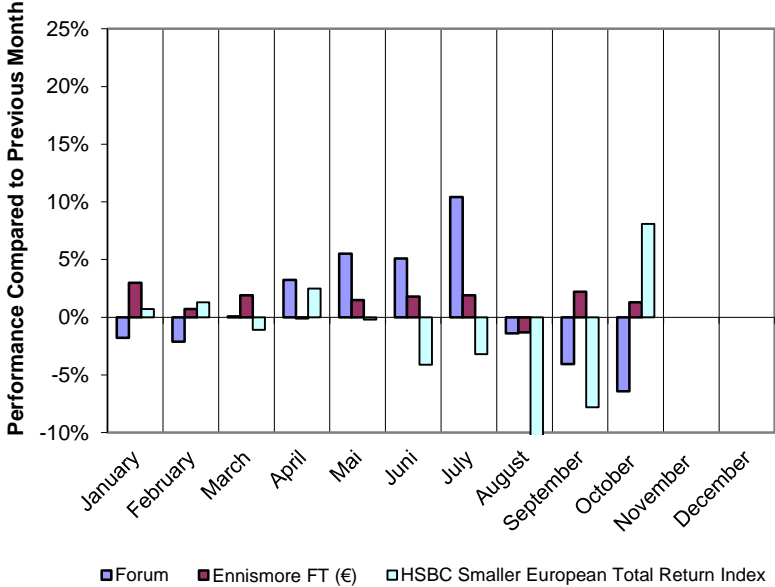
- **We like to meet the management in person** – preferably also members of the second level management.
- We like to **spend a day on the company's premises**
 - learning the basics
 - meeting people
 - feeling the spirit.
- We like to **meet customers (and non-customers)**
 - on our own
 - spending a day with the sales people in the field.

Missed Opportunities 2008

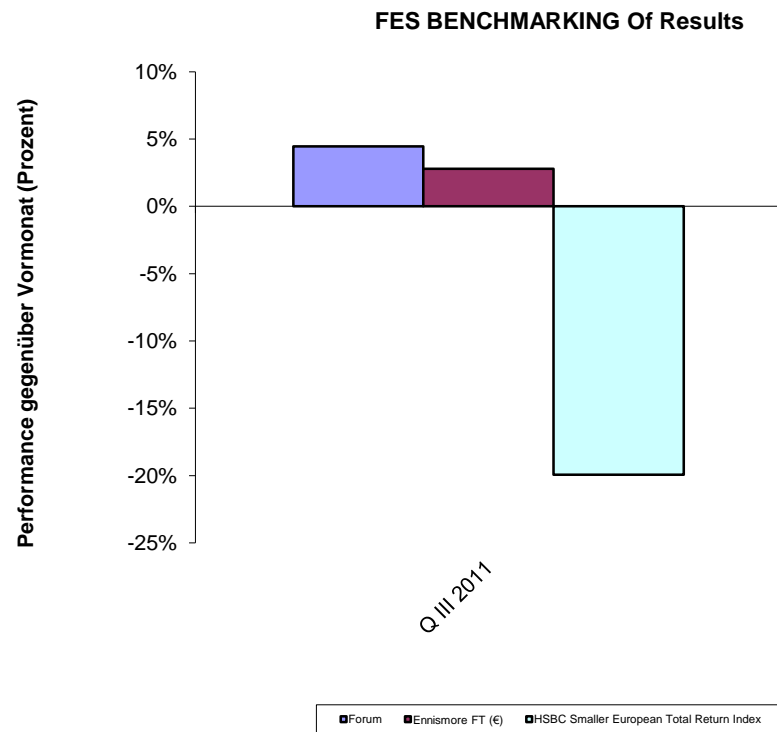
Status as of January 19th, 2009

	Reasons for Outstanding Business	Date	Missed at	Valuation	Reasons for Not Buying
None	-	-	-	-	-

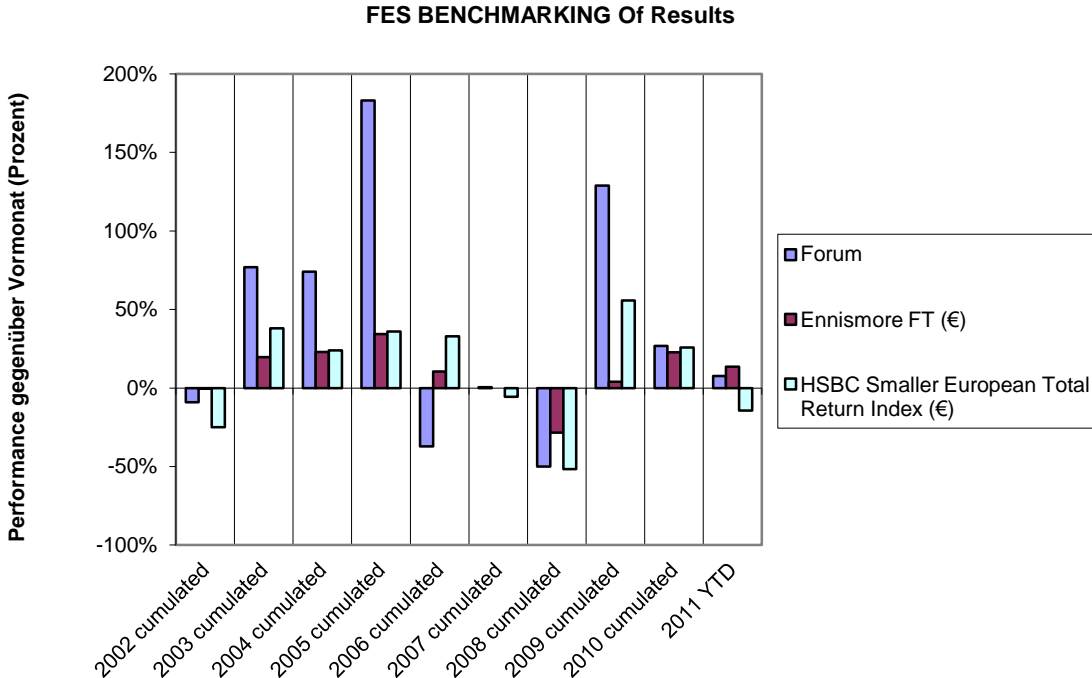
Monthly Results 2011



Results Cumulated 2011



Annuals Results since 2002



Annuals Results since 2002

Seit Beginn (2002), p.a.	FORUM		HSBC European Smallcap Index		Ennismore NAV in €	
	Prozent	Index	Prozent	Index	Prozent	Index
2002	-7,0%	93	-25,0%	75	-0,3%	100
2003	78,0%	165	38,0%	103	20,0%	119
2004	74,0%	287	24,0%	128	23,0%	147
2005	178,0%	798	36,0%	174	34,0%	197
2006	-37,0%	502	33,0%	231	10,0%	216
2007	1,0%	504	-5,5%	218	0,0%	216
2008	-50,0%	252	-51,5%	106	-28,0%	156
2009	129,1%	577	55,8%	165	4,0%	162
2010	26,9%	728	25,8%	208	22,8%	199
2011 YTD	7,7%	784	-20,8%	165	12,1%	224
IRR p.a. seit Jan. 2002 bis 2011		24,3%		5,2%		8,5%



Contact

FORUM European Smallcaps GmbH

Uhlandstr. 5
80336 Munich
Germany

Tel.: +49 / 89 / 27 37 49 – 0

Fax.: +49 / 89 / 27 37 49 – 15

E-mail: info@forumgruppe.de

URL: <http://european-smallcaps.forumgruppe.de>