Ennismore European Smaller Companies Fund

Investor Newsletter – May 1999

Fund Details

Daily dealing UCITS and Central Bank of Ireland regulated open ended investment company with FSA approval, registered in Ireland and listed on the Irish Stock Exchange. The Fund has an AA S&P Fund Research New Fund Rating.

Performance as at 30 April 1999

	NAV	April	Since Launch (27/1/99)
£			
Ennismore European Smaller Companies*	10.82	6.6%	8.2%
HSBC Europe inc. UK Small Cap Index#		4.9%	7.5%
€			
Ennismore European Smaller Companies*	16.46	8.4%	14.7%
HSBC Europe inc. UK Small Cap Index#		6.7%	14.2%

* Net Asset Value, net income reinvested   # Source: Bloomberg, excludes income

The increase in NAV in April was 6.6%. We have built up our investments further and the Fund was ca. 59% invested on average in April on which the return was ca. 11%. Our best performers were ConSors, Monsoon, Medion, T J Hughes and Inter Parfum with contributions to the increase in NAV between 2.5% and 0.6%. There were no significant negative contributors.

Comments on Performance refer to £ Sterling unless otherwise stated. All performance figures net of fees.

Top Ten Holdings as at 30 April 1999

	Company	Country	Sector	% Weighting
1	Medion	Germany	Distribution	6.2
2	ConSors	Germany	Financial Services	5.2
3	Porsche	Germany	Auto	5.0
4	Monsoon	UK	Retail	4.1
5	Fielmann	Germany	Retail	3.4
6	Comino	UK	I.T.	3.3
7	Reliance Security	UK	Services	3.3
8	Alain Manoukian	France	Apparel	3.3
9	Amadeus	Germany	Recruitment	3.2
10	Goldsmiths Group	UK	Retail	2.9
			Total:	**39.9**

ConSors has achieved leadership in the German discount brokerage market with a 34% share through the early embracing of online technology, allowing it to become the cost and price leader, and through aggressive marketing. ConSors' competitors are the direct banking subsidiaries of the large German banks and we suspect that they are restricted in their ability to target their parents' 'full fee' customers. Due to low internet penetration and an underdeveloped equity culture the market is still in its infancy compared to the U.S., and management's expectations for an annual doubling in accounts over the next four years are reasonable. Customer relationships will be leveraged through the selling of new financial products, including a fund brokerage service with free access to Standard & Poor's Fund Research. The shares have nearly trebled since their recent IPO and trade on a

PE of 100x 2000 and 50x 2002. ConSors is a rare foray into high PE Neuer Markt territory for us, but we expect that our forecasts which are already ahead of the market will need to be upgraded sharply (Q1/99 transactions increased fivefold year on year, vs. our expectation for a 113% increase in 1999). This is one of very few distributors using the internet that is nicely profitable already and likely to become a major financial stock.

Reliance Security – security services and facilities management. The company's principal activities are the provision of security guards, installation and maintenance of surveillance equipment and the transportation of prisoners. During the month we increased our holding in the company following a visit to the group's operating subsidiaries. Security is clearly a growth industry due to persistently high crime levels and the continued trend towards outsourcing in the policing and crime prevention sectors. Reliance is strategically well positioned within the industry as a credible operator with nationwide coverage, as demonstrated by the award of two high profile long term contracts by the Home Office. With costs tightly managed and the business employing very little capital, cash generation is excellent. With an enterprise value of only 6.8 times annual operating cash flow, earnings growth in excess of 20% and a 5% prospective net yield, Reliance has all the characteristics of a low-risk, high-reward investment proposition.

Another important recent purchase is
Hamley's – Toy retailer. Trading on 9x last year's earnings and yielding 6.2% with very low debt levels and substantial cash generating ability, Hamley's is too cheap. The new management team are determined to maximise the value of the brand in a number of ways, including the current extensive refurbishment programme at the Regent Street store to persuade a higher proportion of their many visitors to make a purchase. Following internet trials the company intends to leverage its excellent brand name by strongly developing their business in this area. Having taken the decision to close the House of Toys concession with Debenhams, and with the Toystack acquisition fully integrated and now showing positive like for like growth, the business risk is low.

Portfolio Activity

As at 30 April 1999, the Fund was 68% invested in 23 shares. With the exception of 'high PE' ConSors described above, purchases fell into the two camps of low PE companies with a strong franchise, high profitability and cash generation growing at 15% plus (Whitehead Mann, Jaakko Pöyry) and situations with significantly higher growth on PEs of between 15 and 25 times (Amadeus, Fielmann, Comino). There were no sales in the month.

Outlook

We are visiting and researching a large number of companies and are planning trips to Scandinavia and France, with Germany and the U.K. having been the initial emphasis. We see no shortage of good ideas at attractive valuations and believe that the outlook for the Fund is promising.

For further information please contact:

Gerhard Schöningh	Ennismore Fund Management Limited	0171 313 9521	gs@ennismorefunds.com
Geoff Oldfield	Ennismore Fund Management Limited	0171 313 9523	go@ennismorefunds.com

For dealing please contact:

Sinéad Whelehan	Deutsche International Fund Services	(353) 1 607 6409	sinead.whelehan@db.com
Audrey Galvin	Deutsche International Fund Services	(353) 1 607 6358	audrey.galvin@db.com
Simon Ibbitson	Warburg Dillon Read	0171 568 4572	simon.ibbitson@wdr.com