Ennismore European Smaller Companies Fund

Investor Newsletter – September 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.

The Fund reopened for subscriptions on 26 July 1999. The current size is £18.1m as at 31 August 1999.

Performance as at 31 August 1999

	NAV (31/8/99)	August	NAV (31/7/99)	July	Since Launch (27/1/99)
£ Sterling					
Ennismore European Smaller Companies*	£12.01	1.4%	£11.85	4.6%	20.1%
HSBC Europe inc. UK Small Cap Index#		4.1%		1.0%	14.3%
€ Euro					
Ennismore European Smaller Companies*	€18.27	1.7%	€17.96	3.8%	27.3%
HSBC Europe inc. UK Small Cap Index#		4.7%		0.0%	21.5%
Local Currency					
MSCI Europe 15 Index (Large Cap)#		2.0%		-2.7%	6.5%

* Net Asset Value, net income reinvested, source: Administrator # Source: Bloomberg, excludes income. All performance figures net of fees.

Comments on Performance refer to £ Sterling unless otherwise stated.

The increase in net asset value in the period of July and August was 6%. On average the Fund was 80% invested. The major contributors to performance over the two months were ACG 2.1%, Zapf 1.4%, Reliance 1%, Fayrewood 0.5% and Telelogic 0.4%, with small negative contributions not exceeding 0.5% coming from Medion, Hampden, Stedim and Sixt.

Top Ten Holdings as at 31 August 1999

	Company	Country	Sector	% of NAV
1	Zapf	Germany	Consumer Goods	4.6
2	Reliance	UK	Services	3.5
3	Comino	UK	I.T.	3.5
4	Amadeus	Germany	Services	3.1
5	Alain Manoukian	France	Apparel	2.6
6	ACG	Germany	I.T.	2.6
7	Whitehead Mann	UK	Services	2.5
8	Monsoon	UK	Retail	2.5
9	Porsche	Germany	Auto	2.4
10	Medion	Germany	Distribution	2.3
				29.6

ACG - fast growing supplier of smart cards. Their services range from a brokerage business, where ACG pools the demand of small smart card producers and sources from the large chip and components producers at very attractive terms, to supplying complete systems including advice to end users. ACG has a highly competent management team with fourteen partners that include several leading figures in the industry who have made a substantial equity commitment. Only three years old, ACG has substantial fixed cost leverage and the potential to reach a high level of return on operating assets, as well as free cash generation. Following gains of over 150% on the new issue price within a month, we reduced our weighting, only to increase it again to the current level following the publication of excellent figures for Q2/99. We expect ACG to grow much faster than currently anticipated by the market and will meet with the company again in mid-September.

Paragon – specialist lender to individuals. The market's valuation of this niche lender – a multiple of just nine times fully taxed earnings for the year to September 2000 – is tainted by the fact that investors still associate the company with the old National Home Loans business. This is unfair. Indeed, it would be difficult to envisage the quality of two businesses being more different. The credit approval process, implemented by the new management team, is cash flow driven, selective, and conservative. By focusing on niche areas, such as the buy to let market, spreads are enhanced and the loan book quality high, enabling securitisation of the assets. Securitisation ensures that the funding matches the loan book by duration and type, ie fixed or variable, as well as ensuring efficient capital utilisation. With half the loan book at fixed rates, Paragon have sensibly reduced their exposure to changing interest rates. With fixed costs already low, helped by the absence of a branch network, and under tight control, the profit improvement over the next few years will be substantial.

Country, Market Cap & Sector Weightings

Country	% of NAV
UK	26.8
Germany	23.7
France	11.2
Sweden	3.9
Switzerland	3.6
Denmark	2.2
Netherlands	1.9
Finland	1.8
Portugal	1.7
Other	3.2
Cash	20.0

Market Cap	% of NAV
>£1bn	3.8
£350m - £1bn	12.3
£100m - £350m	27.6
<£100m	36.3
Cash	20.0

Sector	% of NAV
I.T.	18.5
Services	15.9
Retail	9.5
Consumer	6.6
Media	4.6
Auto	4.1
Apparel	3.7
Financial	3.0
Distribution	2.3
Other	11.8
Cash	20.0

Portfolio Activity

As at 31 August the Fund was 80% invested in forty two shares. Major purchases over the two months were ACG (see commentary above), Biomarin, Ratos and DPA Holding. We sold our positions in Hamleys and Sixt before both companies came out with disappointing earnings. CFS Group, TJ Hughes and Telelogic were all sold at a profit, as they had reached their target prices. We also reduced Medion significantly following a strong performance.

Outlook

Despite an uncertain outlook for stock markets overall, we remain confident of the outlook for the Fund. Numerous smaller companies trade at substantial and undeserved discounts to large companies and the Fund now has 41% of its net asset value invested in companies with a current year's price-earnings ratio below 15 times, in many cases below ten times, despite growth of 15%+, strong management and high profitability. We have no shortage of strong ideas that we are pursuing across all markets, including some promising new issues coming up in September and October.

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