Ennismore European Smaller Companies Fund

Investor Newsletter – October 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 current size is £20.1m as at 30 September 1999.

Performance as at 30 September 1999

	NAV (30/9/99)	September %	Since Launch (27/1/99) %
£ Sterling			
Ennismore European Smaller Companies*	£11.79	-1.8	17.9
HSBC Europe inc. UK Small Cap Index#		-2.3	11.7
€ Euro			
Ennismore European Smaller Companies*	€18.18	-0.5	26.7
HSBC Europe inc. UK Small Cap Index#		-0.8	20.6
Local Currency			
MSCI Europe 15 Index (Large Cap)#		-2.2	4.1

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

Comments on Performance refer to £ Sterling unless otherwise stated.

Net asset value in September decreased by 1.8%. On average the Fund was 75% invested. The major positive contributor to performance was Navision 0.6%, following the release of excellent full year results showing sales +136%, of which 88% organic, net profit +199%, and an expectation of minimum 50% organic sales growth in the current year. Other strong contributors were Interparfums and ConSors. Negative contributions came from ACG -0.7%, despite excellent figures for the second quarter, Monsoon -0.6% and Paragon -0.4%. In each case, we consider these price movements unwarranted on both valuation and fundamental grounds.

Top Ten Holdings as at 30 September 1999

	Company	Country	Sector	% of NAV
1	Zapf	Germany	Consumer	4.2
2	Reliance Security	UK	Services	3.7
3	Paragon	UK	Financial	2.7
4	Monsoon	UK	Retail	2.7
5	Alain Manoukian	France	Apparel	2.6
6	Navision	Denmark	I.T.	2.5
7	Whitehead Mann	UK	Services	2.4
8	Porsche	Germany	Autos	2.3
9	Interparfums	France	Consumer	2.0
10	Fielmann	Germany	Retail	2.0
				27.1

Tieto-X – the only pure Finnish IT staffing company with a 20% market share. Tieto-X competes for both staff and clients against IT service providers and consultants. It achieves a 100% capacity utilisation by paying its temporary workforce only for hours charged out to clients. The project management responsibility and the need to ensure good utilisation rates rests with the client. This formula allows Tieto-X to pay its staff at a premium and charge out its staff at a discount to the market. Its operating margin of 18% is at the top of the industry despite an infrastructure capable of handling higher business volumes. With forecast 30% organic earnings growth over the next three years and 20% of the market cap in net cash, the shares trade on 16x June 2000 earnings, which is a 30% discount to its sector. Further upside comes from a variety a factors: the recent granting of an ISO 9000 certification should enable the generation of additional revenues from big corporates such as Nokia, the cash position could be used for a small acquisition, and, given its good market position and low valuation, Tieto-X may be at the receiving end of a bid itself.

Lusomundo – the dominant media and audio-visual company in Portugal with strong market shares in newspapers, cinema, radio and video games, and a rapidly growing internet subsidiary. The company provides unparalleled exposure to these immature markets in one of Europe's fastest growing economies. With newspaper readership levels in Portugal at half those of Spain and average per capita cinema attendance just 1.5 times per annum, there is significant room for growth. The company has a 50/50 joint venture with Warner Bros. to roll out a chain of multiplex cinemas across Spain and Portugal. Both countries are still poorly served by cinemas and the venture has proved extremely successful with the building of 14 multiplexes to date, and a further 20 planned by 2001. Lusomundo currently trades at 4.5 times year 2000 Enterprise Value/Operating cash flow, a 65% discount to the European peer group. For a company that controls 80% of the Portuguese classified advertising market the valuation is compelling.

Country, Market Cap & Sector Weightings

Country	% of NAV
UK	24.6
Germany	17.4
France	10.5
Finland	3.5
Portugal	3.5
Sweden	3.4
Denmark	2.5
Switzerland	2.2
Netherlands	1.7
Ireland	1.2
Other	1.9
Cash	27.6

Market Cap	% of NAV
>£1bn	5.7
£350m - £1bn	11.6
£100m - £350m	22.0
<£100m	33.1
Cash	27.6

Sector	% of NAV
IT	14.2
Services	12.0
Retail	8.1
Media	6.6
Consumer	6.2
Medical	4.5
Apparel	3.7
Auto	3.6
Temp Employment	3.5
Financial	3.4
Other	6.6
Cash	27.6

Portfolio Activity

As at 30 September the Fund was 72% invested in 43 shares. Major purchases were Tieto-X and Lusomundo (see stock comments above) and a number of existing holdings were increased. We sold outright our big position in Amadeus at a small book loss due to doubts over the near-term outlook. Selecta was sold at a book profit following results at the lower end of expectations.

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 over 40% 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 and we are looking to increase several of our existing holdings.

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