Ennismore European Smaller Companies Fund

Investor Newsletter – November 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 was £24.2m as at 31 October 1999.

Performance as at 31 October 1999

	NAV (31/10/99)	October %	Since Launch (27/1/99) %
£ Sterling			
Ennismore European Smaller Companies*	£12.10	2.6	21.0
HSBC Europe inc. UK Small Cap Index#		-0.2	11.4
€ Euro			
Ennismore European Smaller Companies*	€18.91	4.0	31.8
HSBC Europe inc. UK Small Cap Index#		0.7	21.4
Local Currency			
MSCI Europe 15 Index (Large Cap)#		4.6	8.9

* 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 October increased by 2.6%. On average the Fund was 70% invested. The five top contributors to performance were Hampden Group 1.1%, Redstone 0.8%, Aldata 0.5%, Navision 0.4% and Reliance 0.3%. Hampden is a Northern Ireland based franchisee for Sainsbury's Homebase DIY markets. Purchased on a PE of four times, with one-third of the market capitalisation in net cash and a return on net operating assets above 15%, it was bid for by Sainsbury's at a premium of over 100% compared to the latest quoted price. It is an excellent example of the extreme undervaluations of some good quality microcaps in the UK. Our new positions Redstone and Aldata are discussed below. Price movements in thin trading were the sole reason behind the small negative returns of around –0.1% each in eleven stocks.

Top Ten Holdings as at 31 October 1999

	Company	Country	Sector	% of NAV
1	Redstone Telecom	UK	Telecom	4.6
2	Zapf	Germany	Consumer	3.4
3	Reliance Security	UK	Services	3.3
4	Alain Manoukian	France	Apparel	3.2
5	Monsoon	UK	Retail	2.9
6	Aldata Solution	Finland	I.T.	2.8
7	Fitness First	UK	Services	2.8
8	Paragon	UK	Financial	2.7
9	Navision	Denmark	I.T.	2.5
10	ACG	Germany	I.T.	2.3
				30.5

Redstone Telecom – UK Telecom Services Provider. The UK's first "smart build" national telecoms operator leases its backbone network capacity and invests its capital in switches and network intelligence. This strategy differs radically from the "traditional" model of laying fibre, which is characterised by long lead times and high capital intensity. As a result Redstone is unencumbered by investments in legacy networks and antiquated systems, and can react rapidly to technological and regulatory opportunities. The "smart build" model has been successfully deployed by a new generation of operators in the USA who are capitalising on the migration of value away from commoditised transmission capacity towards customer ownership. The company's top management combine extensive industry experience with a distinct sales and marketing focus. The markets for voice and data traffic are growing rapidly and recent entrants to the market are capturing market share, enabling them to grow even faster from their low base. We expect Redstone to almost triple its revenues between March 1999 and March 2001, and consider a valuation of 3 times March 2001 revenues to be highly attractive.

Aldata - Finnish developer of retail business applications and e-commerce software. With a market share in excess of 50% in Finland, the company has both a high level of recurring revenues through maintenance fees as well as a large existing client base to sell new products to. In addition, their recent non-exclusive Nordic agreement with Cap Gemini offers the potential of gaining many new large clients. With revenues of just €33m, winning a couple of large contracts would enable Aldata to become a much larger company very quickly. Conversations with existing clients have convinced us that this is likely to happen. The company's accounting is conservative with all research and development expenditure being expensed as incurred. Having increased by 33% from its new issue price in mid October the valuation still offers enormous upside potential. It is trading on 1.2 times Enterprise Value : Turnover and 19 times earnings for the year 2000.

Country, Market Cap & Sector Weightings

Country	% of NAV
UK	27.0
Germany	15.4
France	9.7
Finland	5.8
Sweden	3.5
Denmark	3.3
Portugal	2.6
Netherlands	2.0
Switzerland	1.1
Italy	1.0
Other	1.5
Cash	27.1

Market Cap	% of NAV
>£1bn	4.6
£350m - £1bn	7.3
£100m - £350m	30.3
<£100m	30.7
Cash	27.1

Sector	% of NAV
I.T.	15.9
Services	13.7
Retail	6.5
Media	5.8
Consumer	5.0
Telecom	4.6
Financial	4.5
Apparel	4.2
Medical	3.5
Auto	3.1
Other	6.1
Cash	27.1

Portfolio Activity

As at 31 October the Fund was 73% invested in 47 shares. Major purchases were Redstone and Aldata (see stock comments above) and a number of existing holdings were increased. Major sales were Hampden (see comment under Performance Review) and the remainder of our position in Medion.

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 10 times, despite growth in excess of 15%, strong management and high profitability. We have no shortage of strong ideas both amongst new issues and already listed companies.

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