Ennismore European Smaller Companies Fund

Investor Newsletter for the month of January 2000

Issued on 17 February 2000

Important Notice

Following an increase in the size of the Fund by more than 5.5 times to £55m/EUR89m since inception a year ago the Directors of the Fund have resolved to limit the number of shares in issue at 3m (currently 2.8m) until at least 15 September 2000.

The Directors have taken this decision in accordance with the provisions of the Articles of Association and the Prospectus. The decision will enable Ennismore Fund Management to continue achieving strong absolute returns at a low level of risk. Uncontrolled growth would endanger the attainment of this objective in view of the poor liquidity and the research intensive nature of small cap investing. By controlling the growth, the managers can contain liquidity risk by limiting the exposure to an individual investment's 'free float'. This will allow an ongoing strong focus on selected micro cap ideas which often have a slightly better risk-return profile than more liquid small and midcaps. The decision will also enable the managers to maintain a high level of due diligence and ongoing monitoring.

Redemptions can be made through the administrator in the usual way. Ennismore Fund Management will operate an informal waiting list once the Fund has reached 3m shares. Investors wishing to subscribe to shares in the event of any redemptions should inform Franziska Günther on +44 171 313 9519.

Please do not hesitate to contact Geoff Oldfield or Gerhard Schöningh if you would like further information on this issue.

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 size was £44.3m as at 31 January 2000.

Performance as at 31 January 2000

	NAV (31/01/00)	January %	Since Launch (27/1/99) %
£ Sterling			
Ennismore European Smaller Companies*	£16.66	11.8	66.6
HSBC Europe inc. UK Small Cap Index#		-0.4	24.1
€ Euro			
Ennismore European Smaller Companies*	€27.59	16.4	92.3
HSBC Europe inc. UK Small Cap Index#		2.6	43.5
Local Currency			
MSCI Europe 15 Index (Large Cap)#		-5.7	20.6

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

Comments on Performance refer to £ Sterling unless otherwise stated.

Net asset value in January increased by 11.8%. As in December, holdings in the hot sectors of technology and media led the list. The biggest contributor was Aldata, followed by the major new purchases Free Record Shop and Unit 4. The Portuguese media company Lusomundo and the German toy manufacturer Zapf completed the 'top five' list, which accounted for two thirds of the month's gains. The remaining contributors to the performance were broadly based and again, there were no significant negative contributors. The Fund was about 81% invested on average.

Top Ten Holdings as at 31 January 2000

Net Insight

This Swedish company makes networking equipment for the high speed transmission and switching of voice and broadband data services. Compared to conventional broadband protocols, Net Insight's DTM protocol has the dual benefits of reducing operators' costs by one third and of guaranteeing the high level of transmission quality which is critical for applications such as video on demand. The technology enjoys strong patent protection. The immediate target market of city network operators is worth $30bn and having secured its initial commercial orders in Sweden, the company is preparing for larger orders from Europe and the US.

Although Net Insight is not a typical investment for us, in that the company is not already highly profitable, we believe that the prospects for the company's products are excellent. With a capitalisation of £270m Net Insight is undiscovered by most large investment institutions. The valuation equates to 5x expected 2001 sales, a level well below that of recent high profile acquisitions in the US telecoms equipment market. We also expect the forthcoming floatation of its competitor Dynarc to focus investors' attention on Net Insight's superior DTM technology.

	Company	Country	Sector	% of NAV
1	Free Record Shop	Netherlands	Retail	6.7
2	Aldata Solution	Finland	I.T.	6.1
3	Lusomundo	Portugal	Media	3.6
4	Zapf Creation	Germany	Consumer	3.4
5	Reliance Security	UK	Services	2.8
6	Unit 4	Netherlands	I.T.	2.8
7	Net Insight	Sweden	Telecom	2.6
8	Fitness First	UK	Leisure	2.4
9	Porsche	Germany	Auto	2.3
10	Redstone Telecom	UK	Telecom	2.2
				34.9

Country, Market Cap & Sector Weightings as at 31 January 2000

Country	% of NAV
UK	23.3
Germany	14.0
Netherlands	11.6
Finland	10.3
Sweden	6.6
France	6.4
Portugal	4.7
Austria	1.6
Ireland	0.9
Norway	0.7
Other	0.9
Cash	19.0

Market Cap	% of NAV
>£1bn	1.3
£350m - £1bn	12.0
£100m - £350m	23.2
<£100m	44.5
Cash	19.0

Sector	% of NAV
I.T.	15.9
Retail	12.1
Services	11.2
Telecom	8.8
Media	7.9
Consumer	6.4
Financial	5.9
Auto	4.1
Leisure	3.0
Distributor	2.5
Other	3.2
Cash	19.0

Portfolio Activity

As at 31 January the Fund was 81% invested in 58 shares. We took profits in Ipsos and Devoteam following strong gains. We added strongly to our position in Free Record Shop. Major new purchases were Dixon, a U.K. motor distributor on a high yield with substantial asset backing, U.K. retailer James Beattie and Dutch media group Wegener Arcade, all at the value end of the spectrum.

Outlook

The narrow focus on high growth and highly valued sectors has moved into overdrive with evidence of excess in all major markets. We will stick to our prudent stance of limiting our exposure to highly-valued stocks in the fashionable sectors to about 20% of the fund whilst insisting on 'fresh' ideas. At the same time, we are continuing our efforts to find overlooked high quality growth situations at low valuations in unfashionable, but attractive niches. We see no shortage of strong ideas across all markets.

For further information please contact:

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