Ennismore European Smaller Companies Fund

Investor Newsletter for the month of February 2000

Issued on 14 March 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 on 10 February to limit the number of shares in issue at 3m. This limit was reached on 25 February and will apply 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 is keeping an informal waiting list for investors wishing to subscribe to shares in the event of any redemptions. To be included in this list, please call 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 £60.3m as at 29 February 2000.

Performance as at 29 February 2000

	NAV (29/2/00)	February %	Year to Date %	Since Launch (27/1/99) %
£ Sterling				
Ennismore European Smaller Companies*	£20.11	20.7	35.0	101.1
HSBC Europe inc. UK Small Cap Index#		8.8	8.4	35.0
€ Euro				
Ennismore European Smaller Companies*	€32.82	18.9	38.4	128.7
HSBC Europe inc. UK Small Cap Index#		7.7	10.5	54.6
Local Currency				
MSCI Europe 15 Index (Large Cap)#		7.0	0.9	29.0

* 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 February increased by 20.7%. The biggest contributors were Lusomundo, Pararede, Redstone, Tomorrow Internet and Aldata Solutions. These top five contributed approximately half of the monthly return. The remaining contributors were broadly based and there were no significant negative contributors. The Fund was 73.5% invested as at 29 February.

Top Ten Holdings as at 29 February 2000

MFI Furniture Group – The UK's leading manufacturer and retailer of fitted kitchens and bedroom furniture. Following MFI's weak operational performance in 1998 and early 1999 John Hancock was installed as the new chief executive in March 1999. A recovery plan was set in place that involved changing the management team, strengthening the balance sheet and improving the efficiency of the group's manufacturing and distribution operations. The first two stages are complete and the group will soon have net cash of £100 million, representing 30% of its market capitalisation. The implementation of these management initiatives has coincided with a strong cyclical recovery in the core UK retail business, which accounts for 75% of group sales. We believe that the like for like sales growth in UK retail during the key trading months of January and February was in excess of 15%, and that gross margins are being maintained at 55%.

With this high gross margin and a low net margin (4.4% in 1999), additional sales flow through strongly to the bottom line. In our opinion the recovery is progressing much faster than consensus profit forecasts imply, and the group is likely to announce an earnings enhancing share buy-back in the near future. The valuation is attractive with an Enterprise Value of only 8.1 times our expected Operating Profit after Tax for the year 2000.

	Company	Country	Sector	% of NAV
1	Free Record Shop	Netherlands	Retail	6.2
2	Lusomundo	Portugal	Media	5.5
3	Zapf Creation	Germany	Consumer	2.8
4	Tomorrow Internet	Germany	I.T.	2.8
5	Redstone Telecom	UK	Telecom	2.7
6	ACG	Germany	I.T.	2.4
7	Fitness First	UK	Leisure	2.1
8	Reliance Security	UK	Services	2.1
9	Unit 4	Netherlands	I.T.	1.9
10	Cybertron Telekom	Austria	Telecom	1.9
				30.4

Country, Market Cap & Sector Weightings as at 29 February 2000

Country	% of NAV
UK	22.4
Germany	15.1
Netherlands	10.6
Portugal	6.2
Sweden	6.1
France	4.3
Finland	2.6
Austria	1.9
Switzerland	1.0
Norway	0.9
Other	2.4
Cash	26.5

Market Cap	% of NAV
>£1bn	3.5
£350m - £1bn	17.9
£100m - £350m	32.2
<£100m	19.9
Cash	26.5

Sector	% of NAV
I.T.	14.0
Retail	11.7
Media	10.0
Telecom	7.1
Services	6.9
Financial	5.9
Consumer	5.2
Auto	3.3
Leisure	2.5
Distribution	2.4
Other	4.5
Cash	26.5

Portfolio Activity

As at 29 February the Fund was 73.5% invested in 62 shares. We took some profits in Lusomundo, Pararede, Redstone and Aldata Solutions. Important new purchases were MFI Furniture, Elanders, a Swedish printing company, and Sanderson Bramall, a UK motor distributor on a high yield with substantial asset backing. We added to positions in Wegener, Sinopia, Beru and DPA.

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:

Gerhard Schöningh	Ennismore Fund Management Limited	(44) 171 313 9521	gs@ennismorefunds.com
Geoff Oldfield	Ennismore Fund Management Limited	(44) 171 313 9523	go@ennismorefunds.com

For dealing please contact:

Louise Mullan	Deutsche International Fund Services	(353) 1 607 6690	louise.p.mullan@db.com
John Howson	Warburg Dillon Read	(44) 171 568 0942	john.howson@wdr.com

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