Ennismore European Smaller Companies Fund

Investor Newsletter for the month of December 2000

Issued on 11 January 2001

Important Notice

On 10 February 2000, the Directors of the Fund resolved to limit the number of shares in issue at 3m. This limit was reached on 25 February. On 12 October 2000 the Directors resolved that in January each year the Fund will open to take in new subscriptions up to the size of any performance fee paid for the previous year. This will enable Ennismore Fund Management to reinvest, in accordance with their prospectus obligation, a minimum of 50% of any performance fee earned and allow investors on the waiting list to subscribe for shares.

Redemptions can be made through the administrator in the usual way. Ennismore is keeping a waiting list for investors wishing to subscribe for shares in the event of any redemptions. To be included in this list, please call Franziska Günther on +44 20 7313 9519.

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 £60.4m as at 31 December.

Performance as at 31 December 2000

	GBP			EUR			
	Fund NAV*	Fund NAV % Change	HSBC Index# % Change	Fund NAV*	Fund NAV % Change	HSBC Index# % Change	MSCI Index+ % Change
December	**20.21**	**3.2**	**0.7**	**31.84**	**- 0.6**	**- 1.6**	**- 0.2**
November	19.58	2.6	- 3.7	32.02	- 2.6	- 8.5	- 5.0
October	19.09	- 3.0	- 4.3	32.87	0.4	-2.1	2.5
September	19.68	- 2.5	- 5.6	32.74	- 0.2	- 3.3	- 4.8
August	20.19	0.1	2.4	32.80	0.0	4.5	2.4
July	20.18	1.0	1.0	32.80	4.0	2.2	1.0
June	19.98	1.8	0.8	31.54	0.1	- 1.2	- 0.8
May	19.62	2.5	3.3	31.50	- 4.6	- 3.1	- 0.7
April	19.15	- 4.6	- 5.4	33.02	- 1.4	- 2.6	- 0.8
March	20.06	- 0.3	- 2.3	33.49	2.0	- 0.7	2.3
February	20.11	20.7	8.8	32.82	18.9	7.7	7.0
January	16.66	11.8	- 0.4	27.59	16.4	2.6	- 5.7
Year 2000		**35.7**	**- 5.8**		**34.3**	**- 6.8**	**- 3.5**
Since Launch (27/01/99)		**102.1**	**17.4**		**121.9**	**30.4**	**23.4**

* Source: Administrator, Net Asset Value, net income reinvested. #HSBC Europe inc. UK Small Cap Index, Source: Bloomberg, excludes income. +MSCI Europe 15, Loc curr., Source: Bloomberg, excludes income. All performance figures net of fees.

Comments on Performance refer to £ Sterling unless otherwise stated.

The net asset value per share increased by 3.2% during December. Sterling returns were boosted by the recovery of the Euro which rose by 2.7% against Sterling over the month. Strong returns were recorded by all of the Top Ten with the exception of Beru and Roularta. Negative returns of 0.3 and 0.5 points were recorded by Charles Voegele and Think Tools.

Top Ten Holdings as at 31 December 2000*

	Company	Country	Sector	% of NAV
1	Barlo	Ireland	Construction Supplies	3.6
2	Paragon	UK	Financial	3.6
3	Robert Walters	UK	Services	3.3
4	Macro 4	UK	Software	2.8
5	MFI Furniture Group	UK	Retail	2.8
6	Beru	Germany	Auto	2.7
7	CML Microsystems	UK	Electrical Equipment	2.7
8	Roularta	Belgium	Media	2.6
9	PSD	UK	Services	2.5
10	Bellway	UK	Construction	2.4
				29.0

* excludes ARINS

Paragon - UK specialist lender to individuals. Paragon's loan book of £1.84bn is well diversified across mortgages, primarily in niche areas such as buy to let, secured and unsecured personal loans, car finance and retail credit. Their strategy is to leverage their core skills of underwriting, collections and securitisation. The credit approval process is cash flow driven, selective and conservative. Securitisation ensures that the funding matches the loan book by duration and type, ie fixed or variable, as well as enabling efficient capital utilisation. The absence of a branch network - Paragon is a business brand using intermediaries for distribution - along with a cost conscious attitude ensures that operating expenses are maintained at a low level. Currently at 40% of total operating income, the growth of the business should bring them down to 35% within 2 years.
Having increased by 50% over the last two months the market is beginning to realise Paragon's attractions. At a market capitalisation of £275m the stock is starting to appear on the radar screens of the larger brokerage houses with two planning to initiate coverage in the first quarter. Trading at just eight times earnings for the current year to September 2001, a discount of at least 33% to their consumer finance peer group, and with strong growth prospects over the next few years, Paragon's stock should perform well.

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

Country	% of NAV
UK	35.9
Germany	17.2
Sweden	6.8
France	6.4
Ireland	4.0
Netherlands	3.4
Spain	2.8
Belgium	2.6
Norway	1.2
Switzerland	1.0
Other	0.3
Cash	18.4

Market Cap	% of NAV
>£1bn	6.7
£350m - £1bn	14.9
£100m - £350m	34.1
<£100m	25.9
Cash	18.4

Sector	% of NAV
Retail	14.4
Services	13.1
Media	8.4
Financial	7.6
Construction	6.5
Electrical Equipment	5.1
Distribution	5.1
Auto	4.7
Consumer	4.3
Capital Goods	3.2
Other	9.2
Cash	18.4

Portfolio Activity

As at 31 December the Fund was 81.6% invested in 59 shares. There was a low level of activity in December. The major purchase was Suess MicroTech, a German special machinery producer. We sold the remainder of our big position in Rational on valuation grounds having made a profit of over 80%. We sold Charles Voegele after a profit warning and our remaining position in Think Tools following a review.

Outlook

We expect markets to remain difficult and volatile. We do not bank on a strong recovery in technology and related sectors, where we still find many prohibitively high valuations for companies of doubtful quality. We continue to concentrate our efforts on finding clear high growth situations that are undiscovered and cheap, and believe this to be most in line with the Fund's objective of achieving good returns at a low level of risk. We have a good pipeline of ideas and remain confident for the future.

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