Ennismore European Smaller Companies Fund

Investor Newsletter for the month of October 2001

Issued on 9 November 2001

Important Notice

The number of shares in the Fund is currently limited to 3.157m and new investments will only be accepted if shares become available through any redemptions. Ennismore Fund Management 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 7368 4224. Redemptions can be made through the administrator in the usual way.

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 Fund Rating. The Fund size was £59.9m as at 31 October.

Performance as at 31 October 2001

	GBP			EUR			
	Fund NAV*	Fund NAV % Change	HSBC Index# % Change	Fund NAV*	Fund NAV % Change	HSBC Index# % Change	MSCI Index+ % Change
October	**19.44**	**0.9**	**7.6**	**31.33**	**1.0**	**7.7**	**4.2**
September	19.27	- 4.6	- 17.7	31.01	- 3.1	- 16.9	- 10.8
August	20.20	1.8	- 2.1	32.00	- 1.1	- 4.1	- 5.7
July	19.83	0.4	- 3.2	32.34	- 1.0	- 5.0	- 2.5
June	19.76	- 0.7	- 6.0	32.68	- 1.8	- 6.8	- 3.5
May	19.90	1.4	- 2.3	33.27	5.0	1.4	- 2.2
April	19.63	2.2	4.4	31.69	1.9	4.7	6.5
March	19.21	- 7.8	- 9.6	31.11	- 4.7	- 7.3	- 4.8
February	20.84	0.7	- 4.6	32.63	0.4	- 4.8	- 7.7
January	20.69	2.4	4.8	32.51	2.1	3.5	1.4
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
Year to date		**- 3.8**	**- 27.4**		**- 1.6**	**- 26.3**	**- 23.4**
Since Launch (27/01/99)		**94.4**	**- 14.7**		**118.3**	**- 3.8**	**- 5.5**

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

Comments on Performance refer to £ Sterling unless otherwise stated.

Whilst markets rallied strongly in October the Fund's net asset value only increased by 0.9%. The Fund's ARIN positions produced a negative contribution of 1.0% and the high cash weighting held back relative performance. Most of the remaining investments generated modest positive returns. Zapf was the strongest performer over the month producing an attribution of 0.7%. The worst performer was Barlo where the announcement of lower profits and further restructuring sent the stock tumbling to below 50% of net asset value. Despite a high level of gearing we retain confidence in the strong management team and see at least 100% share price upside in the medium term.

Top Ten Holdings as at 31 October 2001*

	Company	Country	Sector	% of NAV
1	Puma	Germany	Consumer	4.2
2	Beru	Germany	Auto	3.3
3	Paragon	UK	Financial	3.0
4	Reliance Security	UK	Services	3.0
5	Gericom	Austria	Distribution	2.8
6	ZAPF Creation	Germany	Consumer	2.7
7	Bellway	UK	Construction	2.6
8	Porsche	Germany	Auto	2.5
9	Dinamia	Spain	Financial	1.8
10	Monsoon	UK	Retail	1.8
				27.7

* excludes ARINS

Puma – German sportswear producer. In October we built up a large position in Germany's second largest sportswear company. During the past seven years the company has outsourced its entire German production to lower cost Asian countries and has tightened control over its distribution channel by buying back the distributors of Puma branded product in a number of key territories. The company has also been investing heavily in marketing and design capability. Madonna, Christy Turlington and Serena Williams are amongst the more prominent celebrities currently wearing Puma. These investments in future growth have depressed profits in recent years. Puma's third quarter 2001 results demonstrate that the company's strategy of repositioning the brand away from pure sports apparel and towards higher price point lifestyle products is now starting to pay dividends. Sales growth accelerated to 32% in the third quarter, following 18% and 25% in the first and second quarters of 2001 respectively. The sales momentum is being compounded by an improvement in the gross margin to produce very strong profit growth. Operating profit increased by 255% in the third quarter to €29m, more than double the highest analyst forecast. The order backlog which typically accounts for 70% of the next six months sales increased by an impressive 48%, providing encouraging indications and a high degree of visibility for the next two quarters' sales. Because of the company's past difficulties the stock is not widely followed by the large investment banks and consensus earnings expectations are too low. We believe that Puma can generate earnings per share of €3.0 in 2002 through growing sales by 25% and increasing margins by one percentage point. This gives a 2002 p/e of 8.7 times at the current price of €26. We believe that a multiple of 15 times is more appropriate giving a price target of €45.

Country, Market Cap & Sector Weightings as at 31 October 2001

Country	% of NAV
UK	24.3
Germany	16.2
Sweden	4.7
France	3.4
Spain	2.9
Austria	2.8
Netherlands	2.0
Ireland	2.0
Italy	0.7
Switzerland	0.4
Cash	40.6

Market Cap	% of NAV
>£1bn	5.9
£350m - £1bn	8.8
£100m - £350m	26.4
<£100m	18.3
Cash	40.6

Sector	% of NAV
Consumer	9.4
Services	8.9
Retail	8.4
Financial	7.6
Auto	5.8
Construction	5.7
Distribution	3.1
Medical	3.1
Media	1.7
Leisure	1.5
Others	4.2
Cash	40.6

Portfolio Activity

As at 31 October the Fund was 59% invested in 55 shares. We added two new holdings to the portfolio during the month, Puma and Lottomatica, and increased the weightings in New Look and Zapf. Two ARIN positions were closed at good profits, reducing the number of open ARIN positions to 14.

Outlook

We still do not bank on a sustained recovery in markets. Periodic bouts of liquidity fuelled optimism are likely, but quantifying the depth and duration of the downturn in corporate profitability is an issue of much greater consequence for investors. Our sole investment criteria remains the identification of attractively valued and high quality small companies. This is the strategy best suited to meeting the Fund's absolute return objective.

For further information please contact:

Gerhard Schöningh	Ennismore Fund Management	(44) 20 7368 4221	gs@ennismorefunds.com
Geoff Oldfield	Ennismore Fund Management	(44) 20 7368 4223	go@ennismorefunds.com

For redemptions please contact:

Bairbre Keogh	Deutsche International Fund Services	(353) 1 607 6362	bairbre.keogh@db.com

For market making please contact:

John Howson	UBS Warburg	(44) 20 7568 0942	john.howson@ubsw.com

For inclusion on the waiting list please contact:

Franziska Günther	Ennismore Fund Management	(44) 20 7368 4224	fg@ennismorefunds.com

Ennismore Fund Management Limited, Kensington Cloisters, 5 Kensington Church Street, London W8 4LD
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