Ennismore European Smaller Companies Fund

Investor Newsletter for the month of August 2002

Issued on 9 September 2002

Important Notice

The number of shares in the Fund is currently limited to 3.2m. New investments will only be accepted if shares become available through 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 on this list, please call Emily Allen on +44 20 7368 4218. 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 £67.6m as at 31 August.

Performance as at 31 August 2002

	GBP			EUR			
	Fund NAV[1]	Fund NAV[2] % Change	HSBC Index[3] % Change	Fund NAV[1]	Fund NAV[2] % Change	HSBC Index[3] % Change	MSCI Index[4] % Change
August	**21.28**	**0.6**	**- 0.9**	**33.56**	**- 0.5**	**- 1.9**	**0.1**
July	21.16	- 5.3	- 11.7	33.72	- 2.2	- 8.8	- 11.7
June	22.34	- 1.0	- 7.6	34.48	- 2.4	- 9.0	- 8.3
May	22.56	2.7	0.1	35.33	- 0.5	- 3.0	- 3.2
April	21.96	1.5	- 0.3	35.52	0.6	- 1.3	- 3.9
March	21.63	3.3	5.5	35.31	2.9	5.3	4.3
February	20.95	2.2	- 1.1	34.30	2.1	- 1.5	- 0.6
January	20.78	1.3	1.3	34.07	1.6	1.7	- 2.3
December	20.52	2.8	- 0.9	33.54	4.7	1.8	2.1
November	19.96	2.7	10.5	32.02	2.2	9.0	5.0
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
Year to date		**5.1**	**- 14.7**		**1.4**	**- 17.7**	**- 23.6**
Annualised return		**23.9**	**- 6.1**		**27.2**	**- 3.6**	**- 6.9**
Since launch (27/01/99)		**115.7**	**- 20.3**		**137.1**	**- 12.2**	**- 22.5**

[1] Source: Administrator, Net Asset Value, excludes income. [2] Source: Administrator, Net Asset Value, net income reinvested. [3] HSBC Europe inc. UK Small Cap Index, Source: Bloomberg, excludes income. [4] MSCI Europe 15, Local currency., Source: Bloomberg, excludes income. All performance figures net of fees.

The Fund's net asset value increased by 0.6% in August. This was again mainly due to the contribution of the Fund's ARIN positions, with a combined attribution of 0.6%. On the long side there was a mixed picture. New Look was the best performer during the month with an attribution of 0.3%. Other strong performers were Vendex and Dinamia, both contributing 0.2%. The Health Clinic, a UK provider of eye care and dentistry, pulled the overall long contribution down with an attribution of – 0.8%. The share price fell 81% in August after the company revealed a funding shortfall and announced plans to raise additional equity finance.

Stock Comment

Hydralift – Norwegian producer of offshore drilling equipment and handling systems. The overall market for these products is ultimately determined by oil companies' spending on Exploration & Production (E&P), and this has been at a remarkably low level despite consistently high oil prices since 2000. Even if oil prices were to fall back substantially, we believe that E&P spending will show moderate growth from current low levels. The international market for Hydralift's products is currently dominated by four players: National Oilwell, Varco, Aker Kvaerner and Hydralift. Over the last 3-4 years Hydralift has established itself as a highly reliable vendor with an increasingly broad portfolio of successful products. In valuation terms Hydralift trades on an estimated PE of 4.9 times and EV/EBIT of 4.7 times for 2002, less than half the levels of Varco and National Oilwell. Since Hydralift's dominant shareholder and chairman, Mr Bjarne Skeie, has diluted his ownership from 37% to 23% over the last year, a takeover has become increasingly likely. We believe there to be share price upside of 50-80% from current trading levels.

Top Ten Holdings as at 31 August 2002*

	Company	Country	Sector	% of NAV
1	Autoroutes du Sud	France	Transport	3.7
2	Porsche	Germany	Auto	3.6
3	Vendex	Netherlands	Retail	2.5
4	Paragon	UK	Financial	2.2
5	Camaieu	France	Retail	2.1
6	New Look	UK	Retail	2.0
7	Dinamia	Spain	Financial	2.0
8	Zapf Creation	Germany	Consumer	2.0
9	Bellway	UK	Construction	1.9
10	Puma	Germany	Consumer	1.9
				23.9

* excludes ARINS

Country, Market Cap & Sector Weightings as at 31 August 2002

Country	% of NAV
UK	16.5
Germany	14.2
France	9.5
Netherlands	3.3
Sweden	3.0
Spain	2.7
Ireland	2.1
Austria	0.9
Norway	0.6
Italy	0.5
Switzerland	0.4
Cash	46.3

Market Cap	% of NAV
>£1bn	9.5
£350m - £1bn	13.2
£100m - £350m	18.9
<£100m	12.1
Cash	46.3

Sector	% of NAV
Retail	14.2
Financial	7.1
Construction	6.0
Services	5.8
Auto	4.7
Consumer	4.6
Transport	3.7
Medical	1.7
Distribution	1.4
Semiconductors	1.1
Other	3.4
Cash	46.3

Portfolio Activity

As at 31 August the Fund was 53.7% invested in 60 shares. During the month we established a new position in Hydralift and began building up long positions in two other stocks. We closed out two ARIN positions, in Viscofan and Faurecia, and bought one new one.

Outlook

The prospects for stockmarkets overall appear unexciting. Investor sentiment is dominated by economic weakness and the risk of a war in Iraq. These fears are not misplaced. The immediate operating environment experienced by the majority of the companies that we meet remains tough. However, we expect to profit from cautiously and selectively buying into the prevailing gloom and doom as we are now finding a good number of attractively valued small and mid-cap companies who are cutting costs, generating cash and growing earnings. We intend to start deploying our cash balances to exploit the valuation anomalies that now exist. We believe that the outlook for the Fund remains promising.

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Ennismore has recently been experiencing phone problems. If you need to contact us urgently, please call the following mobile numbers.

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