Ennismore European Smaller Companies Fund

Investor Newsletter for the month of July 2004

Issued on 6 August 2004

Important Notice

The number of shares in the Fund is currently limited to 3.8m. Further 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 £114.3m as at 31 July.

Performance as at 31 July 2004

	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
July	**30.28**	**- 0.9**	**- 3.3**	**45.73**	**0.4**	**- 1.9**	**- 2.1**
June	30.56	4.6	4.3	45.55	3.8	3.5	2.0
May	29.22	- 1.5	- 2.3	43.87	- 0.0	- 1.1	- 1.0
April	29.66	2.1	2.3	43.88	1.0	1.3	2.0
March	29.06	- 0.5	- 1.7	43.46	- 0.4	- 1.5	- 2.3
February	29.21	2.7	1.5	43.63	4.7	3.9	2.3
Launch (27/01/99)	10.00			14.35			
1999	14.90	49.0	24.8	23.71	65.2	42.1	2.0
2000	20.21	35.7	- 3.3	31.84	34.3	- 4.7	- 2.2
2001	20.52	1.5	- 18.3	33.54	5.3	- 15.6	- 16.4
2002	21.49	6.2	- 19.8	32.98	- 0.3	- 24.8	- 29.4
2003	27.65	29.3	48.8	39.25	19.6	37.5	19.8
2004 to date	**30.28**	**9.5**	**4.0**	**45.73**	**16.5**	**11.1**	**2.6**
Annualised return		**22.7**	**4.1**		**23.9**	**5.1**	**- 1.5**
Since launch (27/01/99)		**208.5**	**24.9**		**224.7**	**31.3**	**- 7.9**

[1] Source: Administrator, Net Asset Value, income reinvested. [2] Source: Administrator, Net Asset Value, Net income reinvested. [3] Source: Bloomberg, HSBC Smaller European Total Return Index. [4] Source: Bloomberg, MSCI Europe, local currencies, total return. All performance figures net of fees.

Comments below on Performance are prior to expenses, exclude cash returns and refer to £ Sterling unless otherwise stated

The Fund's net asset value fell by 0.9% in July. The best performing stock, with a contribution of 0.7%, was Bijou Brigitte where the stock price rose by 18% during the month after the company announced strong sales for the first half of the year. However, in weak markets the Fund's long investments in aggregate made a negative 2.1% contribution to performance. The worst performing stocks were Etam, Charter and Tandberg Data, each contributing -0.3%. This decline was partially offset by the ARIN book which made a positive contribution of 1.0% due to the fall in value of the underlying stocks.

Rapala – Finnish Producer of Fishing Lures

Rapala is listed in Finland and has a market capitalisation of EUR 225m. Rapala was founded in 1959 based on the fishing lure invention of Lauri Rapala, and today the company produces the leading brand of hard-bodied fishing lures in 140 countries. In fragmented markets, Rapala has a market share of 50% in Europe and 30% in the USA. Of its EUR 175m in sales, 30% derive from the USA, however, due to the product mix, more than 50% of profits come from the USA. Rapala's leading premium brand, "Rapala", has a gross margin of 60-80%, whereas its other brands ("Storm", "Blue Fox", "VMC") are cheaper and generate much lower gross margins. Pricing pressure in the fishing lure market is limited due to the product's relatively small value and the high brand loyalty among sports fishermen. Manufacturing is efficient and low cost with four factories (Finland, Estonia, France and China) that only produce fishing lures and hooks. Other branded products (accessories) are sourced externally. Rapala's sales growth (5-8% p.a.) comes mainly from the expansion of its product portfolio. The company has recently made a significant entry to the soft plastic lure market and also expanded its accessory range.

On a goodwill adjusted basis, Rapala trades on 12.3 times expected earnings for 2004. The company's significant free cash flow is primarily being used to repay net debt of EUR 66m. Rapala is a strong take-over candidate since its dominance of the niche fishing lure market would be highly attractive to larger sports equipment companies who may be able to leverage the brand further. The stock is under-covered by research analysts and we consider it to have an upside potential of 30-40% over the next twelve months.

Top Ten Long Holdings as at 31 July 2004

	Company	Country	Sector	% of NAV
1	TGS Nopec	Norway	Services	4.5
2	Bijou Brigitte	Germany	Retail	4.0
3	Charter	UK	Engineering	3.9
4	Monsoon	UK	Retail	3.1
5	Porsche	Germany	Auto	2.6
6	Tandberg Data	Norway	Technology	2.5
7	Axel Springer	Germany	Media	2.3
8	Quadrant	Switzerland	Manufacturing	2.0
9	Escada	Germany	Consumer	2.0
10	Fuchs Petrolub	Germany	Oil	1.7
				28.6

Country, Market Cap & Sector Weightings as at 31 July 2004

Country	% of NAV
UK	26.1
Germany	22.7
Norway	12.1
Switzerland	8.9
Netherlands	5.4
France	4.5
Sweden	2.3
Belgium	2.1
Austria	2.0
Denmark	1.5
Spain	1.2
Ireland	0.9
Finland	0.8
Other	1.3
Cash	8.2

Market Cap	% of NAV
>£1bn	9.3
£350m - £1bn	17.5
£100m - £350m	36.6
<£100m	28.4
Cash	8.2

Sector	% of NAV
Retail	16.7
Services	10.6
Engineering	8.0
Technology	7.3
Construction	7.1
Media	6.6
Manufacturing	6.4
Financial	5.3
Oil	5.3
Consumer	4.8
Auto	2.6
Medical	2.2
Property	2.0
Other	6.9
Cash	8.2

Portfolio Activity

Figures in brackets refer to previous month end

As at 31 July the Fund was invested in 140 (143) stocks. Ten new positions were opened during the month including Quarto Group, an illustrated book publisher. We also significantly increased our position in Samas Group, a Dutch office furniture manufacturer. We closed thirteen positions during the month, including Autostrade and Macintosh. The Fund held 23 (24) ARIN positions at the end of the month.

Outlook

Markets remain volatile and are reacting nervously to both economic data and geopolitical events. The trend of rising interest rates in the UK and the level of oil prices continue to weigh on market expectations. However, there remain a large number of genuinely overlooked smaller companies where valuations still offer downside support even if an economic recovery fails to materialise or is weak. We believe the outlook for the fund remains promising.

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