Ennismore European Smaller Companies Fund

Investor Newsletter for the month of September 2004

Issued on 7 October 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 Irish Financial Services Regulatory Authority 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 £117.8m as at 30 September.

Performance as at 30 September 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
September	**31.25**	**1.7**	**4.3**	**45.53**	**0.1**	**2.7**	**2.4**
August	30.74	1.5	0.8	45.50	- 0.5	- 1.5	- 0.2
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
Launch (27/01/99)	10.00			14.35			
1999	14.90	49.0	27.2	23.71	65.2	42.1	29.8
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	**31.25**	**13.0**	**9.3**	**45.53**	**16.0**	**12.3**	**4.8**
Annualised return		**22.7**	**4.9**		**23.0**	**5.1**	**- 1.1**
Since launch (27/01/99)		**218.4**	**31.2**		**223.3**	**32.8**	**- 5.8**

[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 increased by 1.7% in September. In strong markets our long book produced an attribution of 3.1% which was offset by a -0.6% attribution from our ARIN positions. The most significant contributor was Charter with an attribution of 0.6% on the back of robust first-half figures. Other significant attributions came from Bijou Brigitte and Escada which both contributed 0.4%. However, performance was adversely affected by Tandberg Data which gave a negative contribution of 0.8% following the announcement of disappointing third-quarter sales.

Quarto Group – UK publisher

Quarto creates and publishes illustrated non-fiction books, primarily for the US and UK consumer markets. In the 12 months to June profit before tax was £6.0m, up 22% on the previous year. Sales grew organically by 4.4% in the first half of 2004 (an underlying increase of 14% before the effect of changes in currency exchange rates) and management's outlook for the second half is also positive. On top of this they have begun to deliver on their stated objective of doubling the size of the business within the next few years, announcing two complementary acquisitions in July. Both should make small contributions this year, adding half a million to net profit in 2005. While the level of debt (around £28m) appears high relative to Quarto's reported equity this is largely a function of extremely conservative accounting for its back catalogue, which is carried on the balance sheet at nil value. Given that the back catalogue generates around two thirds of annual sales this materially understates its commercial value. A reasonable estimate of this would put the company's net asset value at not less than £30m, compared with an adjusted market capitalisation of £36m.

The shares currently trade on a ratio of less than 8 times prospective earnings which, combined with the asset backing, stable cash flow and solid growth prospects, makes Quarto an extremely attractive, low risk investment.

Top Ten Long Holdings as at 30 September 2004

	Company	Country	Sector	% of NAV
1	TGS Nopec	Norway	Services	5.1
2	Charter	UK	Engineering	4.4
3	Bijou Brigitte	Germany	Retail	4.0
4	Monsoon	UK	Retail	3.2
5	Porsche	Germany	Auto	2.6
6	Axel Springer	Germany	Media	2.3
7	Escada	Germany	Consumer	2.1
8	Amazys Holding AG	Switzerland	Manufacturing	1.9
9	Tandberg Data	Norway	Technology	1.8
10	Quadrant	Switzerland	Manufacturing	1.8
				29.2

Country, Market Cap & Sector Weightings as at 30 September 2004

Country	% of NAV
UK	27.0
Germany	24.0
Norway	12.1
Switzerland	11.4
Netherlands	6.2
France	4.5
Sweden	3.2
Austria	2.5
Spain	2.5
Belgium	2.2
Denmark	1.7
Finland	1.2
Ireland	1.0
Other	2.4
Cash	- 1.9

Market Cap	% of NAV
>£1bn	12.3
£350m - £1bn	24.9
£100m - £350m	35.6
<£100m	29.1
Cash	- 1.9

Sector	% of NAV
Retail	18.0
Services	10.5
Construction	9.8
Technology	9.3
Manufacturing	8.8
Engineering	8.8
Media	7.0
Financial	6.3
Oil	6.1
Consumer	4.8
Auto	2.6
Leisure	1.9
Medical	1.7
Other	6.3
Cash	- 1.9

Portfolio Activity

Figures in brackets refer to previous month end

As at 30 September the Fund was invested in 157 (146) stocks. Nineteen new positions were opened during the month including Acerinox, a Spanish manufacturer of stainless steel products, and Marks & Spencer, a UK department store chain. We also significantly increased our existing positions in Pfleiderer and in Amazys, which is now the Fund's eighth largest holding. We closed eight positions during the month, including ISS, CSM and Creaton. The Fund held 24 (25) ARIN positions at the end of the month.

Outlook

Despite a strong rise in the first few days of the third quarter, market direction remains uncertain. With oil prices having reached US$50, concerns exist about the impact of higher energy costs on the sustainability of any economic recovery. 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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