Ennismore European Smaller Companies Fund

Investor Newsletter for the month of May 2005

Issued on 10 June 2005

Important Notice

The number of shares in the Fund is currently limited to 3.85m. 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 £141.2m as at 31 May.

Performance as at 31 May 2005

	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
May	**36.71**	**2.1**	**6.0**	**54.21**	**1.6**	**5.6**	**5.0**
April	35.97	- 2.4	- 4.1	53.33	- 0.8	- 2.5	- 2.6
March	36.86	0.4	- 1.4	53.75	0.7	- 1.0	- 0.4
February	36.73	4.2	3.7	53.35	4.8	4.3	2.9
January	35.25	3.2	3.8	50.91	5.5	5.9	1.5
December	34.15	4.4	5.2	48.24	2.5	3.6	2.8
November	32.72	2.8	5.6	47.06	3.0	5.8	2.6
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	34.15	23.5	24.6	48.24	22.9	24.4	12.2
2005 to date	**36.71**	**7.5**	**7.8**	**54.21**	**12.3**	**12.5**	**6.4**
Annualised return		**23.2**	**7.8**		**23.7**	**8.3**	**1.1**
Since launch (27/01/99)		**274.0**	**61.4**		**284.9**	**65.5**	**7.3**

[1] Source: Administrator, Net Asset Value. [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.

The Fund's net asset value rose by 2.1% in May. In a very strong month for equity markets, our long book produced a contribution of 3.6% versus a 6.0% gain in the smaller companies index. A 0.6% negative contribution from our ARIN positions weighed on performance. Amongst the better performing positions were Charter and TGS Nopec, both contributing 0.4%, along with Porsche at 0.3%. Charter was up following a positive trading update whilst TGS made gains as the company announced it would be buying back its own shares. The most significant negative performance was from Gulf Keystone, which cost the Fund 0.3%.

BPB – UK producer of building materials - BPB is the world's largest producer of plasterboard and building plaster. Demand for board products, about two thirds of sales, is driven by increasing affluence in North America (with volume +3.5% p.a. over the cycle), acoustic and insulation regulation in Northern Europe (+4-5% p.a.) and increased penetration as its use replaces traditional construction methods in many markets (+10% p.a. in Southern Europe and significantly higher in Eastern Europe and many Asian economies). On the supply side BPB's competitive position is relatively well protected by ownership of gypsum reserves and a highly consolidated industry, particularly in its main European markets where it has almost 50% market share (with the remainder split between Lafarge and Knauf). Gypsum products are low value compared with their bulk, meaning freight accounts for a large proportion of delivered cost, and so supply is only economical to local markets. The lack of competition from imports has allowed BPB to comfortably cover recent energy cost inflation with price increases which, combined with an ongoing focus on cost efficiencies of 1% p.a., has seen operating margins increasing globally. Pricing power has in the past been less resilient in North America as high levels of utilisation have tended to lead to over-supply of new capacity. However, this market has consolidated significantly in recent years, from 17 players in the 1990's down to 8 now (with the big 4 supplying almost 75%), and should prove less volatile in future. BPB are unable to match demand in many of their largest markets and, with structural growth continuing to come through in all regions, are planning to expand board capacity by over 25% in the next 3 years. The shares currently trade on 11 times prospective earnings. With its tangible growth potential combined with a very strong competitive position BPB looks a safe and attractive long-term investment. **Leo Perry**

Top Five Long Holdings as at 31 May 2005

	Company	Country	Sector	% of NAV
1	TGS Nopec	Norway	Services	4.9
2	Charter	UK	Engineering	4.2
3	Grupa Lotos	Poland	Energy	3.3
4	Monsoon	UK	Retail	2.9
5	Bijou Brigitte	Germany	Retail	2.1
				17.4

Country, Market Cap & Sector Weightings as at 31 May 2005

Country	% of NAV
UK	22.3
Germany	21.3
Norway	14.8
Switzerland	7.0
Netherlands	3.3
Poland	3.3
France	3.0
Turkey	2.8
US	2.7
Sweden	2.4
Spain	2.2
Italy	2.1
Finland	1.2
Ireland	0.9
Portugal	0.6
Other	2.2
Cash	7.9

Market Cap	% of NAV
>£1bn	13.0
£350m - £1bn	34.4
£100m - £350m	21.4
<£100m	23.3
Cash	7.9

Sector	% of NAV
Services	12.7
Energy	11.4
Retail	11.4
Technology	9.2
Consumer	5.9
Construction	5.8
Manufacturing	5.7
Engineering	5.3
Media	4.8
Financial	4.5
Leisure	2.9
Property	2.1
Transport	2.1
Auto	2.0
Machinery	1.9
Other	4.4
Cash	7.9

Portfolio Activity

Figures in brackets refer to previous month end

As at 31 May the Fund was invested in 180 (192) stocks. New positions opened during the month included Toro Assicurazioni, an Italian non-life insurance company, and Grupa Lotos, a supplier of crude oil to the Polish market and the Baltic region and Poland's second-biggest oil refiner. Of the positions held by the Fund at the end of the month 38 (45) were ARINs.

Outlook

European economic confidence data continues to be weak and further uncertainty has been caused by the results of the French and Dutch referenda. 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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