Ennismore European Smaller Companies Fund

Investor Newsletter for the month of December 2005

Issued 9 January 2006

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 £170.0m as at 30 December.

Performance as at 30 December 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
December	**44.54**	**4.9**	**5.1**	**64.82**	**4.0**	**4.2**	**3.8**
November	42.48	2.5	5.0	62.35	2.5	4.3	3.6
October	41.43	- 5.2	- 5.4	60.84	- 5.1	- 4.8	- 2.8
September	43.70	3.3	5.1	64.12	3.7	5.5	4.4
August	42.29	3.2	0.4	61.85	4.1	1.2	- 0.2
July	40.98	6.6	7.4	59.40	4.4	5.3	4.1
June	38.43	4.7	3.9	56.90	5.0	4.1	3.5
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	**44.54**	**30.4**	**32.6**	**64.82**	**34.4**	**36.3**	**24.9**
Annualised return		**24.4**	**10.4**		**24.7**	**10.6**	**3.4**
Since launch (27/01/99)		**353.8**	**98.5**		**360.2**	**100.4**	**26.0**

[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.

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

The Fund's net asset value rose by 4.9% in December versus a gain of 5.1% in the smaller companies index. Our ARIN positions cost the Fund 1.3%, while our long book contributed 7.4%. In buoyant markets, our underlying net exposure of 66% weighed on the Fund's performance. The stock with the largest contribution to performance was TGS Nopec (+1.4%) whose price was up by 24% this month. This was due to TGS' agreement with another seismic data company for the exclusive sales rights of that company's historical seismic data and a subsequent upbeat note from a major brokerage house. Charter (+0.7%) made significant gains following continued strong performance and Offshore Rig (+0.5%) rose strongly after an offer was made for 38% of the company's shares. There were no significant negative contributions.

Migros – Turkish Food Retailer

Migros is the largest food retailer in Turkey, with 463 stores and 330,000 sq metres of net selling space. In the past few years, the company has set up successful operations in Russia, Kazakhstan, Azerbaijan and Bulgaria. In August 2005, the group struck a value-creating deal when it acquired the fifth largest player in the market, Tansas. This increased their market share from 5% to 8%. Migros began merging Tansas into its financials in November 2005 and this should raise its top line by 56% in 2006 to TRL 4.4bn. The operating margin of the local business will improve significantly due to Tansas' higher margin business and larger economies of scale. Additionally, the transaction provides a significant tax advantage as Migros should not pay tax in the next two years due to Tansas' past year losses. Consequently, pre-tax earnings ("EBITDA") and net income are forecast to grow by 40% in 2005 and 71% in the next two years. Return on capital should rise from 13.9% in 2005 to approx 20% in 2006. On a Price-Earnings ratio of 14 times 2006, the stock trades at a 40% discount to its peer group on both Enterprise Value/EBITDA and Price-Earnings estimates, with a faster growth rate than most global retailers. We like Migros because of the solid and visible growth outlook for its domestic and international markets, as well as its solid management strategy and valuation. The market growth dynamics are very favourable as supermarkets continue to gain share from the independent retailers. The recent substantial growth in credit card usage has been an additional catalyst.

Top Five Long Holdings as at 30 December 2005

	Company	Country	Sector	% of NAV
1	TGS Nopec	Norway	Services	7.4
2	Charter	UK	Engineering	4.7
3	Bijou Brigitte	Germany	Retail	3.1
4	Monsoon	UK	Retail	3.1
5	Escada	Germany	Consumer	2.5
				20.8

Country, Market Cap & Sector Weightings as at 30 December 2005

Country	% of NAV
UK	22.7
Norway	21.1
Germany	20.1
Turkey	6.7
Switzerland	3.5
Netherlands	2.6
Greece	2.3
Sweden	2.0
Denmark	2.0
France	1.6
Italy	1.6
Spain	1.4
Poland	0.9
Finland	0.8
Other	2.7
Cash	13.7

Market Cap	% of NAV
>£1bn	19.0
£350m - £1bn	28.1
£100m - £350m	21.4
<£100m	23.5
Cash	13.7

Sector	% of NAV
Energy	13.0
Services	10.9
Retail	10.4
Financial	9.7
Consumer	6.8
Technology	6.5
Media	6.1
Engineering	5.4
Construction	3.6
Manufacturing	3.5
Transport	3.2
Auto	2.8
Property	2.6
Leisure	2.0
Other	5.5
Cash	13.7

Portfolio Activity

Figures in brackets refer to previous month end

As at 30 December the Fund was invested in 180 (175) stocks. Through participation in the company's IPO, we opened a new position this month in Carluccio's, a UK-based restaurant chain. We also built new positions in Autostrade, an Italian toll road constructor, and in Kensington Group, a UK provider of specialised financial services. This month, following strong performance, we took the opportunity to reduce the Fund's position in Charter. Of the positions held by the Fund at the end of the month 49 (50) were ARINs.

Outlook

The most likely cause of an end to strong and rising equity markets is higher bond yields leading to slower growth and less attractive equity valuations. Other risks include a continual rise in the oil price and high consumer debt levels, particularly when global property markets appear to approach a bubble. We believe the outlook for the Fund remains promising.

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