Ennismore European Smaller Companies Fund

Investor Newsletter for the month of February 2006

Issued on 8 March 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 £181.4m as at 28 February.

Performance as at 28 February 2006

	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
February	**47.40**	**2.3**	**4.4**	**69.62**	**2.6**	**4.9**	**1.9**
January	46.34	4.0	6.1	67.83	4.6	6.8	3.2
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
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
2006 to date	**47.40**	**6.4**	**10.8**	**69.62**	**7.4**	**12.0**	**5.2**
Annualised return		**24.9**	**11.8**		**25.3**	**12.1**	**4.1**
Since launch (27/01/99)		**383.0**	**119.8**		**394.3**	**124.5**	**32.6**

[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 2.3% in February. In a solid month for European equity markets, our long book contributed 3.3%, whilst our ARIN positions cost the Fund 0.3%. The largest contribution to performance came from TGS Nopec (+0.8%) as the company posted excellent Q4 results and guided higher-than-expected revenues and margins for 2006. Migros also performed well, contributing 0.3% over the month. The share price was pushed higher as investors priced in the positive effects of the merger with Tansas, the fifth largest supermarket retailer in Turkey. The stock was also upgraded by both domestic and international brokers. Significant negative contributions came from Gulf Keystone (-0.4%), which notified the market that it would be making material changes to its reserve estimates, and from Offshore Rig (-0.4%) which fell on profit taking and an influx of competing rig newbuilding companies.

Westag und Getalit AG – German manufacturer of construction supplies

This is a Westphalia-based family owned manufacturer of doors, frames and laminated kitchen worktops. With a largely German customer base Westag has been fully exposed to the very weak German construction and consumer market over the last six years. Its operating margin plummeted from 10% in the boom years after German reunification to 1.3% in 2001. A tough restructuring programme focused on flexible working hours and a drive to increase exports from 10% in the late 90s to currently 20% helped to restore its operating margin to 5% and return on net operating assets to 10%, a credible effort given the still depressed demand environment, strongly rising raw material costs and the high fragmentation and price aggression in this industry. Westag's focus on product innovations, excellent logistics and customer service have allowed it to gain significant market share. The stock has not been covered by analysts for years. This is reflected in a low valuation – the shares trade at a 20% discount to tangible assets and a price earnings ratio (2006 estimate) of 9.2 times estimated earnings for 2006, falling to 8.4 times if adjusted for net cash. The valuation is further supported by a secure dividend yield of 5.4%. With input price inflation starting to tail off and rising volumes in both Germany and export markets we expect earnings growth of 20% in both 2006 and 2007 and see 50% upside to the share price over the next two years.

Top Five Long Holdings as at 28 February 2006

	Company	Country	Sector	% of NAV
1	TGS Nopec	Norway	Services	8.2
2	Escada	Germany	Consumer	2.4
3	ITV	UK	Media	2.3
4	Charter	UK	Engineering	2.3
5	Monsoon	UK	Retail	2.2
				17.4

Country, Market Cap & Sector Weightings as at 28 February 2006

Country	% of NAV
Norway	25.3
UK	20.9
Germany	14.7
Turkey	10.2
Switzerland	3.2
Netherlands	3.0
Greece	2.9
Denmark	2.5
Sweden	2.2
Italy	1.7
France	1.4
Poland	0.7
US	0.5
Austria	0.5
Other	2.0
Cash	9.9

Market Cap	% of NAV
>£1bn	23.5
£350m - £1bn	25.0
£100m - £350m	21.8
<£100m	21.4
Cash	9.9

Sector	% of NAV
Energy	15.9
Financial	11.5
Services	10.5
Media	9.0
Retail	7.8
Technology	7.6
Consumer	5.7
Construction	3.9
Engineering	3.0
Transport	2.8
Manufacturing	2.7
Mining	2.4
Property	2.2
Auto	2.2
Other	4.5
Cash	9.9

Portfolio Activity

Figures in brackets refer to previous month end

As at 28 February the Fund was invested in 196 (189) stocks. We opened a number of new positions including Gemfields, a UK mining company, Karsan Otomotiv, a Turkish manufacturer of light commercial vehicles, and Civica, a UK specialist software provider. Following strong performance, we also took the opportunity to reduce the Fund's positions in Charter and in Domino's Pizza. Our Norwegian exposure increased during the month with the continuing strong performance of TGS Nopec. The Fund's net exposure to Norway, allowing for the short positions underlying our ARINs, was 22.4% and it is our intention to reduce this exposure to below 20%. Of the positions held by the Fund at the end of the month 41 (43) were ARINs.

Outlook

Economic indicators such as the European Manufacturing Prices Index and European Services Prices Index came close to their historical peaks in the second half of 2005. Soaring raw material prices suggest demand is beginning to outpace the supply of production inputs. Many companies are facing increasing cost pressures with no parallel pricing power, leading to inevitable earnings disappointments. Overcapitalised balance sheets, strong cash generation, corporate activity and sustainable growth prospects, however, still provide sufficient interesting investment opportunities. Consequently, we are finding good investments on both the long and short side and therefore believe the outlook for the Fund remains promising.

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