# Ennismore European Smaller Companies Fund

## Investor Newsletter for the month of March 2006

**Issued on 10 April 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 A S&P Fund Research Fund Rating. The Fund size was £188.6m as at 31 March.

### Performance as at 31 March 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 |
| **March** | **49.66** | **4.8** | **6.4** | **71.18** | **2.2** | **3.7** | **3.3** |
| 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 |
| 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** | **49.66** | **11.5** | **17.9** | **71.18** | **9.8** | **16.2** | **8.7** |
| **Annualised return** | | **25.4** | **12.6** | | **25.4** | **12.5** | **4.5** |
| **Since launch (27/01/99)** | | **405.9** | **134.0** | | **405.4** | **132.9** | **37.0** |

[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 4.8% in February. In a strong month for European equity markets, our long book contributed 5.4%, whilst our ARIN positions cost the Fund 0.1%. The largest contributions to performance came from TGS Nopec, +0.7%, and Offshore Rig Services, +0.3%. Offshore Rig rose by 26% during the month after the company signed a letter of intent, with a major petrochemical company, to lease its first rig. There were no significant negative contributions to performance.

### ITV - Commercial broadcaster in the UK

ITV owns the largest free-to-air commercial channel ITV1, with an audience share of 21.5% in 2005, and has developed a family of specialised digital channels. It is the largest commercial producer of TV content in the UK. However, from a 100% share of commercial broadcasting in 1980 its monopoly position has been steadily eroded by new channels. This trend is continuing in the current decade driven, in particular, by the success of the Freeview digital terrestrial TV platform. Full digital penetration, which should be largely achieved by 2009, may take ITV1 share down to about 17-18%. ITV1 is already expected to perform poorly in the ratings over the next 5 years. Importantly, though, it is still likely to be about twice as large as its only mass market competitor, C4. It will, therefore, retain a premium for advertising – a competitive advantage that allows it to invest more in programming which should, in the long run, determine audience share. ITV1, then, will remain the only truly mass market advertising medium in the UK, able to regularly attract audiences of 10 million. At the same time ITV's strategy of launching a family of digital channels is keeping the lost audience, and most of the lost revenues, within the company. The weakness of ITV1 is widely reported and, we think, already discounted in the share price - which has fallen 20% since the merger that created the company just over 2 years ago. Having largely achieved synergies expected from the merger, management has focussed on reducing the regulatory burden. The license fee for ITV1 will progressively reduce from £74m in 2005 to £4m in 2012 with public service broadcasting requirements reducing by at least £100m over the same period. These savings are equivalent to 37% of 2005 operating profit. More recently ITV began a process to remove the restriction on advertising pricing (CRR) put in place by the Office of Fair Trading at the time of the merger. The industry regulator, Ofcom, has indicated it considers CRR to be fair as ITV1's share of TV advertising spend has been above 40%, but it is likely to fall below this in 2007. While significant revenue growth is unlikely to materialise until the impact of digital penetration has worked through and CRR is relaxed ITV has further potential from initiatives such as the launch of ITV Play. Its broadband platform, built around its own itv.com portal and the recently acquired Friends Reunited network, will be re-launched later this year. ITV will also spend about £10m digitising the most valuable parts of its programming library in 2006 to tap the potential of video-on-demand. Cost reductions alone progressively improve ITV's profitability over the next 5 years and increasingly this should be boosted by revenue growth as well. An initial share buyback of £300m, with the potential for more from disposal of non core assets and further gearing, should ensure this benefit flows through to investors. Recent private equity interest, with a bid rejected at 130p, helped to highlight the intrinsic value of the ITV franchise but we agree with management that the offer did not reflect the cashflow this business is capable of generating.

## Top Five Long Holdings as at 31 March 2006

| | Company | Country | Sector | % of NAV |
|---|---|---|---|---|
| 1 | TGS Nopec | Norway | Oil Services | 8.6 |
| 2 | Central African Mining & Exp | UK | Mining | 3.9 |
| 3 | ITV | UK | Media | 3.7 |
| 4 | Petromena | Norway | Energy | 2.5 |
| 5 | Escada | Germany | Consumer | 2.4 |
| | | | | **21.1** |

## Country, Market Cap & Sector Weightings as at 31 March 2006

| Country | % of NAV |
|---|---|
| Norway | 27.0 |
| UK | 23.2 |
| Germany | 14.9 |
| Turkey | 9.5 |
| Italy | 3.9 |
| Switzerland | 3.8 |
| Netherlands | 2.7 |
| Greece | 2.7 |
| Sweden | 2.2 |
| Denmark | 1.7 |
| Bermuda | 1.1 |
| France | 1.0 |
| Israel | 0.8 |
| Poland | 0.5 |
| Other | 2.7 |
| Cash | 2.3 |

| Market Cap | % of NAV |
|---|---|
| >£1bn | 22.1 |
| £350m - £1bn | 30.4 |
| £100m - £350m | 22.2 |
| <£100m | 23.0 |
| Cash | 2.3 |

| Sector | % of NAV |
|---|---|
| Energy | 16.4 |
| Financial | 11.1 |
| Services | 10.9 |
| Media | 10.8 |
| Technology | 9.5 |
| Retail | 6.6 |
| Consumer | 4.8 |
| Mining | 4.5 |
| Transport | 4.4 |
| Construction | 3.7 |
| Engineering | 2.9 |
| Property | 2.6 |
| Manufacturing | 2.3 |
| Auto | 1.8 |
| Other | 5.4 |
| Cash | 2.3 |

## Portfolio Activity

Figures in brackets refer to previous month end

As at 31 March the Fund was invested in 204 (196) stocks. We opened a number of new positions including Ansaldo, an Italian mass transit manufacturer, Biesse, an Italian machinery manufacturer and Puma Brandenburg, a UK property investment company. We reduced our positions in Bijou Brigitte and in Marfin. Norwegian exposure increased due to the strong performance of the Fund's oil services stocks, in particular TGS Nopec. The Fund's net exposure to Norway, allowing for the short positions underlying our ARINs, was 23.6% and it is our intention to reduce this net exposure to below 20%. Of the positions held by the Fund at the end of the month 37 (41) were ARINs.

## Outlook

There may be a need for equity markets to be approached with a degree of caution. Global interest rates are rising, equity markets carry on reaching new levels, whilst the price of gold is at a 20 year high, suggesting that investors may be seeking a safe haven. Conversely, US consumer spending has remained strong, whilst European corporate activity has increased as companies take advantage of relatively low interest rates in order to restructure and reallocate their costs to cheaper markets. Record trading on the London Stock Exchange suggests investor appetite remains. We are finding good investments on both the long and short side and therefore believe the outlook for the Fund remains promising.


For further information please contact:

| | | | |
|---|---|---|---|
| Geoff Oldfield | Ennismore Fund Management | (44) 20 7368 4223 | go@ennismorefunds.com |

For redemptions please contact:

| | | | |
|---|---|---|---|
| Alison Morey | State Street International (Ireland) Ltd | (353) 1 853 8654 | amorey@statestreet.com |