Ennismore European Smaller Companies Fund

Investor Newsletter for the month of May 2006

Issued on 8 June 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 £190.2m as at 31 May.

Performance as at 31 May 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**
May	**49.73**	**- 3.9**	**- 6.6**	**72.45**	**- 2.9**	**- 5.7**	**- 5.0**
April	51.73	4.2	1.7	74.65	4.9	2.5	0.6
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
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	**49.73**	**11.7**	**11.9**	**72.45**	**11.8**	**12.3**	**3.9**
Annualised return		**24.8**	**11.5**		**25.0**	**11.7**	**3.7**
Since launch (27/01/99)		**406.7**	**122.1**		**414.4**	**125.1**	**30.9**

[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 fell by 3.9% in May. In a month which saw global equity markets give up a large proportion of their 2006 gains, our long book cost the Fund -5.3% whilst our ARIN positions contributed 0.7%. The largest positive contribution was from TGS Nopec, +0.8%, which announced first quarter results that were ahead of market expectations. Significant negative contributions came from Central African Mining & Exploration (CAMEC), -1.3%, and Petromena, -0.3%. CAMEC was hit hard this month as investors sold the stock in order to realise some of the significant gains made so far this year, whilst Petromena fell in concert with the oil services sector.

Broker Network Plc - UK Insurance Services and Broker

Broker Network has two main parts to its business, Broker Network Ltd (BNL) and Broker Network Insurance Brokers (BNIB). BNL provides services to a network of independent insurance brokers. The brokers place business with insurers via BNL, with BNL taking a cut of the premiums (over £300m gross premium written by the network). The brokers benefit from BNL's buying power and receive operational support from BNL. As of March 2006 there were 155 members vs 139 in May 2005 with the rate of new joiners rising. BNL is highly profitable with operating margins over 35% which should increase further as expansion of the network results in little additional cost. For the year to April 2006 the division is expected to have made around £2.6m of underlying operating profit on underlying turnover of £6.8m, showing growth of over 60% and 20% respectively. BNIB is Broker Network's own insurance brokers division. They are consolidating this extremely fragmented part of the industry. Currently the division consists of 19 brokers with total written premium of around £90m per annum. Growth further assists the group's buying power with insurers enabling the division to get closer to the 20-25% margin targeted in the medium term. Acquisition multiples are typically 1-1.5x annual commission, which after easy synergies is normally less than 10x after tax earnings in the first year. On acquisition BNIB is able to immediately gain better commission rates from the insurers and typically has a beneficial impact on marketing generating improved commission and profits. For the year to April 2006 turnover is expected to have been over £4.5m and operating profit over £0.6m. After a recent sizable acquisition the company now has a fairly significant amount of debt at over £13m, however, due to the cash generative nature of the business and the uplift in earnings this has provided, we don't see this as a problem for the company. At a market capitalisation of £23m, the price to earnings ratio for the year to April 2007 is less than 7 times. Given good organic growth and further margin improvement potential the shares are strongly undervalued and we see over 50% upside in the next 12 months.

Top Five Long Holdings as at 31 May 2006

	Company	Country	Sector	% of NAV
1	TGS Nopec	Norway	Oil Services	4.6
2	Petromena	Norway	Energy	4.5
3	CAMEC	UK	Mining	3.7
4	ITV	UK	Media	2.8
5	Coca-Cola Icecek	Turkey	Consumer	2.7
				18.3

Country, Market Cap & Sector Weightings as at 31 May 2006

Country	% of NAV
Norway	23.3
UK	22.0
Germany	11.8
Turkey	8.0
Italy	3.5
Switzerland	3.5
Netherlands	2.6
Greece	1.7
Bermuda	1.7
Denmark	1.6
France	1.4
Sweden	1.1
Israel	1.0
Canada	0.8
Other	2.9
Cash	13.1

Market Cap	% of NAV
>£1bn	20.9
£350m - £1bn	21.3
£100m - £350m	20.9
<£100m	23.8
Cash	13.1

Sector	% of NAV
Energy	17.3
Media	10.2
Technology	9.6
Financial	7.5
Services	6.9
Mining	5.4
Consumer	4.9
Transport	4.5
Construction	3.3
Retail	3.0
Engineering	2.8
Manufacturing	2.4
Property	2.1
Food	1.8
Other	5.2
Cash	13.1

Portfolio Activity

Figures in brackets refer to previous month end

As at 31 May the Fund was invested in 208 (198) stocks. We opened a new long position in Coca-Cola Icecek by participating in its Initial Public Offer. Positions closed during the month included Swedish Match, Ferncliff Drilling, and Visma, which was sold in a tender offer. The Fund's net exposure to Norway, allowing for the short positions underlying our ARINs, was 20%. We took the opportunity to reduce the Fund's positions in TGS Nopec and in Marfin. Of the positions held by the Fund at the end of the month 45 (39) were ARINs.

Outlook

May saw a correction across nearly all geographical markets, sectors and asset classes, including precious metals and commodities. The FTSE Eurofirst 300 hit a five year high in the first half of May, before investors cashed in their gains so far either on fears that global economic growth could be slowing or inflation returning. European equity markets have continued to trade nervously at the beginning of June, although continued merger activity suggests that opportunities to invest in undervalued stocks remain. We are finding

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good investments on both the long and short side and therefore believe the outlook for the Fund remains promising.

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