Ennismore European Smaller Companies Fund

Investor Newsletter for the month of June 2006

Issued on 7 July 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 £182.3m as at 30 June.

Performance as at 30 June 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**
June	**47.72**	**- 4.0**	**- 0.1**	**69.03**	**- 4.7**	**- 1.1**	**1.1**
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
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	**47.72**	**7.1**	**11.8**	**69.03**	**6.5**	**11.1**	**5.0**
Annualised return[5]		**23.8**	**11.3**		**23.9**	**11.4**	**3.8**
Since launch (27/01/99)		**386.2**	**121.9**		**390.1**	**122.7**	**32.3**

[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. [5] Since inception, to date.

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

The Fund's NAV fell by 4.0% in June. This is a very disappointing result, particularly as negative performance on our long positions was not offset by positive ARIN performance. Our long book cost the fund 4.7% and our ARIN positions 0.2%. Almost without exception, our longs did not have profit warnings and our ARINs did not have unexpectedly strong results. Nevertheless, we are uncomfortable with this month's high losses and have taken some action as explained under "Portfolio Activity". Around a quarter of the month's fall was accounted for by just one stock, Petromena. The stock price fell by 22% following news that the tender process to let out its first rig had been protracted by up to two months. We believe this to be immaterial to the intrinsic value of the stock and will be writing a stock comment on it next month. Other significant negative contributors were Coca-Cola Icecek (-0.5%), TGS Nopec (-0.3%) and Rella (-0.2%).

May Gurney Plc - UK Construction and Support Services Company

May Gurney is a long established construction company which, following a management buyout in 2001, moved into long term support and maintenance contracting. This substantially improved revenue visibility, operating margins (which have increased from 1.6% to 3.7% in 5 years) and the quality of the business as a whole. Led by a highly impressive management team the key to May Gurney's growth has been building strong relationships with their customers through high quality performance on contracts thus leading to a very good reputation in the market keeping bid costs down but margins strong (they win over 50% of their pitches), increasing retention rates (over 90%) and lengthening contract lives (often 5-10 years). All contracts are fulfilled with their own staff ensuring control of the contracts' execution and they have the direct relationship with the customer for over 90% of their turnover. The company has a current secured order book of over £900m (vs turnover of £365m for the year to March '06) with a particular focus on highways, utilities, rail and infrastructure. Due to the heavy exposure to maintenance (75% of turnover) versus capital projects (25% of turnover), earnings should have substantially less volatility and risk compared to the pure construction companies. Having sold 25% of their holdings at the June listing the board and management still own 40% of the company so their interests are aligned with other shareholders. After raising £13.5m in the initial offering the company has £18m of net cash on the balance sheet. The company believes the stronger balance sheet combined with their established reputation will be an important driver for growth enabling them to win bigger contracts, i.e. over £50m per annum, going forward. The company has a market cap of £152m and is trading on an Enterprise Value/EBITA for 2007 of 8.3 times which is too low given the quality of the company and the magnitude of opportunities the company now has. We expect 20% upside in the next 12 months as the earnings growth comes through and the stock rating increases further.

Top Five Long Holdings as at 30 June 2006

	Company	Country	Sector	% of NAV
1	TGS Nopec	Norway	Services	4.5
2	Petromena	Norway	Energy	3.6
3	CAMEC	UK	Mining	3.5
4	ITV	UK	Media	3.0
5	Charter	UK	Engineering	1.9
				16.5

Country, Market Cap & Sector Weightings as at 30 June 2006

Country	% of NAV
Denmark	1.4
Finland	0.2
France	1.2
Germany	10.3
Italy	2.2
Luxembourg	0.3
Netherlands	2.9
Norway	21.3
Spain	0.4
Sweden	0.4
Switzerland	2.7
Turkey	3.5
UK	21.0
US	0.9
Other	4.0
Cash	27.3

Market Cap	% of NAV
>£1bn	17.5
£350m - £1bn	16.8
£100m - £350m	18.3
<£100m	20.1
Cash	27.3

Sector	% of NAV
Construction	2.8
Consumer	3.6
Energy	14.7
Engineering	2.3
Financial	3.7
Manufacturing	2.1
Media	10.5
Mining	4.6
Property	2.0
Retail	2.3
Semiconductors	0.4
Services	6.2
Technology	7.8
Transport	4.0
Other	5.7
Cash	27.3

Portfolio Activity

Figures in brackets refer to previous month end

As at 30 June the Fund was invested in 181 (208) stocks. This month has seen a marked increase in the Fund's cash position to 27.3% (13.1%) which is primarily the result of reducing our long positions. We have decided to reduce exposure in certain areas that are difficult or very expensive to hedge, for example Turkey. Whilst recognising this limits potential returns from these areas we believe the current balance of risk/reward justifies our more cautious stance. We will always be mindful of the two rules of investing: Rule No1: Don't lose money; Rule No2: Don't forget Rule No1.

Outlook

Markets continue to be nervous although they have taken some comfort from the less hawkish stance of the Federal Reserve regarding future interest rate rises in the USA and European business confidence indicators remain high. In this uncertain environment there are good investment opportunities on both the long and short side and therefore we believe the outlook for the Fund remains promising.

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