Ennismore European Smaller Companies Fund

Investor Newsletter for the month of July 2006

Issued on 4 August 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, call Emily Allen on +44 (0) 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 £181.9m as at 31 July.

Performance as at 31 July 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
July	**47.40**	**- 0.7**	**- 1.3**	**69.35**	**0.5**	**- 0.1**	**1.3**
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
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**	**10.4**	**69.35**	**7.0**	**11.0**	**6.4**
Annualised return[5]		**23.4**	**11.0**		**23.7**	**11.3**	**4.0**
Since launch (27/01/99)		**383.0**	**119.0**		**392.4**	**122.5**	**34.0**

[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. [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 0.7% in July. The performance in Euro terms was +0.5% as Sterling appreciated against the Euro by 1.2% over the month. Our long book cost the Fund 0.8% whilst our ARIN positions contributed +0.3%.

Petromena – A Norwegian Oil Rig Company

Petromena has a market capitalisation of EUR 200m (USD 250m) and plans to list on the Oslo Stock Exchange this autumn. The founder of the company, Mr. Berge Larsen, has a 30-year track record of creating substantial shareholder value in the oil and oil services industries. Petromena is building two new deepwater semi-submersible oil rigs at Jurong, a Korean shipyard, to be delivered in 2009. Both rigs are built on a fixed cost basis (approx. USD 500m each) where the shipyard has assumed the risks of overruns and delays. In the event of the rigs being delayed, Jurong will pay a daily penalty of USD 130,000. Both rigs have been ordered at very favourable prices and payment terms. The current market for semi-submersible oil rigs is strong and we think it will continue to tighten for the next 3-4 years. The world semi-fleet counts approximately 160 units, of which 40 units can perform deep water drilling (5 km+). With an average rig age of 21 years, the current fleet is considered to be old. Currently, there are 26 deepwater semi-submersible rigs and drillships under construction, all scheduled for delivery by 2009/10. In the same period, we think that oil companies are likely to increase demand by 40-45 rigs based on current production and exploration plans. This demand growth is due to (i) severe under-investment in exploration by oil companies since 1998, (ii) high spot and forward oil prices, and (iii) an increasing need to develop reserves in politically stable regions. The demand for modern, high-specification rigs will be particularly strong in deep-water oil regions such as South America, West-Africa and the Gulf of Mexico. Demand increasing faster than supply will clearly crowd out a number of planned drilling by oil companies and we believe that rig day rates will probably be bid up to unprecedented levels within 1-2 years. Due to the high complexity and long construction time (3 years) of semi-submersible rigs, we do not expect supply to catch up with underlying demand before 2011-2012.

Petromena is tendering its first rig to a number of prospective clients. Three of the tender negotiations are at an advanced stage, most significant of which is that with Petrobras, the Brazilian national oil company, to let out its first rig for five years from 2009. The negotiations with Petrobras have been protracted by differences on contract off-hire clauses. Historically, standard off-hire clauses have favoured the oil companies, but the current tight rig market is shifting the balance of power in favour of the rig owners. The prospective terms of this contract, which could be finalised in the next two months, would give Petromena an operating profit before depreciation of USD 100m a year (the economic life of a modern semi-submersible rig is 30-40 years). The day rate (USD 398,000) would be considerably lower than current market day rates for high specification rigs (USD 500,000+), but the long duration of the contract would be attractive from a debt financing perspective. We expect that the second rig, which will be delivered towards the end of 2009, will receive similar terms to the first rig. This would translate into a group operating profit of USD 170m in 2010 (its first full year of rig operations), and if the company debt finances its remaining obligations, that would give Petromena a Price-Earnings ratio of 2.9x and an Enterprise Value to Operating Profit of 6.0x. However, we think that company will most likely get contracts for both rigs and then sell them to incumbent rig operators with a substantial gain within 1-2 years. We consider the company to be deeply undervalued, especially relative to peers such as Seadrill, and expect the share price to appreciate by 80-90% within 1-2 years.

Top Five Long Holdings as at 31 July 2006

	Company	Country	Sector	% of NAV
1	TGS Nopec	Norway	Services	4.4
2	Petromena	Norway	Energy	3.7
3	ITV	UK	Media	2.9
4	CAMEC	UK	Mining	2.3
5	Trader Classified Media	Netherlands	Media	2.1
				15.4

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

Country	% of NAV
Belgium	0.3
Canada	0.2
Denmark	1.8
France	0.6
Germany	8.5
Italy	1.3
Luxembourg	0.1
Netherlands	3.1
Norway	20.9
Spain	0.4
Sweden	0.9
Switzerland	2.5
UK	20.3
US	2.0
Other	2.7
Cash	34.4

Market Cap	% of NAV
>£1bn	18.4
£350m - £1bn	12.9
£100m - £350m	16.6
<£100m	17.7
Cash	34.4

Sector	% of NAV
Construction	1.7
Consumer	2.7
Energy	14.1
Engineering	2.2
Financial	2.5
Manufacturing	2.0
Media	11.0
Mining	3.2
Property	2.5
Retail	2.4
Semiconductors	0.3
Services	6.0
Technology	7.1
Transport	3.6
Other	4.3
Cash	34.4

Portfolio Activity (Figures in brackets refer to previous month end)

As at 31 July the Fund was invested in 150 (181) stocks. This month has seen a further discernable increase in the Fund's cash position to 34.4% (27.3%) mainly as a result of reductions in our long positions. We have continued to reduce our exposure to certain areas that are difficult or very expensive to hedge, with all Turkish positions having been sold. The Fund's net exposure to Norway, allowing for the short positions underlying our ARINs, was 18.1%.

Outlook

Investors remain cautious over the prospect of higher interest rates and the continuing geo-political events in the Middle-East. Whilst USA and European business confidence indicators remain high, we are cautious on markets but believe there are good investment opportunities on both the long and short side. Therefore we believe the outlook for the Fund remains promising.

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