Ennismore European Smaller Companies Fund

Investor Newsletter for the month of August 2006

Issued on 8 September 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 £179.1m as at 31 August.

Performance as at 31 August 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
August	**46.72**	**- 1.4**	**1.3**	**69.43**	**0.1**	**2.9**	**2.4**
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
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	**46.72**	**4.9**	**11.8**	**69.43**	**7.1**	**14.3**	**8.9**
Annualised return[5]		**22.8**	**11.1**		**23.4**	**11.5**	**4.3**
Since launch (27/01/99)		**376.0**	**121.9**		**393.0**	**129.1**	**37.2**

[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 1.4% in August. The performance in Euro terms was +0.1% as Sterling appreciated against the Euro by 1.6% over the month. Our long book cost the Fund 0.8% whilst the short exposure derived from ARIN and Contract for Difference (CFD) positions cost a further 0.7%. The major negative performer was Petromena which cost the Fund 0.5% of NAV as the stock fell despite announcing a 5 year contract with Petrobras. There were no significant positive contributions in the month.

Rightmove – UK property advertising website

Rightmove was set up by the largest UK estate agency chains – Countrywide, Halifax and Connells – in September 2001. Its founders gave the business instant critical mass in its inventory and acted as a barrier to entry to competitors. The site now carries about 3 times as many homes for sale as its nearest competitor with close to 75% of all estate agent offices using the service. As a result Rightmove has been able to establish itself as the dominant national brand with clear leadership in terms of consumer usage. Of the 4 major property sites now operating, Rightmove takes an 80% share of pages viewed, making it one of the top 10 websites in the UK.

Volume is essential in classified media advertising - most sellers advertising where most buyers are looking, and most buyers look where most sellers are advertising - and tends to drive a virtuous circle favouring the dominant players. Consequently, although all its competitors are now owned by major media companies with significant spending power, it is unlikely that a national competitor will be able to displace Rightmove, particularly given its relationship with the 3 largest estate agency chains. This competitive strength is reflected in the site's strong pricing power. The monthly subscription fee for a new office increased from £250 to £300 at the end of June while, for several thousand existing customers, it increased from £150 to £195 on 1 January 2006 and will go up again to £250 a year later. While these increases are significant, relative pricing remains comparable to most other sites and is significantly lower than for local newspapers. The per office subscription model also significantly reduces exposure to the housing cycle as it is dependent not on the number of properties on the market but the number of agents in business.

Given its extremely strong competitive position, we see the most significant long term risk to the business as regulation by the Office of Fair Trading (OFT). However, taking a wider view of the property advertising market, including local newspapers, Rightmove currently has a share of about 5%. This suggests regulation may be several years away. We are also encouraged by the recent OFT proposal to reduce pricing restrictions on the UK directory business Yell.
We looked closely at Rightmove prior to its Initial Public Offering (IPO) in March. While the valuation then did not appear excessive, sentiment around the stock included a significant amount of expectation regarding Rightmove's ability to generate profitable revenue from the Government's planned Home Information Packs (HIPs), of which we were sceptical. When it was announced in July that HIPs would be significantly watered down the share price fell to about 20% below its IPO level and a third below its peak. We took this opportunity to build up a position. Strong interims announced at the beginning of September have seen the shares rally close to their IPO level but we continue to hold our position because of the strength of the business franchise. Reflecting strong operating cash flow, the company announced its maiden dividend with the recent interim results. While a 2007 PE ratio of close to 30 times appears high the business has the ability to increase penetration, drive significant price increases and, as the security of cash flow increases, gear up the balance sheet materially through distributions to shareholders, generating attractive shareholder returns at relatively low risk.

Top Five Long Holdings as at 31 August 2006

	Company	Country	Sector	% of NAV
1	TGS Nopec	Norway	Services	5.1
2	Petromena	Norway	Energy	3.8
3	ITV	UK	Media	3.5
4	Trader Classified Media	Netherlands	Media	2.5
5	CAMEC	UK	Mining	2.2
				17.1

Exposure by Country, Market Cap and Sector as % of NAV as at 31 August 2006

Country	Gross%	Net%
Belgium	0.3	0.3
Canada	0.5	-0.5
Denmark	1.6	0.6
France	1.0	0.8
Germany	10.4	7.6
Italy	2.6	0.4
Luxembourg	0.6	-0.1
Netherlands	5.4	0.9
Norway	23.1	15.8
Spain	2.4	-2.4
Sweden	2.1	-0.4
Switzerland	5.0	-1.1
UK	28.4	8.9
US	6.1	-3.0
Other	2.1	0.1

Market Cap	Gross%	Net%
>£1bn	27.7	-7.6
£350m - £1bn	26.7	5.2
£100m - £350m	16.4	10.2
<£100m	20.8	20.1

Sector	Gross%	Net%
Construction	2.8	1.0
Consumer	2.9	0.3
Energy	16.1	12.9
Engineering	2.8	1.8
Financial	4.9	-1.0
Manufacturing	2.6	0.9
Media	13.5	9.9
Mining	3.6	2.6
Property	5.4	0.8
Retail	3.4	-0.4
Semiconductors	1.0	-1.0
Services	8.0	4.2
Technology	10.3	-0.9
Transport	6.7	-1.6
Other	7.6	-1.6

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

As at 31 August the Fund was invested in 180 (150) stocks. The main activity this month has been the increase in the fund's underlying short exposure. Following shareholder consent at the EGM on 14 August, the Fund is now able to use CFDs in order to gain increased short exposure.

Outlook

Investors remain cautious over the prospect of higher interest rates, inflationary pressure in the US, and the continuing geo-political events in the Middle-East. 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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