Ennismore European Smaller Companies Fund

Investor Newsletter for the month of October 2006

Issued on 7 November 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 £175.2m as at 31 October.

Performance as at 31 October 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
October	**47.01**	**1.4**	**3.4**	**70.25**	**2.8**	**4.7**	**3.0**
September	46.35	- 0.8	3.6	68.35	- 1.6	3.0	2.3
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
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	**47.01**	**5.6**	**19.8**	**70.25**	**8.4**	**23.1**	**14.8**
Annualised return[5]		**22.4**	**11.8**		**23.0**	**12.4**	**4.9**
Since launch (27/01/99)		**379.0**	**137.8**		**398.8**	**146.8**	**44.6**

[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 rose by 1.4% in October. The performance in Euro terms was 2.8% as Sterling appreciated against the Euro by 1.2% over the month. Our long book contributed 2.0% whilst the short exposure added a further 0.3%. The best contributions were from TGS Nopec (+0.5%) and ITV (+0.3%) respectively. TGS' share price rose by 13% after the company announced better than expected third quarter profits, leading some analysts to raise their price targets on the stock. There were no significant negative performers.

Civica plc - UK IT Software & Services

Civica is a specialist provider of consultancy, software and managed services to the local government sector with turnover running at around £140m and operating margins of 14% plus and a fully diluted market cap of around £170m. The company offers IT solutions for various aspects of local government systems' requirements including Social Housing, Traffic & Parking, Community Enforcement, Library and e-procurement etc. The majority of its turnover is in the UK (around 85%) while they also have exposure overseas, notably in Australia and Singapore. The turnover is split Consultancy (22%), Own Software Sales (22%), Managed Services (21%) and Third Party Software Sales (35%). The three former divisions have been recently growing organically at around 15% year on year, whereas Third Party Software revenues have been falling. The gross margins in the Third Party Software segment are substantially lower than the other divisions however and therefore only make up 6% of total gross profit. The consultancy division's contracts are mainly time & materials and therefore the risk of potential mis-pricing of projects is reduced. Since listing, the company has done an impressive job of reducing the exposure to the lower margin third party software sales via organic growth and acquisitions, increasing the quality of the company's earnings.

The company is well placed to gain from continued structural growth - supported by the quest for increased efficiency demanded by the likes of the Gershon review - in the IT software and services for the local government and services sector (a market worth £1.4bn plus per annum). There is also an IT requirement within big capital improvement projects such as the Building Schools for the Future (BSF) contracts decided regionally. Civica has already won a 5-year

£12m BSF contract for the Sheffield area and is bidding for others. Civica's broad range of software and consultancy experience requirements gives them an edge over other smaller competitors and means that it is able to win large contracts going forward encompassing more parts of a local authority's requirements. Currently around 90% of local authorities are customers, which positions Civica well as a potential 'preferred supplier' if procurement policies go down this route in the future. Management are impressive and their interests are aligned with shareholders. The company is currently trading at a significant discount to its peer group (in which there has been recent takeover interest) on an Enterprise Value to Net Operating Profits After Tax multiple to September 2007 of around 12 times. We believe that given the structural medium term organic growth (high single digits plus going forward) in the market, the improving operating margins, the low risk nature of the contracts and management's shareholder alignment the company should be trading on a multiple of 15 times giving an upside of around 30% over the next 12 months.

Top Five Long Holdings as at 31 October 2006

	Company	Country	Sector	% of NAV
1	TGS Nopec	Norway	Services	5.3
2	Petromena	Norway	Energy	4.0
3	ITV	UK	Media	3.4
4	Charter	UK	Engineering	2.6
5	Trader Media East	Netherlands	Media	2.3
				17.6

Exposure as at 31 October 2006

Longs %	Shorts %	Gross Exposure %	Net Exposure %
65.6	37.0	102.6	28.6

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

Country	Gross%	Net%
Belgium	0.4	0.4
Canada	0.9	-0.9
Denmark	1.7	0.6
France	1.1	0.8
Germany	12.4	7.5
Italy	3.5	1.6
Luxembourg	1.4	1.4
Netherlands	5.3	0.5
Norway	24.7	17.5
Spain	2.4	-2.5
Sweden	3.5	-0.8
Switzerland	5.4	-1.3
UK	29.0	7.7
US	7.3	-3.4
Other	3.6	-0.4

Market Cap	Gross%	Net%
>£1bn	31.4	-6.4
£350m - £1bn	27.4	1.1
£100m - £350m	23.7	15.2
<£100m	20.1	18.8

Sector	Gross%	Net%
Construction	3.4	1.4
Consumer	3.3	0.2
Energy	17.6	14.6
Engineering	3.4	2.2
Financial	4.8	0.3
Manufacturing	4.4	0.0
Media	15.6	9.3
Mining	3.4	2.3
Property	6.6	-0.4
Retail	4.4	-1.1
Semiconductors	1.1	-1.1
Services	8.3	4.1
Technology	11.8	0.5
Transport	6.8	-1.5
Other	7.7	-2.1

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

As at 31 October the Fund was invested in 196 (198) stocks. This month, the Fund opened a new position in Maritime Industrial Services, a Norwegian oil services and construction company, following a private placing of the company's stock. In terms of the largest sale, the Fund took the opportunity to reduce its exposure to ITV following a strong month. The net exposure was increased slightly, primarily due to performance and net new long positions.

Outlook

Due to the ability of the Fund to obtain both long and short equity exposure we are in a position to take advantage of investment opportunities that arise irrespective of the prevailing macroeconomic conditions. Therefore we believe that the outlook for the Fund remains promising.

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