Ennismore European Smaller Companies Fund

Investor Newsletter for the month of December 2006

Issued on 9 January 2007

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 £177.5m as at 31 December. The Fund is managed as an absolute return fund with the objective of generating positive returns irrespective of market conditions rather than performing relative to any benchmark index. Index data is provided in the following table as a guide to general equity market conditions.

Performance as at 31 December 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
December	**48.28**	**1.7**	**5.7**	**71.66**	**1.7**	**5.7**	**3.9**
November	47.49	1.0	3.0	70.47	0.3	2.4	-0.1
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
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	**48.28**	**8.4**	**30.5**	**71.66**	**10.6**	**33.2**	**19.1**
Annualised return[5]		**22.3**	**12.8**		**22.8**	**13.2**	**5.3**
Since launch (27/01/99)		**391.9**	**159.0**		**408.8**	**167.0**	**50.0**

[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 rose by 1.7% this month in both Sterling and Euro terms. Our long book contributed 3.5% whilst the Fund's short exposure produced a negative performance of -1.4%. The best contributions were from Trader Media East (TME) (+0.8%) and TGS Nopec (+0.4%), respectively. TME's share price soared as it was announced that the company was in "advanced discussions" with a potential buyer. The buyer turned out to be Turkish media company Hurriyet Gazetecilik who offered to buy TME at a 28% premium to the pre-announcement closing price. There were no significant negative performers amongst the long holdings. M&A activity adversely affected the performance of the short book.

Geveko - Swedish investment company

Geveko is active in two areas: running an industrial operation primarily focusing on horizontal road markings and managing an equity portfolio.

The current setup with an industrial business combined with a substantial stock portfolio is, in our view, not an optimal structure. Entities like this are normally trading at a discount to net asset value. By having grown the industrial side of its business successfully over the past few years, Geveko is putting its tax status as an investment company at risk. Therefore, the current group structure is under review. Mr Ove Mattsson, formerly with Nobel Industries and AkzoNobel, was appointed as the new Chairman of Geveko in the spring of 2006. We believe his 30-year experience of the international paint and chemicals business could be instrumental in transforming and developing Geveko going forward. One potential outcome of the review could be to split the company in two to facilitate further development of the road markings business. This would be clearly positive from a valuation point of view.

Industrial Division: Over 90% of Geveko's SEK 990m (€110m) in annual sales are generated in the Road Marking business area. The company is Europe's largest player focusing on horizontal road markings with a market share of around 12-13%. More than half of revenues are attributable to paint and thermoplastic materials while the remaining share relates to contracting services. Geveko is a key player in the Nordic countries, UK, Germany, Poland, the Czech Republic, Switzerland and Romania, and also has a joint venture in Hungary. The Western European market (77% of sales in 2005) is mature and growing at 1-2% annually. The Eastern European market (23% of sales), however, is growing rapidly and Geveko is well positioned to profit from increasing investments in infrastructure in these markets going forward. New EU regulations coming into force in 2007 focus on shifting out solvents-based road marking paint in favour of water-based paint. As a leader in environmentally friendly products, we believe this shift will benefit Geveko. Management has set a target of reaching sales of SEK 1.5-2.0bn by 2009, through a combination of organic and acquired growth, with an operating margin of 8% (2006 sales is estimated at SEK 990m with a 6% margin). The margin target does not look aggressive as the company has produced margins of over 9% several times in the past. By being the largest manufacturer in Europe, Geveko is in a good position to take part in the consolidation of this fragmented market. The company is well invested and could increase output significantly with limited capital expenditure indicating strong cash flow generation going forward.

Equities Portfolio: The investment portfolio typically consists of some 25 larger liquid Nordic listed companies. Performance over the past few years has been closely correlated to the performance of the Stockholm OMX index. Including bonds and other investments, the net asset value of the investment portfolio was SEK 605m (€66m) at the end of 2006.

In terms of valuation, Geveko trades at around 94% of its official adjusted net asset value (NAV) of SEK 232 per share as of December 2006. We believe that the calculation of the NAV is far too conservative when it comes to the industrial operations. Based on our cautious estimates for 2007, and backing out the value of the equity portfolio from the current market capitalisation, Geveko's industrial business is valued at a 2007 P/E-ratio of 5. To put it another way, counting the share portfolio as cash, the industrial operations is valued at around SEK 520m including debt. This for a growing, well-invested, stable business expected to generate over SEK 85m in earnings before interest and taxes in 2007 and with revenues of over SEK 1.1bn. Even though a portfolio of listed shares normally should be traded at a discount, we believe that the anticipated changes in group structure justifies a lower than normal discount to NAV. Low valuation, a healthy dividend yield (average over the past five years is 6.8%), strong balance sheet and good growth potential combined with expected structural changes makes us convinced the shares have significant upside potential from current levels.

Top Five Long Holdings as at 31 December 2006

	Company	Country	Sector	% of NAV
1	TGS Nopec	Norway	Services	5.8
2	Trader Media East	Netherlands	Media	4.2
3	ITV	UK	Media	3.1
4	Charter	UK	Engineering	2.6
5	Petromena	Norway	Energy	2.4
				18.1

Exposure as at 31 December 2006

Longs %	Shorts %	Gross Exposure %	Net Exposure %
76.6 (72.9)	40.8 (41.1)	117.5 (114.0)	35.8 (31.8)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Belgium	0.3	0.4
Canada	0.4	-0.4
Denmark	2.0	0.4
France	1.9	1.4
Germany	14.8	9.8
Italy	4.4	2.5
Luxembourg	1.6	1.6
Netherlands	7.6	2.1
Norway	26.1	17.7
Spain	2.6	-2.6
Sweden	5.6	0.3
Switzerland	7.0	-0.5
UK	29.3	8.8
US	10.0	-5.9
Other	3.9	0.2

Market Cap	Gross%	Net%
>£1bn	43.4	-2.2
£350m - £1bn	24.3	-2.2
£100m - £350m	30.2	21.2
<£100m	19.6	19.0

Sector	Gross%	Net%
Construction	4.8	2.3
Consumer	3.1	0.8
Energy	20.8	16.8
Engineering	3.6	1.9
Financial	6.5	0.8
Manufacturing	5.5	0.4
Media	17.1	12.7
Mining	3.3	2.3
Property	6.2	-2.0
Retail	5.3	-1.7
Semiconductors	1.1	-1.1
Services	9.6	4.6
Technology	13.6	-0.9
Transport	7.6	0.4
Other	9.4	-1.5

Portfolio Activity (Figures in brackets refer to previous month end; * = positions >0.5% of NAV)

As at 31 December the Fund was invested in 77 (70)* stocks. New positions this month include Petrolia Drilling, a Norwegian offshore drilling company, and Polymer Logistics, a Dutch provider of retail logistics solutions.

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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