Ennismore European Smaller Companies Fund

Investor Newsletter for the month of January 2007

Issued on 7 February 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 £170.8m as at 31 January. 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 January 2007

	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
January	**47.23**	**-2.2**	**2.0**	**71.22**	**-0.6**	**3.6**	**1.6**
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	24.9
2007 to date	**47.23**	**-2.2**	**2.0**	**71.22**	**-0.6**	**3.6**	**1.6**
Annualised return[5]		**21.7**	**12.9**		**22.5**	**13.6**	**5.4**
Since launch (27/01/99)		**381.3**	**164.2**		**405.8**	**176.7**	**52.4**

[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 2.2% this month in Sterling and 0.6% in Euro terms. Our long book and short exposure produced negative performances of -0.5% and -1.4% respectively. A significant part of this negative performance was due to the Fund's exposure to the energy sector, and its associated service sectors, following a sharp fall in the demand for crude oil. The relatively mild start to the year helped push the price per barrel as low as $49.90 on the 18th of January, before it recovered somewhat to close the month at $54.01.

Lindab International AB - A Swedish supplier of systems for the construction industry.

Lindab is the number one or number two player in all its key markets and has a well distributed customer base. Following a restructuring of its operations combined with acquisitions, the company was listed in 2006 with its management and key investors retaining 46% of the shares.

The Profile business area (52% of revenues) offers a range of sheet metal construction products and turnkey steel buildings. Over 40% of revenues in Profile are attributable to Central and Eastern Europe (CEE). Steel buildings are gaining market share vs. other materials due to its advantages on cost and speed. Since 2001, Lindab has focused on improving profitability combined with driving growth. Operating margins have improved substantially while annual organic revenue growth has been around 9%, primarily driven by demand in CEE. Profile should continue to benefit from its existing exposure to CEE and from the introduction of high margin products, such as steel gutters, in new regions. The Ventilation business area (48% of revenues) is the leader in circular duct systems for ventilation. It is in a turnaround phase after change of the division's management in 2005. Growth in this area is driven by the superior economics of circular systems vs. rectangular systems in terms of energy efficiency, weight, maintenance and installation costs. As we believe margins in this area could expand from the current level of around 9% to the levels of Profile over the next few years, the impact on group margins should be significant. We see growth and profitability being driven by market share gains for circular ducts (rectangular systems are still dominant in much of Europe), roll-out in the CEE and Russian markets, synergies from recent acquisitions, losses within accessories turning to profits and, perhaps most importantly, the launch of the 'Click' system during 2007. The system reduces installation costs by over 15% and is part of Lindab's continuous focus to reduce costs for its clients. It is not yet officially launched and not well known in the market but should support both pricing and revenue growth going forward. On a group level, we see further internal efficiency improvements ongoing.

In terms of valuation, we believe the company will surprise on the upside during 2007, both in terms of growth and margins. Based on our current annual revenue run-rate estimate, assuming an average operating margin in the Ventilation division approaching that of Profile, Lindab is trading at a 2007 Price-Earnings ratio of 13 times. In addition, we believe revenues will continue to grow due to market share gains in both businesses. Lindab has experienced strong growth and profitability over the past 20 years. Since the early 1980s, it has only seen sales decline once (in 1991) as a result of the recession in the Nordic countries. At that time, over 70% of sales were attributable to the Nordics compared with 40% today. It is now better positioned for growth, well invested, more efficient in its organisation and more diversified in terms of segments and markets. With only 20% of the business exposed to residential markets we believe they are strongly positioned from a cyclical viewpoint. We believe Lindab will deliver stable revenue growth combined with improving margins for many years to come and consider the share to be trading at least 20% below its discounted free cash flow based fair value.

Top Five Long Holdings as at 31 January 2007

	Company	Country	Sector	% of NAV
1	TGS Nopec	Norway	Services	5.9
2	Trader Media East	Netherlands	Media	4.3
3	ITV	UK	Media	3.3
4	Charter	UK	Engineering	2.5
5	Petromena	Norway	Energy	2.3
				18.2

Exposure as at 31 January 2007

Longs %	Shorts %	Gross Exposure %	Net Exposure %
77.0 (76.6)	42.0 (40.8)	119.0 (117.5)	35.0 (35.8)

Figures in brackets refer to previous month end.

Exposure by Country, Market Cap and Sector as % of NAV as at 31 January 2007

Country	Gross%	Net%
Belgium	0.4	0.4
Canada	0.4	-0.4
Denmark	1.8	0.1
France	1.7	1.5
Germany	14.3	10.2
Italy	3.9	1.9
Luxembourg	1.6	1.6
Netherlands	7.7	2.5
Norway	27.6	17.2
Spain	2.4	-2.4
Sweden	7.3	1.3
Switzerland	6.3	-1.7
UK	30.3	8.6
US	9.7	-5.7
Other	3.7	-0.1

Market Cap	Gross%	Net%
>£1bn	44.7	-3.9
£350m - £1bn	22.6	-0.1
£100m - £350m	31.2	19.8
<£100m	20.5	19.3

Sector	Gross%	Net%
Construction	4.6	2.2
Consumer	3.5	0.9
Energy	21.0	16.1
Engineering	3.6	1.8
Financial	6.7	0.4
Manufacturing	5.9	0.6
Media	18.1	12.4
Mining	2.9	2.0
Property	6.2	-2.1
Retail	5.4	-1.6
Semiconductors	1.2	-1.2
Services	9.5	4.5
Technology	13.6	0.6
Transport	8.2	-0.1
Other	8.6	-1.5

Portfolio Activity

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

As at 31 January the Fund was invested in 74 (77)* stocks. This month the Fund's net exposure was reduced slightly, primarily as a result of opening new short CFD positions. We also sold the Fund's holdings in Pfleiderer and Datamonitor outright.

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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