Ennismore European Smaller Companies Fund

Investor Newsletter for the month of May 2007

Issued on 7 June 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 £190.7m as at 31 May. 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 May 2007

	GBP			EUR			
Period	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
May 07	**50.64**	**0.5**	**2.5**	**74.44**	**0.8**	**3.0**	**3.2**
April 07	50.41	2.9	4.2	73.87	2.3	3.6	4.1
March 07	48.99	2.4	5.2	72.18	1.7	4.5	3.2
February 07	47.85	1.3	0.7	70.99	-0.2	-0.9	-1.4
January 07	47.23	-2.2	2.0	71.22	-0.6	3.6	1.6
December 06	48.28	1.7	5.7	71.66	1.7	5.7	3.9
November 06	47.49	1.0	3.0	70.47	0.3	2.4	-0.1
October 06	47.01	1.4	3.4	70.25	2.8	4.7	3.0
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
2007 to date	**50.64**	**4.9**	**15.4**	**74.44**	**3.9**	**14.4**	**11.0**
Annualised return[5]		**21.7**	**14.0**		**22.1**	**14.3**	**6.3**
Since launch (27/01/99)		**416.0**	**198.8**		**428.6**	**205.4**	**66.5**

[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 GBP unless otherwise stated.

The Fund's NAV increased by 0.5% in May. The long book contributed 0.6% and our short exposure cost 0.2%. Implied returns were 0.7% and 0.6% respectively, compared to an increase of 2.5% in the HSBC Index. The strongest performers were Sto (contributing 0.7%), continuing its share price rise on the back of last month's results (see the April 2007 newsletter for a full comment on this stock), and Maritime Industrial Services (0.5%). MIS announced contracts to supply two rigs and listed on the main Oslo exchange during the month. On the negative side the worst performers were Trader Media East (-0.7%, see the stock comment below) and TGS Nopec (-0.5%). Q1 revenues for TGS came in lower than expected causing the stock to fall 7.6% in May. Revenues have historically been somewhat lumpy on a quarterly basis due to some bulk orders and, importantly, management retained their full year guidance for like-for-like growth above 25%. We continue to believe this may prove conservative given there are two Gulf of Mexico licensing rounds this year, as opposed to one normally, benefiting the second half of the year.

Trader Media East – Classified Advertising

TME publishes classified advertising titles in Eastern Europe, principally in the former CIS. Having been spun out of Trader Classified Media in February 2006 majority control was recently acquired by Turkish newspaper Hurriyet. We felt the offer of $10 per GDR, while at a significant premium to our purchase price, was too low to justify tendering and we therefore continue to hold our investment. The free float of TME has now reduced to only about one third of the GDRs outstanding and these are held by just a few investors. An unfortunate consequence of this is that, while the offer process is being concluded, there has not been an active market in the stock – those wanting to sell having tendered to Hurriyet, while the remaining external shareholders presumably all believe the company is fundamentally undervalued. In the short term this has led to some extreme variation in the closing price, which has ranged from $12.50 towards the end of March to $8.28 on the last day of May (down from $10.10 at the end of April, giving an attribution of -0.7% for the month, while it is currently at $10.05), without any material volume trading and unrelated to any newsflow. We expect this situation to resolve as the company's operational performance in 2007 becomes apparent.

On a more positive note TME reported Q1 2007 revenues strongly up on last year. Guidance for the full year remains for organic growth of between 12 and 14% but we expect this to prove conservative – Q1 was up 15.9% before any real benefit from an $8.5m investment in distribution, sales and marketing for the Moscow operation. Migration towards online media continues with management expecting revenue to more than double this year, taking it to about 8% of the sales mix. At the same time the print publications are still growing well, up 14.1% in the quarter, driven by continued roll out across the Russian regions and a strong recovery in Moscow. In addition 2007 revenue growth will be boosted another 3% by the acquisition of commercial property publisher Impress Media.

Overall the more favourable trading environment means operating margins are likely to be stable at around 23% despite the Moscow investment. At the $10 Hurriyet offer price this puts TME on a normalised price earnings ratio of about 15.5 and 12.5 times 2007 and 2008 forecast earnings respectively. We believe the business represents an attractive combination of strong top line growth with a stable operating franchise. On a 2 year view we expect it to be worth twice the price paid by Hurriyet, implying a 2009 enterprise value of about 13 times operating profit.

Top Five Long Holdings as at 31 May 2007

	Company	Country	Sector	% of NAV
1	TGS Nopec	Norway	Services	4.7
2	Sto	Germany	Construction	4.0
3	Trader Media East	Netherlands	Media	3.2
4	Petromena	Norway	Energy	2.2
5	Geveko	Sweden	Financial	2.1
				16.2

Exposure as at 31 May 2007

Longs %	Shorts %	Gross Exposure %	Net Exposure %
77.9 (80.1)	36.1 (40.1)	114.0 (120.2)	41.8 (40.0)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Belgium	0.4	0.4
Canada	0.6	-0.4
Denmark	2.0	-0.4
France	2.0	1.7
Germany	17.7	13.4
Italy	4.1	1.8
Luxembourg	1.9	1.9
Netherlands	6.7	2.1
Norway	23.7	12.6
Spain	2.8	-2.8
Sweden	8.2	3.7
Switzerland	7.5	-1.6
UK	24.6	8.6
US	7.8	-2.6
Other	4.0	3.4

Market Cap	Gross%	Net%
>£1bn	42.5	0.8
£350m - £1bn	22.6	5.0
£100m - £350m	28.9	16.4
<£100m	20.0	19.6

Sector	Gross%	Net%
Construction	7.2	5.0
Consumer	4.9	1.4
Energy	21.4	14.9
Engineering	3.1	0.6
Financial	7.4	2.1
Manufacturing	6.0	2.5
Media	17.3	10.0
Mining	1.1	0.0
Property	4.7	-0.4
Retail	5.7	1.7
Semiconductors	0.9	-0.9
Services	9.8	7.6
Technology	14.5	2.0
Transport	2.4	-2.4
Other	7.6	-2.3

Portfolio Activity

Figures in brackets refer to previous month end, excludes positions under +/- 0.5% of NAV.

As at 31 May the Fund was invested in 79 (82) stocks. The Fund's net exposure increased slightly during the month.

Outlook

The Fund can obtain both long and short equity exposure which puts us in a position to take advantage of investment opportunities that arise irrespective of the prevailing macroeconomic conditions. As a result we believe the outlook for the Fund remains promising.

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