Ennismore European Smaller Companies Fund

Investor Newsletter for the month of August 2007

Issued on 5 September 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 size was £188.6m as at 31 August. 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 August 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**
August 07	**50.89**	**-1.5**	**-3.0**	**75.30**	**-1.8**	**-3.3**	**-0.5**
July 07	51.66	0.5	-1.6	76.69	0.5	-1.5	-3.5
June 07	51.39	1.5	-3.3	76.34	2.6	-2.5	-0.7
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	71.14	-0.7	3.6	1.6
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	-3.2	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	-24.7	-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	**50.89**	**5.4**	**6.5**	**75.30**	**5.1**	**6.2**	**5.8**
Annualised return[5]		**21.1**	**12.5**		**21.5**	**12.9**	**5.5**
Since launch (27/01/99)		**418.5**	**175.9**		**434.7**	**183.5**	**58.6**

[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

In Sterling terms the Fund's NAV decreased by -1.5% in August. Our long book cost -2.8% and the Fund's short exposure contributed 1.0%. Implied returns[1] were -3.2% on the long book and -1.9% on the short book, compared to a fall of -3.0% in the HSBC index. The strongest performer was Trader Media East, contributing 0.5%. On the negative side the worst performer was TGS Nopec (-0.6%). TGS's second quarter 2007 results disappointed slightly due to two previously announced vessel delays and the absence of any chunky sales late in the quarter. The company's main focus is currently the proposed merger with Wavefield Inseis which is expected to be decided by the middle of this month. We continue to believe that the market valuation of several oil services suppliers, including TGS, offers very attractive deep value investment opportunities.

Eutelsat – French listed Communications Satellite Operator

Eutelsat owns and operates communications satellites serving Europe, Russia, the Middle East and Africa. The company's primary business is to lease satellite capacity to direct-to-home (DTH) television broadcasters. The business enjoys a very strong competitive position because the number of orbital slots is limited and the upfront capital expenditure to launch a satellite is high. Moreover, the switching costs for DTH broadcasters are prohibitive - if a broadcaster wanted to switch to an alternative satellite operator they would have to send engineers to reposition every end-user's satellite dish.

Eutelsat's revenue growth is being driven by markets outside Western Europe, with demand particularly strong in Russia, where Eutelsat provide capacity for the leading pay TV operator NTV+, and Africa. Rising consumer wealth is leading to a rapid increase in the number of pay TV subscribers in these developing markets, which in turn drives growth in the number of channels broadcast and the amount of satellite capacity required. All Eutelsat satellites are operated from their European control centres, meaning growth has no direct impact on costs. The return on capital employed achieved in these developing markets is similar to that in their core Western European operations and is typically mid double-digit.

[1] Implied returns are calculated by grossing up the contribution on the long and short books to show what the performance would be if they represented 100% of the portfolio. For example if the long book contributed 5% to performance but only represented 50% of the fund, the implied return would be 10%. A negative implied return on the short book gives a positive contribution to the fund since short positions profit when underlying prices fall.

Satellite operators benefit from a virtuous circle where a critical mass of consumer dishes pointing at an orbital slot leads to an increasing number of channels being broadcast at that slot, which in turn leads to more consumers using that slot. This can lead to the creation of an extremely valuable "neighbourhood" of viewers, and hence prohibitive switching costs for broadcasters. This is the case for Eutelsat's key Western European slot, known as Hotbird. Capacity at this slot is fully utilised and this has led to significant pricing power with the company raising prices by approximately 10% in their last financial year. Over time there is a good chance that similar trends will play out in the emerging markets, giving Eutelsat further scope to raise prices. With pricing on Hotbird currently roughly double that of the rest of the fleet this would lead to significant value creation.

Contracts are typically signed for the lifetime of a satellite, so revenues are highly visible - the order book represents 4.5 times annual revenues. This stability allows the company to support high levels of debt. Net debt currently stands at 3.5 times EBITDA, a level which management have indicated leaves significant financial firepower if an attractive acquisition target becomes available. Eutelsat's debt has a fixed rate of 3.8% and hence the recent turmoil in the credit markets will not affect results.

On our estimates, Eutelsat currently has an equity free cash flow yield of approximately 8%. Management are likely to use the cash to fund organic growth (such as the recently announced Ka-band satellite which opens up some interesting new revenue opportunities) and to acquire similar businesses. With a typical satellite costing around EUR 200m and having a 10-15% post-tax return, investments in new satellites create significant value for shareholders. Using conservative future growth assumptions we estimate that Eutelsat currently offers a return of at least 12.5% per annum in the foreseeable future and we believe it is at least 30% mispriced.

Top Five Long Holdings as at 31 August 2007

	Company	Country	Sector	% of NAV
1	Trader Media East	Netherlands	Media	5.2
2	TGS Nopec	Norway	Services	4.3
3	Sto	Germany	Construction	3.7
4	Atlantia	Italy	Services	3.7
5	Yell Group	United Kingdom	Media	2.8
				19.7

Exposure as at 31 August 2007

Longs %	Shorts %	Gross Exposure %	Net Exposure %
86.3 (82.4)	49.5 (39.0)	135.8 (121.3)	36.8 (43.4)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Belgium	0.4	0.4
Canada	0.2	-0.1
Denmark	2.6	-1.2
France	5.5	4.2
Germany	18.6	7.4
Italy	7.4	4.7
Luxembourg	1.9	1.9
Netherlands	8.4	4.1
Norway	25.2	13.3
Spain	1.8	-1.8
Sweden	8.8	4.1
Switzerland	9.2	-1.6
UK	30.6	3.4
US	8.2	-4.6
Other	7.0	2.6

Market Cap	Gross%	Net%
>£2bn	31.2	-0.5
£700m - £2bn	27.4	-1.3
£200m - £700m	38.0	10.1
<£200m	39.2	28.5

Sector	Gross%	Net%
Construction	5.6	5.6
Consumer	5.5	2.0
Energy	20.9	10.3
Engineering	3.6	-0.1
Financial	10.8	-2.4
Manufacturing	7.4	3.4
Media	20.0	16.4
Mining	0.5	0.5
Property	4.9	1.6
Retail	5.5	1.4
Semiconductors	1.0	-1.0
Services	12.6	9.3
Technology	18.6	-2.7
Transport	6.0	-1.4
Other	12.9	-6.1

Portfolio Activity

Figures in brackets refer to previous month end; * = positions >+/- 0.5% of NAV.

As at 31 August the Fund was invested in 86 (83)* stocks. We took advantage of the significant volatility during the month to increase both long and short exposure although our net exposure reduced from 43.4% to 36.8%. We added to several of our highest conviction positions, including Eutelsat and the directories publishers. We continued to take profit from our longstanding holding in Charter.

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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