Ennismore European Smaller Companies Fund

Investor Newsletter for the month of September 2007

Issued on 3 October 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 £186.5m as at 30th September. 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 30 September 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
September 07	**51.61**	**1.4**	**-0.2**	**73.94**	**-1.8**	**-3.2**	**1.7**
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
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	**51.61**	**6.9**	**6.3**	**73.94**	**3.2**	**2.8**	**7.6**
Annualised return[5]		**21.1**	**12.4**		**21.1**	**12.3**	**5.7**
Since launch (27/01/99)		**425.8**	**175.3**		**425.0**	**174.4**	**61.4**

[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

In Sterling terms the Fund's NAV increased by 1.4% in September. In Euros the NAV fell by -1.8% as the currency strengthened significantly during the month, up 3.2% against Sterling. The long book contributed 0.3% and our short exposure added a further 1.4%. Implied returns[1] were 0.3% on the long book and -2.7% on the short book, compared to a decrease of -0.2% in the HSBC index. The strongest performers were TGS Nopec and a short in the telecoms sector, both contributing 0.8%. During the year this short has been one of our most significant positions as we believe its business model, providing a standalone consumer Voice over Internet Protocol (VoIP) telephone service, is not sustainable. In September the company lost two patent infringement cases brought by incumbent telco operators, causing the share price to halve. The incremental operating costs required to work around these patents, as well as the damage to public perception of its brand, mean the company is now at serious risk of bankruptcy. Despite the fall in its share price this position is still equivalent to 0.7% of the Fund's NAV.

TGS Nopec – Norwegian oilfield services provider

TGS Nopec is a provider of geophysical data, or seismic, used by oil companies to increase the success rate of their offshore drilling for oil and gas. Ennismore's funds have been shareholders in the company since 2003 and have witnessed first hand TGS Nopec's management's impressive track record of creating shareholder value. Their high quality sales force, flexible cost structure and counter-cyclical investment philosophy have produced unrivalled returns on capital employed throughout the volatile cycles of the seismic industry. Contrary to popular opinion, the seismic industry is essentially a people business, and TGS Nopec have recruited and retained (98.5% retention rate) some of the best talent in the industry by means of profit sharing, management share ownership and an entrepreneurial corporate culture. The company's strategy of not owning vessels and focussing on multi-client surveys in mature basins, especially the Gulf of Mexico, has been extremely successful.

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.

In June of this year, TGS Nopec embarked on the acquisition of Wavefield Inseis, a Norwegian contract seismic company. This acquisition has now been approved and will be formally finalised in November 2007. Whereas many industry pundits regard the purchase of Wavefield Inseis as a failure of the "asset light" strategy advocated by TGS Nopec's management, we believe that it demonstrates their dynamic and flexible response to changing industry circumstances. Rather than this being a defensive move to protect its current business, TGS Nopec is making an offensive move to become the leading player in the fast growing Wide Azimuth (WAZ) market. WAZ technology is an open technology that was pioneered in 2004. Its advantage over traditional 3D seismic is its increased ability to locate hydrocarbons below salt and basalt geological structures. In terms of the impact for the seismic industry, we believe that the shift towards WAZ is comparable to the shift from 2D seismic to 3D seismic in the 1990s. Just as the advent of 3D allowed seismic companies to re-shoot their existing 2D libraries of seismic, WAZ will start a similar race to capture the most attractive acreage in the Gulf of Mexico and other regions. Realistically we believe there will only be three other players in the WAZ market - Western Geco (Schlumberger), CGGVeritas, and PGS - and raised entry barriers will lower price competition and enhance margins for this oligopoly.

TGS Wavefield has a market capitalisation of EUR 2,450m and trades at 8.4 times 2008 earnings and 7.8 times 2009 earnings, or a ratio of enterprise value to operating earnings of 5.0 and 4.3 respectively. Considering the superior track record of the management team, its more flexible cost structure (even post-acquisition), and its favourable prospects with WAZ, we believe that the company should trade at a premium to the industry. We derive a value per share of NOK 160, which translates into an upside from the current share price of 43%.

Top Five Holdings as at 30 September 2007

	Company	Country	Sector	% of NAV
1	Trader Media East	Netherlands	Media	5.2
2	TGS Nopec	Norway	Services	5.1
3	Sto	Germany	Construction	3.9
4	Atlantia	Italy	Services	3.7
5	Yell Group	United Kingdom	Media	2.7
				20.6

Exposures as at 30 September 2007

Longs %	Shorts %	Gross Exposure %	Net Exposure %
89.1 (86.3)	52.2 (49.5)	141.2 (135.8)	36.9 (36.8)

Figures in brackets refer to previous month end

Exposures by Country, Market Cap and Sector as % NAV as at September 2007

Country	Gross%	Net%
Belgium	0.5	0.5
Canada	0.2	-0.1
Denmark	2.8	-1.5
France	5.5	4.3
Germany	18.9	7.7
Italy	7.4	4.9
Luxembourg	2.0	2.0
Netherlands	8.5	4.0
Norway	27.8	13.8
Spain	1.8	-1.8
Sweden	9.4	4.6
Switzerland	9.3	-1.5
UK	29.9	3.7
US	8.2	-5.8
Other	9.0	2.1

Market Cap	Gross%	Net%
>£2bn	34.9	-3.3
£700m - £2bn	27.2	0.9
£200m - £700m	40.0	8.4
<£200m	39.1	30.9

Sector	Gross%	Net%
Construction	5.9	5.9
Consumer	6.5	0.6
Energy	21.3	8.9
Engineering	3.8	-0.5
Financial	12.7	-3.9
Manufacturing	7.3	4.0
Media	20.5	16.2
Mining	0.4	0.4
Property	4.9	1.7
Retail	5.8	1.9
Semiconductors	1.1	-1.1
Services	13.4	10.5
Technology	18.5	-2.0
Transport	6.3	-0.6
Other	12.8	-5.1

Portfolio Activity

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

As at 30th September the Fund was invested in 91 (86)* stocks. Our net exposure was little changed on the month.

Outlook

Despite the worst credit crisis in over a decade equity markets remain at or close to their peaks. We remain cautious of asset valuations in general but believe good investment opportunities remain on both the long side, due to the existence of overlooked situations where valuations are underpinned by fundamentals, and on the short side, where valuations are based on over optimistic expectations of sustainable future earnings. We believe that the outlook for the Fund remains positive.

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