Ennismore European Smaller Companies Fund

Investor Newsletter for the month of November 2007

Issued on 5 December 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 Financial Services Authority approval, registered in Ireland and listed on the Irish Stock Exchange. The Fund size was £176m as at 30th November. 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 November 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**
November 07	**50.96**	**-0.9**	**-6.9**	**71.38**	**-3.3**	**-8.8**	**-3.8**
October 07	51.43	-0.3	3.8	73.85	-0.1	3.8	2.9
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
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	**50.96**	**5.6**	**2.7**	**71.38**	**-0.4**	**-2.8**	**6.6**
Annualised return[5]		**20.5**	**11.7**		**20.2**	**11.4**	**5.4**
Since launch (27/01/99)		**419.2**	**166.0**		**406.9**	**159.6**	**59.8**

[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 a volatile month for equity markets the Fund's NAV ended 0.9% lower. In Euros the return was -3.3% as the currency appreciated 2.1% against Sterling. Our long book cost 6.5% while the Fund's short exposure contributed 4.9%. Implied returns[1] were -7.4% on the long book and -9.4% on the short book, compared to a fall of 6.9% in the HSBC index.

On the long side, three holdings – Broker Network, Active Subsea and Arrow Seismic – each received takeover offers, contributing 0.3%, 0.3% and 0.2% respectively. TGS Nopec was again weak, costing the fund 0.8%, as its protracted merger with Wavefield remained unresolved. The other major negative contribution came from Sto (-0.6%) which reported third quarter results below last year's level and a slightly more cautious outlook. Despite this the market valuation of Sto, at only 9 times our estimate of current year earnings, remains extremely attractive given the long term structural growth expected in demand for insulation.

Seat Pagine Gialle – Italian directories publisher

Seat Pagine Gialle is the leading yellow pages publisher in Italy with a 90% market share. It also operates directory businesses in other European countries. The group has a market capitalisation of €2.6bn and an enterprise value of €6bn, compared to revenues of €1.46bn and operating profit of €564m in 2006. The core Italian directory business generates about two thirds of total revenues but, with a margin of close to 49%, accounts for almost 90% of operating profit. The core operation's very high level of profitability, generating a normalised return on capital employed of over 100%, reflects the near monopoly nature of the traditional print business.

Revenues from yellow pages books have declined by 9.4% since the end of 2002, with the number of advertising customers falling 15.2% while revenue per advertiser (ARPA) has increased 6.7%. In part this reflects management's focus on revenue quality (growing ARPA) by reducing the level of volume discounts and bad debtors. At the same time usage of Seat's books has grown by 20% since

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[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.

2003, much faster than ARPA, implying customers' return on investment has increased significantly. As a result, although we think it is likely print revenues will begin to fall again after 2010, we are confident Seat will be able to meet its "inflation-like" growth target for 2008-10. Management has indicated that bookings to the end of October imply a decline of no more than 0.5% this year, compared to -3.9% in 2006, helped by the stabilisation of revenues from large and medium-sized customers (which account for 90% of sales) for the first time since 2002.

We believe Seat will replicate its market leading print position in online directories. They already reach 65% of the online audience in Italy and have direct relationships with over 600,000 businesses. While Google and Yahoo dominate the general search market they do not have anything like this level of local information and instead rely on Seat to answer business-specific local searches in Italy. We expect online revenue growth of close to 20% p.a. for the next three years based on the assumption that Seat can increase its online customer penetration (defined as online advertisers/print advertisers) to 34% in 2010, from 24% in 2006, while also modestly growing revenue per online customer. This implies online advertising will account for 18.7% of Seat's total Italian revenues by 2010.

Based on these revenue projections, and assuming that increased investment in sales and marketing reduces operating margins by 1.5% over the same period, Seat will generate about €825m of levered free cash flow over 2008-10. Interest charges over the period are relatively transparent as 85% of the group's debt is hedged up to 2010. This cash generation will enable management to reduce net debt and gradually bring the dividend payout ratio up to 100% in 2011.

Following the release of third quarter results slightly below consensus expectations the share price fell by over 20% in November. This reaction seems incredibly short sighted. At its current market value, we estimate Seat trades on a price earnings ratio of 10.5 times for 2007, falling to 9.7 times next year. Our analysis of the business suggests it has an intrinsic value of €0.50 per share, giving over 50% upside. If, however, the company maintains a more optimal capital structure it would comfortably be able to return excess cash of roughly €0.14 per share to shareholders in 2011. Were this to happen, as we believe is likely, the upside would be significantly higher.

Top Five Holdings as at 30 November 2007

	Company	Country	Sector	% of NAV
1	Trader Media East	Netherlands	Media	5.5
2	Atlantia	Italy	Services	4.4
3	TGS Nopec	Norway	Services	4.2
4	Sto	Germany	Construction	3.1
5	Yell Group	United Kingdom	Media	2.8
				20.0

Exposures as at 30 November 2007

Longs %	Shorts %	Gross Exposure %	Net Exposure %
87.2 (88.8)	49.1 (55.4)	136.3 (144.3)	38.1 (33.4)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 30 November 2007

Country	Gross%	Net%
Austria	2.2	-2.2
Denmark	1.0	0.4
Finland	1.0	-1.0
France	5.6	4.6
Germany	17.9	6.9
Italy	7.8	5.2
Luxembourg	2.4	2.1
Netherlands	7.9	3.4
Norway	22.6	13.4
Spain	2.0	-2.0
Sweden	9.8	4.4
Switzerland	9.1	-1.1
UK	33.6	6.3
US	8.6	-6.3
Other	4.8	4.0

Market Cap	Gross%	Net%
>£2bn	29.9	0.8
£700m - £2bn	23.6	0.0
£200m - £700m	43.5	8.0
<£200m	39.3	29.3

Sector	Gross%	Net%
Construction	5.9	4.2
Consumer	5.4	0.8
Energy	18.3	9.8
Engineering	1.4	1.4
Financial	12.9	-2.7
Manufacturing	7.2	3.7
Media	21.8	13.2
Mining	0.6	0.6
Property	6.0	1.9
Retail	5.9	2.1
Semiconductors	1.1	-1.1
Services	13.5	10.0
Technology	19.5	-1.3
Transport	4.3	-0.5
Other	12.5	-4.0

Portfolio Activity

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

As at 30th November the Fund was invested in 87 (92)* stocks. Our short exposure reduced during the month as we took advantage of significant price corrections to close some positions. However we remain conservatively positioned.

Outlook

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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