Ennismore European Smaller Companies Fund

Investor Newsletter for the month of March 2008

Issued on 4 April 2008

Important Notice

The number of shares in the Fund is currently limited to 3.85m. New investments will only be accepted if capacity is available, with priority being given to existing shareholders. If you would like to subscribe please call Emily Allen on +44 (0) 20 7368 4218 or email subs@ennismorefunds.com. 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 GBP 188.2m as at 31st March. 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 March 2008

Period	GBP Fund NAV[1] Per Share	GBP Fund NAV[2] Per Share % Change	GBP HSBC Index[3] % Change	EUR Fund NAV[1] Per Share	EUR Fund NAV[2] Per Share % Change	EUR HSBC Index[3] % Change	MSCI Index[4] % Change
March 08	**53.74**	**0.1**	**1.3**	**67.41**	**-4.2**	**-2.8**	**-2.5**
February 08	53.70	3.4	4.7	70.36	0.9	2.6	-0.3
January 08	51.93	-1.4	-11.0	69.73	-2.8	-12.5	-11.4
December 07	52.67	3.4	0.4	71.71	0.5	-2.8	-0.5
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
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	52.67	9.1	3.1	71.71	0.1	-5.5	6.0
2008 to date	**53.74**	**2.0**	**-5.5**	**67.41**	**-6.0**	**-12.8**	**-13.9**
Annualised return[5]		**20.4**	**10.6**		**18.6**	**9.0**	**3.5**
Since launch (27/01/99)		**447.5**	**152.2**		**378.7**	**120.1**	**36.9**

[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 Index, local currencies, total return. [5] Since inception, to date. Note: All performance figures net of fees.

Comments below on Performance are prior to expenses, exclude cash returns and refer to £ Sterling unless otherwise stated.

The Fund's NAV per share was little changed on the month in sterling but fell 4.2% in euros.
The long book cost 0.6%, against a contribution of 0.6% from our shorts. The most significant single attribution came from our largest short position, which cost the Fund 1.2% in March. The company, which operates exchanges for trading emissions permits in Europe and North America, reported 2007 results ahead of analyst expectations. While growth in volumes traded on their exchanges remains very strong the business is at a very early stage in its development and we are sceptical that it can generate anything like the profitability implied by its current valuation – it is expected to again make an operating loss in 2008 and, adjusting for outstanding options and contingent liabilities, is trading at close to 50 times sales. It is still very uncertain how this market will develop (the US exchange, for example, is based on a purely voluntary scheme with no legislatory backing) but, based on discussions with other exchanges, we believe it is highly likely that large competitors which have existing relationships with the company's client base will enter this product segment once it becomes better established. We remain convinced this position will prove to be an excellent short for the Fund.

Biesse – Italian machinery manufacturer

Biesse manufactures machinery for working wood, glass and stone. The company has a global presence although around two thirds of turnover is generated in Europe. Its main segment is wood-working machinery (75% of turnover), followed by glass and stone (17%) and Mechatronics (8%). Biesse is the third largest player in the €3.5bn wood-working machinery market with a 10% market share and is number one in both the €330m glass machinery and the €110m stone machinery markets, with market shares of 20% and 9% respectively. Most of its sales are to furniture producers (85% of turnover) with the largest customer accounting for only 3% of total revenue. Demand for Biesse's products is driven by an increased need from their customers for efficiency gains through automation.

The quality and market position of Biesse are reflected in its impressive post tax return on invested capital of around 20% and industry leading operating margins of 14% (this compares favourably to less than nine percent for their biggest competitor, Homag). Margins are supported by a continual focus on both standardising their products and consistently innovating. A persistent concentration on operating efficiency is reflected in management's recognition of and learning from companies which have shown very strong margin performance and working capital management, such as Toyota and Porsche, to further improve their own workflow processes. We believe operating margins could improve by three percentage points over the coming years due to this focus, although this is not in our base case assumptions.

In 2007 Biesse generated turnover of around €465m and an operating profit of over €65m, up 18% and 26% respectively, and ended the year with an order book up 12%. The company's three year business plan targets per annum growth of 8% in operating profit which we believe is conservative. The company is looking to buyback up to 10% of its own shares, is trading on a historic price to earnings ratio of under 10 times with no net debt, and is expected to generate over 30% of its market capitalisation in cash over the next three years. We believe the current valuation is a not fair reflection of the high quality nature of this business and implies a significant fall in its operating margin over the coming years. With a sustainable competitive edge we believe the company should trade on a 2008 enterprise value/operating profit ratio of eight times which gives more than 50% upside from the current €13.5 share price.

Top Five Holdings as at 31 March 2008

	Company	Country	Sector	% of NAV
1	Trader Media East	Netherlands	Media	8.7
2	TGS Nopec	Norway	Services	5.3
3	Atlantia	Italy	Transport	3.6
4	Sto	Germany	Construction	3.3
5	Petromena	Norway	Energy	2.6
				23.5

Exposures as at 31 March 2008

Longs %	Shorts %	Gross Exposure %	Net Exposure %
84.7 (81.8)	49.6 (46.3)	134.3 (128.1)	35.1 (35.5)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 31 March 2008

Country	Gross%	Net%
Austria	1.7	-1.7
Denmark	3.3	-1.4
Finland	2.1	-2.1
France	3.2	2.1
Germany	17.3	6.7
Greece	0.9	0.9
Ireland	2.5	1.6
Italy	8.6	5.6
Netherlands	10.5	7.3
Norway	24.9	14.0
Sweden	9.3	2.1
Switzerland	8.2	-0.2
UK	26.1	5.5
US	9.9	-7.4
Other	5.8	2.1

Market Cap	Gross%	Net%
>£2bn	19.7	-5.1
£700m - £2bn	32.1	-3.1
£200m - £700m	40.8	12.0
<£200m	41.7	31.3

Sector	Gross%	Net%
Construction	9.1	6.9
Consumer	6.6	-1.8
Energy	20.6	8.4
Financial	12.1	-6.8
Leisure	5.6	-3.9
Manufacturing	4.0	2.3
Media	21.1	16.2
Medical	3.0	-2.4
Property	5.1	2.1
Retail	9.3	4.8
Services	8.2	6.3
Technology	9.1	0.7
Telecoms	4.3	-1.4
Transport	8.2	3.3
Other	8.0	0.4

Portfolio Activity

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

As at 31 March the Fund was invested in 79 (79)* stocks. We remain cautiously positioned with a net exposure of 35%.

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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