Ennismore European Smaller Companies Fund

Investor Newsletter for the month of May 2008

Issued on 5 June 2008

Important Notice

The number of shares in the Fund is currently capped at 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 199.65m as at 31st 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 2008

	GBP			EUR			
Period	**Fund NAV[1] Per Share**	**Fund NAV[2] Per Share % Change**	**HSBC Index[3] % Change**	**Fund NAV[1] Per Share**	**Fund NAV[2] Per Share % Change**	**HSBC Index[3] % Change**	**MSCI Index[4] % Change**
May 08	**54.44**	**-0.5**	**1.3**	**69.23**	**-0.5**	**1.5**	**0.6**
April 08	54.71	1.8	1.3	69.60	3.2	2.5	6.2
March 08	53.74	0.1	1.3	67.41	-4.2	-2.8	-2.5
February 08	53.7	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
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	**54.44**	**3.4**	**-3.1**	**69.23**	**-3.5**	**-9.3**	**-8.0**
Annualised return[5]		**20.1**	**10.7**		**18.6**	**9.3**	**4.2**
Since launch (27/01/99)		**454.7**	**158.6**		**391.6**	**128.9**	**46.4**

[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 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 GBP unless otherwise stated.

The Fund's NAV decreased by 0.5% in May. Our long book contributed 0.8% and the Fund's short exposure cost 1.2%.

On the long side the largest contribution, adding 0.6%, came from oil rig owner Petromena, which was up 20% in May. There was no specific news on the company during the month but demand for rigs continues to be strong. The Brazilian national oil company Petrobras, for example, has started on a programme to secure a large number of deepwater rigs.

The other big contribution on the long side came from Atlantia. The share price increased 10% as the new Italian administration pushed forward legislative approval of the concession agreement between Atlantia's main subsidiary, Autostrade per l'Italia, and the regulator Anas. Although the contract has already been signed by both parties uncertainty over when it would receive legislative approval has weighed on the share price this year.

There was also positive news on our largest holding, Trader Media East. The company sold its small, loss-making Polish operation to media group Agora. The disposal, at an enterprise value of over seven times 2007 revenue, highlights the significant value of successful classified advertising media.

The short book cost us overall although there were no very significant contributions either way. Our short position in a UK home shopping retailer, now one of our largest, performed well despite the company reporting strong results at the end of April. Strong sales growth has been driven by a large and expanding subprime credit offering. We believe there is a significant risk that, with very high inflation in food and energy costs hitting lower income consumers hardest, the company will see both higher defaults and lower sales growth over the coming year. Despite this the stock is priced at a significant premium to the UK retail sector.

Against this, our short in a crude oil tanker owner cost the Fund. Day rates have risen significantly since early April, driven partly by Iran's decision to use tankers to store oil in the Persian Gulf, which has significantly reduced the short term supply of available very large crude carriers (VLCCs). The predictable consequence of higher rates, given the industry's low barriers to entry, has been a massive increase in newbuild orders, with about 50% more VLCCs ordered in the first half of 2008 than in the whole of 2007. In the medium term we expect new capacity will lead to a significant fall in tanker owner profitability as demand growth is unlikely to match fleet expansion.

Top Five Holdings as at 31 May 2008

	Company	Country	Sector	% of NAV
1	Trader Media East	Netherlands	Media	8.0
2	Atlantia	Italy	Transport	4.2
3	Sto	Germany	Construction	3.9
4	Petromena	Norway	Energy	3.6
5	TGS Nopec	Norway	Services	3.5
				23.2

Exposures as at 31 May 2008

Longs %	Shorts %	Gross Exposure %	Net Exposure %
82.6 (85.0)	52.1 (51.9)	134.8 (136.9)	30.5 (33.1)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Austria	1.6	-1.6
Denmark	3.4	-1.5
Finland	1.0	-1.0
France	3.0	1.9
Germany	18.2	6.7
Ireland	2.3	1.7
Italy	8.0	6.4
Luxembourg	0.9	0.9
Netherlands	10.2	6.4
Norway	24.0	13.4
Sweden	7.1	3.0
Switzerland	8.5	-0.2
UK	28.0	3.1
US	10.5	-8.0
Other	8.1	-0.7

Market Cap	Gross%	Net%
>£2bn	20.9	-8.0
£700m - £2bn	27.6	-3.3
£200m - £700m	48.5	15.6
<£200m	37.8	26.2

Sector	Gross%	Net%
Construction	8.5	7.5
Consumer	5.9	-2.4
Energy	21.4	8.6
Financial	11.6	-6.6
Leisure	7.2	-5.0
Manufacturing	3.6	1.9
Media	19.2	14.2
Medical	3.2	-2.3
Property	4.0	2.8
Retail	9.6	3.9
Services	8.7	7.3
Technology	10.8	-0.3
Telecoms	4.4	-1.3
Transport	8.4	2.4
Other	8.3	-0.2

Portfolio Activity

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

As at 31st May the Fund was invested in 85 (86)* stocks.

During the month we reduced our holding of TGS Nopec and acquired a corresponding position in Wavefield, at a 7% discount (in our favour) to the agreed merger ratio between the two companies. We continue to believe that the merger will go ahead at the agreed terms later this year.

We have also continued to add to our position in Irish building materials producer Kingspan. While overall construction demand is likely to weaken in many European countries over the next twelve to eighteen months, the company is focussed on the insulation segment which continues to benefit from the ongoing shift towards higher energy efficiency standards for buildings across the EU. The shares have been derated massively, down more than 70% from their peak roughly a year ago, and we conservatively estimate the business is now trading on a trough 2009 earnings multiple of around 11 times, with little net debt. By the end of 2009 Kingspan will have expanded its insulation production capacity significantly, driving strong earnings growth as construction demand recovers from 2010.

Outlook

We remain cautious of asset valuations in general but believe good investment opportunities remain on both the long side, where overlooked smaller companies can still be found on attractive valuations underpinned by strong fundamentals, and on the short side, where many 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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