Ennismore European Smaller Companies Fund

Investor Newsletter for the month of June 2008

Issued on 4 July 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 196.1m as at 30th June. 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 June 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
June 08	**52.84**	**-2.9**	**-9.6**	**66.74**	**-3.6**	**-10.3**	**-9.8**
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	53.70	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
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	**52.84**	**0.3**	**-12.4**	**66.74**	**-6.9**	**-18.6**	**-17.0**
Annualised return[5]		**19.6**	**9.4**		**18.0**	**7.9**	**3.0**
Since launch (27/01/99)		**438.4**	**133.8**		**373.9**	**105.3**	**32.0**

[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 per share fell by 2.9% in June. The long portfolio cost a disappointing 9.8% while the short book contributed 6.2%.

In particular there were two significant negative contributions from the long book. The share price of our largest long position, Trader Media East, fell by 15% on very limited volume, costing the Fund 1.2%. As we have discussed in previous newsletters, the market price has been extremely volatile since Turkish newspaper publisher Hurriyet acquired majority control last year. The underlying operating performance of the business continues to be strong, however, with good organic growth continuing in its core Russian market and we are confident in the long term value this will create.

More significantly, there was negative news on our long position in MPF, which cost the Fund 1.2%. The company announced construction costs for its multi-purpose offshore vessel had risen significantly, primarily due to changes to the design which are likely to result in the project being moved to a new shipbuilding yard. Because the company has high financial gearing, the equity value will be substantially diluted as a result of the increased cost and the share price fell very sharply in anticipation of this.

On the short side most positions contributed positively due to very weak equity markets in general. The most significant development was in relation to our short position in a Norwegian financial services company. Its share price fell 58% after its founder was charged with insider trading, fundamentally undermining the client trust on which this type of business is based. The company also reduced its profit guidance for the second quarter of 2008.

Kingspan – Irish building products manufacturer

Kingspan is the largest European producer of high performance foam insulation products, principally for use in industrial and commercial construction. While construction demand is likely to weaken in many European countries over the next twelve to eighteen months, the insulation segment continues to benefit from the ongoing shift towards higher energy efficiency standards for buildings across the EU. Kingspan has a dominant position in its core segments with, for example, around an 85% share of the insulated steel panel market in the UK and Ireland. It is also expanding capacity into new markets in Eastern Europe, Asia and North America.

Kingspan's main division, which we estimate accounts for over 60% of group operating profit, manufactures insulated steel sandwich panels. The main use for this product is in the walls and roofs of industrial and commercial buildings, such as warehouses and out-of-town retail sites. Geographically the division is increasingly well diversified - in 2008 we estimate about 40% of panel revenues will be generated in the UK and Ireland, with about 10% in the rest of Western Europe (principally the Benelux countries), 40% in Eastern Europe (including Turkey) and 10% in the rest of the world. While sales are sharply down in the UK this is largely being offset by strong growth elsewhere. The main issue in the short term is their ability to pass through steel price inflation to the end customer. Management are confident they are, and will continue to achieve this, but have also emphasised the lag of several months between order intake and price put throughs which will weigh on margins this year.

Kingspan also produces polyurethane insulation boards which are used in residential and commercial construction, with about half of division revenues coming from each end market. The product is essentially a commodity but Kingspan have been able to achieve very high returns on invested capital by driving product penetration, at the expense of more traditional insulation products like polystyrene, and developing higher specification products. In particular, they are the only significant UK producer of very high performance phenolic board, which we estimate accounts for almost a quarter of division revenues.

The remaining 25% or so of group operating profit comes from a mixture of smaller operations covering structural building products, environmental products and a raised access flooring business. The latter is highly cyclical and currently operating at peak margins. In the long run we assume it will, over the cycle, be a relatively small part of the profit mix. Of more significance are structural products and, in particular, the off-site timber frame construction businesses that management acquired over the last few years. These were clearly bought for their strategic value as timber frame buildings can be pre-insulated. They also appear to have met the other, less flattering definition of strategic acquisitions – that is, over-priced. While this is a cause for concern – we are always very focussed on how managements allocate capital and are very wary of the risks of "diworseification" – the effect has been to refocus the business on mostly organic investment in the core insulation activities.

Kingspan shares have been massively de-rated since their peak just over a year ago, falling from over EUR 22 to less than EUR 6 today. While we remain more conservative than analyst consensus for both 2008 and 2009 the valuation is now striking – at under ten times trough earnings in the short term and a discount of more than 75% to our estimate of long term fair value – and we have been adding to our position at this level. Company management appear to share our view, with significant insider buying by several directors and operational management and a program to buy back 10% of the share capital this year.

Top Five Holdings as at 30 June 2008

	Company	Country	Sector	% of NAV
1	Trader Media East	Netherlands	Media	6.9
2	Petromena	Norway	Energy	4.3
3	Sto	Germany	Construction	4.0
4	Atlantia	Italy	Transport	3.7
5	TGS Nopec	Norway	Services	3.1
				22.0

Exposures as at 30 June 2008

Longs %	Shorts %	Gross Exposure %	Net Exposure %
76.3 (82.6)	47.2 (52.1)	123.5 (134.8)	29.0 (30.5)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 30 June 2008

Country	Gross%	Net%
Austria	1.4	-1.4
Denmark	4.2	-2.5
France	2.5	1.5
Germany	16.7	6.6
Greece	0.9	0.9
Ireland	2.3	1.9
Italy	6.7	5.4
Luxembourg	0.9	0.9
Netherlands	7.7	6.7
Norway	22.4	13.0
Sweden	7.6	2.7
Switzerland	8.3	0.0
UK	26.3	3.3
US	9.1	-6.6
Other	6.5	-3.4

Market Cap	Gross%	Net%
>£2bn	17.4	-5.3
£700m - £2bn	26.3	-6.8
£200m - £700m	45.1	18.4
<£200m	34.7	22.7

Sector	Gross%	Net%
Construction	8.8	8.1
Consumer	8.1	-3.1
Energy	19.6	8.1
Financial	9.7	-5.6
Leisure	6.9	-4.7
Manufacturing	3.3	1.8
Media	16.3	12.4
Medical	2.7	-1.7
Property	3.5	3.0
Retail	6.8	5.5
Services	7.9	6.5
Technology	10.2	0.0
Telecoms	4.2	-0.9
Transport	8.2	0.3
Other	7.3	-0.7

Portfolio Activity

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

As at 30 June the Fund was invested in 73 (85)* stocks. The Fund's gross exposure decreased during the month while the net exposure remains relatively low, reflecting our continued caution towards asset valuations in general.

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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