Ennismore European Smaller Companies Fund

Investor Newsletter for the month of July 2008

Issued on 6 August 2008

Important Notice

The number of shares in the Fund is currently capped. 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 has an "A" S&P Fund Research Fund Rating. The Fund size was GBP 195.7m as at 31st July.

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 July 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
July 08	**52.76**	**-0.2**	**-4.6**	**66.98**	**0.4**	**-4.1**	**-1.9**
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
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	**52.76**	**0.2**	**-16.5**	**66.98**	**-6.6**	**-21.9**	**-18.6**
Annualised return[5]		**19.3**	**8.8**		**17.8**	**7.4**	**2.8**
Since launch (27/01/99)		**437.6**	**123.1**		**375.6**	**97.0**	**29.5**

[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 was little changed in July. Our long book cost 2.5% while the Fund's short exposure contributed 2.4%.

The largest contribution, adding 0.5% to the Fund, came from our long position in Maritime Industrial Services. The company's share price rose 35% in July after it announced a USD 335m contract for the design and construction of two offshore rigs. This takes the total order backlog to USD 480m, USD 110m ahead of the same time last year.

Our position in buy-to-let mortgage lender Paragon also contributed positively, adding 0.2% to the Fund, after the company confirmed it has entered into exploratory talks with, and is providing due diligence access to, potential buyers.

Atlantia cost the Fund 0.4%. Despite the new concession contract the stock continues to be weighed down by concern that the correlation between traffic volumes and petrol prices, which has historically been very low, may increase in future.

The largest contribution on the short side, adding 0.4%, came from our position in a renewable energy supplier (which we first covered in the October 2007 newsletter). As we expected management announced it needed to raise a large amount of new capital, with an equity fundraising worth one and half times the company's current market capitalisation planned. Assuming this is successful, the proceeds will primarily be used to pay down short term debt. Existing shareholders will be massively diluted and we continue to see little value in the company's equity.

A similar need of short-term funds led another of our large, long-term shorts (a telecoms service provider first covered in the September 2007 newsletter) to agree to an expensive refinancing in July. While the full details of this have not yet been made public we expect the cash interest charge is likely to be about three times the previous rate. Even without this extra burden the business remains loss-making at the operating level. The position contributed 0.2% in July and the share price has continued to fall since then.

Top Five Holdings as at 31 July 2008

	Company	Country	Sector	% of NAV
1	Trader Media East	Netherlands	Media	6.5
2	Petromena	Norway	Energy	4.1
3	Sto	Germany	Construction	3.8
4	Atlantia	Italy	Transport	3.3
5	TGS Nopec	Norway	Services	3.1
				20.8

Exposures as at 31 July 2008

Longs %	Shorts %	Gross Exposure %	Net Exposure %
76.5 (76.3)	43.4 (47.2)	119.9 (123.5)	33.1 (29.0)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Denmark	4.1	-2.4
Finland	1.1	-1.1
France	2.1	1.0
Germany	16.3	7.1
Greece	0.9	0.9
Ireland	2.7	2.5
Italy	6.1	4.9
Luxembourg	0.8	0.8
Netherlands	7.3	6.4
Norway	23.2	15.4
Sweden	8.0	2.6
Switzerland	7.4	0.8
UK	26.1	2.9
US	8.4	-6.2
Other	5.4	-2.5

Market Cap	Gross%	Net%
>£2bn	13.7	-2.6
£700m - £2bn	26.2	-10.8
£200m - £700m	42.8	22.5
<£200m	37.2	24.0

Sector	Gross%	Net%
Construction	9.8	8.4
Consumer	9.4	-2.9
Energy	19.3	9.4
Financial	8.5	-4.1
Leisure	7.2	-4.9
Manufacturing	3.1	1.8
Media	16.1	11.6
Medical	3.0	-1.8
Property	3.6	3.3
Retail	5.1	4.2
Services	7.9	6.7
Technology	9.8	0.9
Telecoms	3.9	-0.5
Transport	7.8	1.2
Other	5.4	-0.2

Portfolio Activity

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

As at 31st July the Fund was invested in 69 (73)* stocks. There were no significant changes to the Fund's portfolio in July. Our first priority, as ever, is to preserve capital and, despite our taking advantage of volatile equity markets to reduce some short positions, the Fund remains very cautiously positioned with net exposure close to 30%. While we see little positive newsflow emerging any time soon, we are excited by the number of excellent potential long term investment opportunities we are seeing in smaller companies, where prices have often fallen massively, and we would expect the Fund's net exposure to have increased by the end of the year.

Outlook

We remain cautious of asset valuations in general but believe good investment opportunities exist on both the long side, as prices are falling to levels where valuations are fully 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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