Ennismore European Smaller Companies Fund

Investor Newsletter for the month of September 2008

Issued on 7 October 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 162.6m as at 30th September.

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 September 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
September 08	**49.00**	**-8.5**	**-17.4**	**62.18**	**-6.2**	**-16.0**	**-11.8**
August 08	53.53	1.5	6.1	66.32	-1.0	3.5	2.5
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
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	**49.00**	**-7.0**	**-26.9**	**62.18**	**-13.3**	**-32.1**	**-26.4**
Annualised return[5]		**18.1**	**7.2**		**16.6**	**5.7**	**1.6**
Since launch (27/01/99)		**399.3**	**95.3**		**341.5**	**71.4**	**17.1**

[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 8.5% in September, our worst ever month. This disappointing performance included a provision in full for the Fund's exposure to Lehman Brothers, which reduced the NAV by 1.8%. The long book cost 16.6% and the short book contributed 10.2%.

There was little significant newsflow on our portfolio during the month and most investors focussed on macroeconomic developments. The apparent inability of the global financial system to cope with the bankruptcy of a major investment bank, and uncertainty over the level of government intervention that would be provided as a result of this, caused most European equity indices to fall by between ten and fifteen percent in September.

More directly, the Fund was exposed to Lehman as a counterparty for contracts for difference (CFDs), through which the Fund obtains short exposure to individual equities. The Fund's total exposure to Lehman, consisting of unrealised profit on CFDs and related collateral, amounted to 1.8% of NAV and we have conservatively provided for this amount in full. The Fund is now a creditor to the bankrupt entity. While we hope to recover a significant proportion of the value of these assets there is, as yet, no information on which we can estimate how much this will be or when it will be received. Consequently we consider a full write down to be the most appropriate accounting treatment for the determination of NAV.

It is worth emphasising that the vast majority of the Fund's assets are held in custody by a subsidiary of State Street, a double A rated financial institution which is the world's leading provider of custody services to mutual funds. The Fund's remaining CFDs are held across three counterparties (Goldman Sachs, Morgan Stanley and UBS) to which the Fund's total exposure was 1.7% of NAV at the end of September. The Fund has benefited significantly from the short exposure gained through CFDs, which has contributed 26% to returns so far this year, and we will continue to use them in future. Aside from this the Fund is not materially exposed to any other counterparties.

JD Wetherspoon – UK pub company

JD Wetherspoon is a managed pub operator in the UK with an estate of around 700 pubs. The company's pubs are among the lowest cost operators in the market, benefiting firstly from purchasing scale (they are c.5% of the market by value with a focussed product offering) and secondly the managed model: around half of all UK pubs are operated on a tenanted model whereby the tenant pays the landlord a 'wet rent', meaning their beer cost is typically over double that of a Wetherspoon pub. While not immune from the weakening consumer environment Wetherspoon's value for money offer should allow them to take share from the competition, as they did in the early nineties. They are typically around 20-25% cheaper for a round of drinks than their local competitors.

Wetherspoon's financial position, with net debt of just over three times historic EBITDA, compares very favourably to many of its listed peers, reflecting the fact that management has been concentrating on maximising the operating performance of its estate rather than trying to optimise short term returns through financial engingeering (a strategy which has left the tenanted pub companies dangerously close to destroying all of their equity value). This focus on longer term earnings growth is, in part, a reflection of shareholder and management interests being aligned, with Executive Chairman Tim Martin owning 24% of the company. By contrast to Wetherspoons, which continues to open up new pubs, the overall market is shrinking with the current run rate for pub closures at around 3% and likely to accelerate in the downturn.

JD Wetherspoon is a highly cash generative business with maintenance capex (that is, capex before new openings) less than half its very conservative depreciation charge. This means its estimated price to earnings ratio of 8.2 times the year to July 2009 translates into a free cash flow yield of over 20%. This is an extremely attractive return for shareholders of a well run, defensively positioned business with a strong, focussed management. We think a free cash flow yield at half the current level would be fair, implying the shares are worth around double their current level. In our worst case scenario, assuming life for like sales fall by five percent in each of the next two years, the company would still generate a six percent free cash flow yield, which we see as a very good margin of safety.

Top Five Holdings as at 30 September 2008

	Company	Country	Sector	% of NAV
1	Trader Media East	Netherlands	Media	7.3
2	Sto	Germany	Construction	3.4
3	Petromena	Norway	Energy	3.2
4	TGS Nopec	Norway	Services	2.6
5	Atlantia	Italy	Transport	2.6
				19.1

Exposures as at 30 September 2008

Longs %	Shorts %	Gross Exposure %	Net Exposure %
68.5 (79.7)	40.2 (49.9)	108.7 (129.6)	28.3 (29.9)

Figures in brackets refer to previous month end.

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

Country	Gross%	Net%
Belgium	0.8	0.6
Denmark	4.0	-2.3
France	3.9	-0.5
Germany	15.0	6.0
Greece	0.8	0.8
Ireland	2.5	2.2
Italy	4.4	3.2
Luxembourg	0.9	0.9
Netherlands	8.0	7.2
Norway	18.5	12.5
Sweden	6.8	1.4
Switzerland	7.2	0.1
UK	23.5	4.1
US	7.7	-5.1
Other	4.7	-2.8

Market Cap	Gross%	Net%
>£2bn	11.2	-1.6
£700m - £2bn	16.1	-11.1
£200m - £700m	40.1	12.6
<£200m	41.3	28.4

Sector	Gross%	Net%
Construction	9.0	7.1
Consumer	7.3	-2.7
Energy	16.3	8.0
Financial	7.2	-3.2
Leisure	6.9	-4.1
Manufacturing	3.3	1.7
Media	14.6	10.2
Medical	4.4	-3.0
Property	3.6	3.3
Retail	5.7	3.3
Services	7.0	5.4
Technology	8.5	1.9
Telecoms	4.1	-0.3
Transport	6.0	0.8
Other	4.8	-0.1

Portfolio Activity

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

As at 30th September the Fund was invested in 66 (78)* stocks. We took advantage of the extreme volatility in equity markets during the month to significantly reduce the Fund's gross exposure, whilst maintaining a relatively cautious net position.

Outlook

Fear has now become the driving force of equity markets with forced selling by highly leveraged investors creating a vicious cycle that we expect to continue for several months, at least. In response we have significantly reduced the gross exposure of the Fund. We believe the coming months will provide the perfect environment for value focussed investors who are willing and able to take a two to three year view. With no leverage and a broad shareholder base the Fund is in an excellent position to exploit this. As such, we believe that the outlook for the Fund remains positive.

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