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The Cayenne Trust plc August 2006

Fund Description

The Cayenne Trust plc aims to achieve consistent positive absolute returns by investing principally in the securities of UK investment trusts and other closed-end funds. The Trust will seek to ensure preservation of capital by the use of derivatives or similar hedging instruments. Up to 15 percent of the Trust's assets, at the time of investment, may be invested in Apollo Fund plc, an offshore fund which is managed by Cayenne Asset Management Ltd.

Investment Manager's Report

Summer dragged on with markets experiencing one of their quietest months in recent memory. With the exception of the UK, equity markets performed well in the face of receding economic and geo-political fears. Asia led the way, with Japan posting gains in excess of 4%. Europe also performed well, despite the spectre of further rate rises; France and Germany both appreciated by 3%. This year's laggard, the S&P 500, appreciated by 2% as the Fed began to signal a more benign environment ahead. Paradoxically, shares in the UK were little changed as gains in the smaller companies were offset by a decline of 0.4% in the FTSE 100 index. The FTSE 350 Equity Investment Instruments Index, the Fund's most relevant benchmark, returned a little over 1% on exceptionally light volume, while un-hedged exposure to the US\$ continued to weigh on the sector. The Trust experienced an uneventful month with the NAV increasing by 0.40% while the price declined by 2.44%. This equates to an NAV loss of 0.47% for the financial year to date but a price gain of 2.09%.

There was very little portfolio activity during the month due to 'stagnant' valuations and low sector turnover. Profit was taken on two positions; British Empire and Ecofin Water & Power capital shares. The former, which was purchased at NAV earlier in the year, returned to an unsustainable premium of 7% and was therefore sold. Ecofin has performed exceptionally well recently, but fears that this highly leveraged stock may be over-valued led to the realisation in case of further market weakness. In contrast, some existing positions were added to. The Trust continued to buy Impax Environmental warrants and both the ordinary shares & warrants of Utilico Emerging. In addition, a small position in Melchoir Japan, which suffered a disastrous debut, was increased to take advantage of any recovery. The purchase of Manchester & London was also completed in August. The manager of this trust has a unique investment style and the opportunity was taken to purchase at a discount to NAV in a placing.

Apollo Fund plc, the Trusts largest holding, also experienced a quiet month with the NAV increasing 0.82%. The hedge position was maintained to provide protection against potential market weakness.

Top Ten Holdings				Underlying Exposure		Trust Details		Ordinary Shares	
Apollo Fund	13.7%	UK	44.9%	NAV per Share		109.38p			
Scottish Mortgage	8.9%	N. America	10.4%	Price per Share		109.75p			
Edinburgh	7.5%	Europe	18.4%	Premium / (Discount)		0.34%			
Electric & General	6.3%	Asia	6.7%	Net Assets		£46.46m			
Monks	5.5%	Japan	3.3%	Gross Assets		£56.46m			
JPM Fleming Merc	4.8%	Other	3.3%	Market Cap		£46.62m			
Real Est Opps ZDP	4.5%	Cash & FI	10.1%	August NAV Return		0.40%			
Perpetual Inc & Grth	4.1%	Derivatives	2.9%	Financial YTD NAV Return		(0.47)%			
Utilico Emerging	3.9%			IRR since inception		(0.82)%			
Murray Income	2.8%			Financial Year-end		31 January			
				Ordinary Shares	(TCT)	42,475,143			
				CULS	(TCTL)	10,000,000			
				Management Fee:		1%			
				Performance Fee:		10% above hurdle rate			
				Hurdle Rate:		5% per annum			
				High Water Mark:		Yes			

Data source: Phoenix Administration Services Ltd. / Cayenne Asset Management Ltd

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