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The Cayenne Trust plc August 2009

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

The summer rally continued throughout August with the FTSE 100 Index and MSCI World (£) Index both gaining by 6.5%. Markets responded positively to news flow which beat much reduced expectations as it became clear that further financial distress has, for now, been avoided. Market movements were exaggerated as trading volumes remained thin, particularly in the investment company sector, where market participants largely remained on the sidelines. Now that the holiday period is behind us, investors will place greater emphasis on forward-looking indicators to justify the recent return to favour of risk assets. The FTSE 350 Equity Investments Instruments Index marginally underperformed wider equity markets gaining 5.6% over the month. As reported last month, the Trust is conservatively positioned and thus the NAV lagged its most relevant Index gaining 3.5% in August, resulting in an NAV return of 31.5% for the Trust's financial year to date.

Positive market moves enabled some continued profit taking across the portfolio; small positions in The Mercantile Trust and Jupiter European were sold in their entirety. One of the Trust's longest held investments, Scottish Mortgage, was also sold as this higher risk position is likely to underperform significantly during any equity market decline. Other positions to be significantly reduced on valuation grounds included ING UK Real Estate, EP Global Opportunities and Gartmore Irish. The latter is to tender for 30% of its shares at a discount of 8%. The Trust took advantage of market interest to sell some of its position ahead of the tender.

With caution being utmost at present, less than half of the cash raised from these sales was re-invested in the market. Selective acquisitions were made in existing portfolio positions where relative or absolute value appeared. The Trust re-established a holding in British Empire at close to a 5% discount; a level not witnessed for many months. While small at present, exposure may be increased if markets retreat or valuation levels deteriorate. Anglo & Overseas was purchased as a direct replacement for the more expensive stable-mate EP Global. Independent Investment Trust began to repurchase shares at a 15% discount to NAV and this action prompted a further investment by the Trust; as the board of Independent are clearly mindful of the valuation of their shares and this allows for an increased position within the portfolio. Positions in Finsbury Worldwide Pharmaceutical, JP Morgan Overseas and Invesco UK Select were also increased at their respective discount control limits.

The Company remains well hedged against the potential for renewed stock market weakness. Indeed, the hedge position was increased marginally over the month although, on a delta adjusted basis, the short position on the FTSE 100 remains equivalent to approximately 40% of the invested portfolio. 17% of the Company's assets are currently held in cash or Gilts and a further 15% is invested in convertible loan stocks and similar fixed interest securities.

The NAV of Apollo Fund plc, the Trust's largest single position, increased 6.37% in August.

Top Ten Holdings				Underlying Exposure		Trust Details		Ordinary Shares	
Ecofin Water & Pwr	9.7%	UK	28.5%	NAV per Share (Diluted)		111.93p			
Apollo Fund	6.5%	N. America	12.3%	Mid-price per Share		106.00p			
3i Group culs	5.1%	Europe	19.7%	Premium / (Discount)		(5.30%)			
3i Infrastructure	4.5%	Asia	10.1%	Net Assets		£37.94m			
Treasury 4¼% 2011	4.5%	Japan	2.4%	Gross Assets		£47.16m			
Electric & General	3.8%	Other	9.9%	Market Cap		£35.55m			
JPM Overseas	3.8%	Cash & FI	17.0%	August NAV Return		3.46%			
Law Debenture	3.7%	FTSE 100	(40.3%)	Financial YTD NAV Return		31.48%			
Gartmore Irish	3.4%			IRR since inception		1.65%			
China Real Estate	3.1%			Financial Year-end		31 January			
NAV Performance to 31 August 2009				Ordinary Shares	(TCT)	33,536,950			
3 Months	6 Months	1 Year	3 Years	CULS	(TCTL)	9,171,000			
9.34%	40.96%	6.72%	6.53%	Subscription Shares	(TCTS)	6,726,690			
				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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