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## The Cayenne Trust plc August 2007

### 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

Sub-prime mortgage defaults continued to weigh heavily in August, impacting volatility, liquidity and sentiment. Credit markets have borne the brunt of recent events and selected financial stocks sold off quite savagely as names such as Bear Stearns, Goldman Sachs and BNP all admitted being exposed to or victims of a liquidity squeeze in the short term commercial paper markets. At the height of the turmoil, the Federal Reserve cut its discount rate in order to ease the pressure on the banking system. Only time will tell if this was a master stroke in the style of the so called 'Greenspan Put' or whether, in the long run, it has fuelled an already dangerously over-heated situation. Financial markets are likely to remain volatile for some time with uncertainty surrounding how the health of the wider global economy will be affected and how central banks will react to any further volatility. Despite markets being 5-10% lower at various stages of the month the FTSE 100 Index fell only 0.89%, the DJ Euro Stoxx 50 declined 0.49%, while the S&P 500 recovered strongly towards the end of August, actually ending up by 1.28%. The Trust's most relevant index, the FTSE 350 Equity Investment Instruments Index declined 1.04% over the month. The Cayenne Trust plc's NAV was down 1.89% during August, with the discount narrowing to 0.58%, as the price fell 0.75p.

The holding in Advance UK Trust was sold back to the company at the beginning of the month raising some valuable liquidity ahead of the market turbulence. Both RIT Capital and Murray International were also sold as valuations became stretched. Two core value holdings within the portfolio underperformed during August; Utilico and Hansa were marked down as some of their larger holdings exhibited unusual weakness during the most volatile sessions. However, the underlying value within the respective portfolios and the long term track records of the managers suggest that this de-rating was overdone and their prospects for recovery are strong. Trading during the month was difficult as few market makers were prepared to commit capital to facilitate activity. However, real value did appear in several stocks that had been under review and by month end the Fund had utilised all available liquidity to take advantage of these opportunities. A new position was purchased in ING Real Estate at a discount of 22%. This trust recently traded at a premium of 15%, which gives some indication of the de-rating that property trusts have experienced this year. A small investment was made in Advance Frontier warrants. This trust invests in the sub-emerging markets and the management company have a strong track record in this area. Finally, a new position was taken in Ecofin Water & Power Income shares yielding in excess of 7.5%. The positions in Gartmore Irish, EP Global and Schroder Income Growth were also increased at attractive discounts.

In terms of the hedge book, several FTSE 100 Put Spread warrant positions were traded to take advantage of the high levels of volatility. Apollo Fund plc's NAV, the Trust's largest position, fell 1.37% in August.

Top Ten Holdings		Underlying Exposure		Trust Details		Ordinary Shares
Apollo Fund	14.0%	UK	37.2%	NAV per Share		122.96p
Electric & General	6.7%	N. America	10.2%	Mid-price per Share		122.25p
Scottish Mortgage	6.1%	Europe	14.7%	Premium / (Discount)		(0.58)%
Ecofin Water & Pwr	5.6%	Asia	7.4%	Net Assets		£52.23m
Utilico	4.8%	Japan	2.7%	Gross Assets		£62.30m
Treasury 7¼% 12/07	4.8%	Other	14.2%	Market Cap		£51.93m
Fidelity Special Val	4.7%	Cash & FI	9.7%	August NAV Return		(1.89%)
Monks	4.6%	Derivatives	3.9%	Financial YTD NAV Return		3.72%
Perpetual Inc & Grth	4.0%			IRR since inception		7.88%
Real Est Opps ZDP	4.0%			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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