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The Cayenne Trust plc December 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, will be invested in Apollo Fund plc, an offshore fund which is managed by Cayenne Asset Management Ltd.

Investment Manager's Report

The US Dollar stabilised during the month of December as investors now seem to be more optimistic that the economy is robust enough to avoid a damaging slowdown. It is likely to take a number of months for definitive evidence of the true health of the economy to become clear. In the meantime, volatility surrounding economic data releases can be expected. Equities enjoyed a strong final month of the year. The FTSE 100 gained 2.8%, but large-cap stocks continued to underperform their mid and smaller cap rivals, which helped the FTSE All-Share appreciate by 3.3%. European stocks continued to perform well, the DJ Euro Stoxx 50 gained 3.3%, while in the US, the S&P 500 rose by 1.3%. The Trust's most relevant index, the FTSE 350 Equity Investment Instruments Index made solid gains of 2.9%. The Trust experienced a positive return in December with the NAV increasing by 2.0%. The price, however, was unchanged over the month. This equates to an NAV gain of 7.2% for the financial year to date and a price appreciation of 8.6%. The Trust's year end is 31st January.

In terms of portfolio activity, the board of Henderson Strata put forward interesting proposals which it is believed will enhance the reputation of this trust and should, over time, improve performance and lead to a re-rating of its shares. The appointment of James Henderson as manager and the re-focusing of the portfolio bode well for the future of this trust and the opportunity was taken to purchase shares at a 10% discount to NAV. The only significant sale during the month was that of part of the holding in Advance UK after the board committed to maintain the discount level at 5% or less by buying shares into treasury. Listing rules preclude TCT from investing more than 10% of its assets in this type of vehicle and it was felt that other opportunities, such as Hansa Trust, provided greater upside potential in the longer term. Real Estate Opportunities zeros, one of the Fund's larger positions, suffered a minor set-back after the announcement that the trust had acquired Battersea Power Station in London. In the short term, this increases the perceived risk associated with the zeros due to increased leverage. However, it is believed that in the longer term, the zero share class will benefit from a steady stream of development activity, improved asset backing and better analyst coverage following this landmark deal.

The puts for December, purchased early in 2006, expired during the month. These had already been partially replaced in November and the process of taking on further protection to September 2007 is underway. Apollo Fund, the Trust's largest position, experienced a quiet month, with the asset value increasing by a modest 0.39%.

Top Ten Holdings		Underlying Exposure		Trust Details		Ordinary Shares	
Apollo Fund	14.2%	UK	42.3%	NAV per Share		117.83p	
Scottish Mortgage	8.7%	N. America	10.8%	Mid-price per Share		116.75p	
Electric & General	6.7%	Europe	13.5%	Premium / (Discount)		(0.92)%	
Perpetual Inc & Grth	6.2%	Asia	7.3%	Net Assets		£50.05m	
Monks	5.4%	Japan	3.9%	Gross Assets		£60.27m	
Real Est Opps ZDP	4.2%	Other	11.4%	Market Cap		£49.59m	
Utilico Emerging	4.1%	Cash & FI	9.0%	December NAV Return		2.0%	
Fidelity Spec. Values	3.7%	Derivatives	1.8%	Financial YTD NAV Return		7.2%	
TR European Growth	2.8%			IRR since inception		7.9%	
Herald	2.7%			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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