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## The Cayenne Trust plc December 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

Economic concerns continued to dominate financial news in December and intra-day volatility remained historically high. The Bank of England cut interest rates 0.25% with many commentators expecting further cuts in the coming months, despite rising inflation. Sterling finally started to depreciate against the US Dollar as the UK economy showed further signs of weakness. The price of oil rose close to US\$100 a barrel, while global investors faced an uncertain outlook in most markets and asset classes. The MSCI World Index fell 1.37% and in the US, the S&P 500 was down just under 1%. The FTSE 100 appreciated by 0.38%. The Trust's most relevant index, the FTSE 350 Equity Investment Instruments Index, declined 1.78%. Against this background the Trust's NAV increased 0.59%, resulting in a total return of 1.8% for the financial year to date.

Despite the extensive discount control mechanisms in place, discounts within the investment trust sector continued to widen during the month. This completes a difficult year when discounts widened across the sector by over 5%. It is worth noting that while the Trust will always attempt to mitigate market risk it is impossible to hedge the adverse movement in the discounts of its holdings. The majority of holdings do have share buyback provisions in place or are in specialist sectors where liquidity is less of a problem.

The relative performance of many of the Trust's underlying holdings has been very satisfactory. However, the widening discounts reflect a distinct lack of buyers (other than company share buyback schemes) as investor sentiment turned against equity markets towards the year end. This has been further compounded by a continuing lack of liquidity being provided by market makers. The Trust continues to be well placed to profit from the inevitable reversal of this trend. It is also well positioned to take advantage of any new investment opportunities arising in the sector and several are currently under close review. The positions in Hansa and Caledonia were both increased at favourable discounts to NAV. A small subscription was undertaken in a placing by Utilico Emerging Markets. This trust has been a major holding of the Trust via the company's warrants. Following the recent stock market turmoil, the managers remain confident of the favourable opportunities available within the specialist sector of emerging markets infrastructure. The long awaited announcement from Real Estate Opportunities regarding its zdps was made in December and although positive for holders of the zdps, general investor apathy towards commercial real estate has so far held back any uplift in the price.

The hedge book was adjusted to ensure that the delta exposure was maintained at appropriate levels. To comply with its stated discount control policy, the Company repurchased 207,000 shares. The NAV of Apollo Fund plc, the Trust's largest position, increased 0.49% over the month.

Top Ten Holdings		Underlying Exposure		Trust Details		Ordinary Shares
Apollo Fund	14.2%	UK	31.5%	NAV per Share		120.67p
Scot Mortgage	6.7%	N. America	9.2%	Mid-price per Share		116.00p
Ecofin Water & Pwr	6.4%	Europe	15.5%	Premium / (Discount)		(3.87%)
Electric & General	6.3%	Asia	8.6%	Net Assets		£50.20m
Monks	5.2%	Japan	2.1%	Gross Assets		£60.43m
Utilico	4.5%	Other	15.2%	Market Cap		£48.26m
Real Est Opps ZDP	4.1%	Cash & FI	14.0%	December NAV Return		0.59%
Perpetual Inc & Gth	4.0%	Derivatives	3.9%	Financial YTD NAV Return		1.80%
Schroder Inc Gth	3.4%			IRR since inception		5.46%
Caledonia	3.3%			Financial Year-end		31 January
				Ordinary Shares	(TCT)	41,605,643
				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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