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The Cayenne Trust plc December 2008

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 beginning of December saw further weakness in global financial markets, before a rally over the traditionally quiet festive period saw markets rebound strongly leaving many indices ahead for the month. Both the MSCI World Index and the FTSE 100 Index finished the month up 3%. The FTSE 350 Equity Investment Instruments Index, the Trust's most relevant index also recovered over 3%, despite underlying liquidity remaining poor. The Trust's NAV increased a modest 1.1% during December resulting in a financial year to date loss of 25.24%.

Once again, illiquidity and further institutional selling in the investment trust sector caused discounts to continue to widen, especially in the more esoteric vehicles with highly geared structures and illiquid underlying assets, sectors to which the Trust has limited exposure. There was some notable portfolio activity undertaken during December, although a position in 3i Group was taken at a 70% discount to net asset value. RIT Capital was bought at a wide discount to NAV early in the month and subsequently some of the stock was sold as the discount narrowed significantly towards the end of December. Alliance Trust, China Real Estate Opportunities and Independent Investment Trust were all added to at attractive levels. The position in Midas Income and Growth was exited, raising useful cash, while the holding of Perpetual Income & Growth was further reduced as the valuation became stretched. A short position in FTSE 100 Futures was taken towards the end of the month as markets staged a strong rally on relatively small volumes and the risk of further market weakness increased.

In December, the Trust rescinded its redemption notice in Apollo Fund plc as the Fund has now restructured into a long only distressed asset recovery vehicle. Although the size of this position has been reduced substantially over the past three months from around 15% of assets, Apollo Fund plc will still account for over 6% of the Trust's assets. Assets held by this Fund appear to be significantly undervalued and in the medium term one would expect some strong recovery as normality returns to the market

Many trusts have shied away from defending their stated discount policy range in recent months, however your Board remains committed to its defined discount control policy and consequently 86,000 shares were repurchased by the Company in December.

Top Ten Holdings		Underlying Exposure		Trust Details		Ordinary Shares	
Ecofin Water & Pwr	8.6%	UK	23.2%	NAV per Share		88.93p	
Apollo Fund	6.1%	N. America	8.2%	Mid-price per Share		84.88p	
Electric & General	5.5%	Europe	13.1%	Premium / (Discount)		(4.56%)	
Scottish Mortgage	5.5%	Asia	3.8%	Net Assets		£30.22m	
Treasury 4¾% 2010	5.3%	Japan	1.6%	Gross Assets		£39.57m	
Treasury 4¾% 2011	5.3%	Latin Am	1.5%	Market Cap		£28.84m	
Alliance Trust	4.5%	Other	13.3%	December NAV Return		1.11%	
Treasury 4% 2009	3.8%	Cash & FI	35.3%	Financial YTD NAV Return		(25.24%)	
Schroder Inc Gth	3.7%	FTSE 100	(10.9%)	IRR since inception		(6.28%)	
Law Debenture	3.7%			Financial Year-end		31 January	
Total	52.0%			Ordinary Shares	(TCT)	33,980,500	
				CULS	(TCTL)	9,171,000	
				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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