



Cayenne Asset Management Limited
23 Buckingham Gate
London SW1E 6LB

T: 020 7233 8899
F: 020 7233 8989
E: info@cayenneasset.com
W: www.thecayennetrust.com

The Cayenne Trust plc December 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

Equity markets continued to make gains into the year-end, with some significant returns being recorded in Europe and Asia. During December the FTSE 100 gained 4.3%; the DJ Euro Stoxx 50 Index rose 6.0%; while the S&P 500 registered gains of just 1.7%. The FTSE 350 Equity Investment Instruments Index kept pace with market averages, appreciating approximately 5.0%. The Trust remains well hedged and as a result continued its short term underperformance, as the NAV appreciated by 1.7%. This results in an NAV increase of 36.5% for the Trust's financial year to date. The NAV of Apollo Fund plc (Apollo), the Trust's largest single position, increased 0.5%, making a return for 2009 of nearly 60%.

Portfolio activity during December was relatively light, although Independent Investment Trust was sold in its entirety, realising a useful profit. Partial sales of Caledonia and Hansa Trust were undertaken at prices representing discounts which were narrower than their average. The proceeds were reinvested into British Empire and RIT Capital at, or close to, a 10% discount. 3i Infrastructure has been a very successful investment for the Trust and, with the price in excess of 100p, exposure was reduced at this higher valuation.

The Trust continued to purchase SVM Global at close to a 20% discount to net asset value. Performance appears to have stabilised and valuations will pick up, should this recovery continue. F&C Eurotrust, to be renamed The European Investment Trust, announced that it had appointed Edinburgh Partners as investment manager. Edinburgh Partners has a strong track record and have demonstrated that they keep a close eye on discounts, with both their other trusts operating active discount controls. Despite a potential overhang of stock created by the withdrawal from the F&C savings scheme, it is believed that the 16% discount will contract once this trust is established in its new home.

The Trust continued to take advantage of the large number of subscription shares (or warrants) being issued by investment companies, particularly in Asia and the emerging markets. These instruments appear largely mispriced and allow for leveraged exposure to growth markets. The benefit of such exposure is that the Trust can participate in any further equity market recovery while not putting excessive capital at risk.

As a result of the exercise of 318,024 of the Trust's own Subscription Shares on 31 December a corresponding number of new Ordinary Shares were issued. Subscription Share holders are reminded that the next opportunity to subscribe for Ordinary Shares at 106p is 31 March 2010. Ordinary Shares issued at this time will be entitled, along with existing Ordinary Shares, to the Final Dividend to be paid shortly thereafter. The Board have stated that this dividend will be 'not less than 2.00p per Ordinary Share'. Any Subscription Share holders who delay exercise to the final exercise date at the end of June 2010 to subscribe for Ordinary Shares will miss the opportunity to collect the Final Dividend.

During December, 75,000 Ordinary Shares were repurchased as part of the Board's commitment to control the discount at which the shares trade. Effectively acting as its own marketmaker, the Trust reissued 190,000 shares from Treasury to new investors. Meanwhile the Trust's Broker continues, to recycle shares which became available in the market, wherever possible. The result of this ongoing activity is that, despite its diminutive size, shares in the Trust exhibit more liquidity than those issued by significantly larger trusts.

Top Ten Holdings		Underlying Exposure		Trust Details		Ordinary Shares	
Apollo Fund	6.6%	UK	29.1%	NAV per Share (Diluted)		117.52p	
Law Debenture	6.3%	Europe	14.0%	Mid-price per Share		113.50p	
3i Group culs	4.9%	N America	11.1%	Premium / (Discount)		(3.42%)	
Ecofin Water Pwr culs	4.5%	Asia	10.9%	Mid-price per sub share		13.5p	
JPM Overseas	4.1%	Japan	2.0%	Mid-price per £100 nom culs		£98	
3i Infrastructure	4.0%	Other	12.7%	December NAV Return		1.72%	
Electric & General	3.6%	Cash & FI	19.3%	Financial YTD NAV Return		36.45%	
Ecofin Water Pwr Ord	3.4%	FTSE 100	(40.8%)	IRR since inception		2.46%	
Terra Catalyst	3.4%			Net Assets		£41.45m	
Blackrock Wrlld Mining	3.2%			Gross Assets		£50.81m	
				Market Cap		£39.29m	

NAV Performance to 31 December 2009

3 Months	6 Months	1 Year	3 Years
1.3%	11.4%	33.0%	2.6%

Financial Year-end		31 January
Ordinary Shares	(TCT)	34,613,200
CULS	(TCTL)	9,171,000
Subscription Shares	(TCTS)	6,726,690
Management Fee:		1%
Performance Fee:		10% above hurdle rate
Hurdle Rate:		5% per annum
High Water Mark:		139.12p

Data source: Phoenix Administration Services Ltd. / Cayenne Asset Management Ltd.

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