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

### Investment Manager's Report

An overdue correction in global stock markets took place during the last two days of February erasing the month's gains in all of the major indices. The China stock market tax story, durable goods and housing data from the US together with a warning by former Fed chairman Alan Greenspan of a possible recession in the US, appeared to trigger these reversals. The Bank of Japan had earlier increased interest rates by 25bps to reach 0.5%, adding to concerns that the Yen carry trades may begin to unwind. Markets generally ended the month in negative territory with both the S&P 500 and DJ Euro Stoxx 50 finishing down 2.2%. In the UK, the FTSE 100 ended the month down by 0.5%, led chiefly by the mining stocks. The Trust's most relevant index the FTSE 350 Equity Investment Instruments Index, decreased by 1.2%. As usual in times of uncertainty, the market makers in trusts did not stand in the way of the falling markets and both the discounts and spreads of investment trusts widened on very thin volumes. This was exacerbated by the low numbers of buybacks over the period as fast markets made NAV estimations more difficult. Despite the turmoil within the markets, the Trust's NAV performed satisfactorily, increasing 0.95%, although the price fell by almost 2% causing the discount to widen to almost 4%.

Following a sustained period of underperformance, Alliance Trust was sold and the proceeds reinvested in British Empire which was trading at a wide discount to NAV, having traded at a 10% premium as recently as last spring. The other major investment during the month was the exercise of Equity Partnership warrants. The management of this fund have created an eclectic portfolio of quoted and conservatively-valued unquoted stocks and the shares are trading at a significant discount to NAV. During February, the decision was taken to realise profits in Jupiter Green ordinary shares, whose valuation looked stretched and simultaneously increased the holding of Jupiter Green warrants to retain some small but leveraged exposure to the sector. Further profits were taken in Aberforth Geared Capital, City Natural Resources and Strategic Equity while the holding of Scottish Mortgage was reduced, due to favourable valuations. The Trust took the opportunity to increase positions in BP Marsh, Prelude and Fidelity Special Values at attractive discounts to NAV.

With markets continuing to rise strongly during the earlier part of February, the FTSE Put spreads for December were increased as the likelihood of a market correction became more apparent. As volatility increased, so too did the number of trades within the hedge book. The trust's largest position, Apollo Fund, performed satisfactorily with the asset value increasing by 0.77%.

Top Ten Holdings		Underlying Exposure		Trust Details		Ordinary Shares	
Apollo Fund	14.3%	UK	39.5%	NAV per Share		120.65p	
Scottish Mortgage	6.8%	N. America	10.4%	Mid-price per Share		116.00p	
Electric & General	6.6%	Europe	15.1%	Premium / (Discount)		(3.86)%	
Perpetual Inc & Grth	5.7%	Asia	7.9%	Net Assets		£51.25m	
Monks	5.3%	Japan	3.2%	Gross Assets		£61.32m	
Real Est Opps ZDP	4.1%	Other	10.6%	Market Cap		£59.27m	
Fidelity Spec. Values	4.3%	Cash & FI	10.5%	February NAV Return		0.95%	
TR European Growth	2.9%	Derivatives	2.8%	Financial YTD NAV Return		0.95%	
Ecofin	2.8%			IRR since inception		9.10%	
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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