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## The Cayenne Trust plc February 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

In the wake of January's drastic rate cuts in the US, global financial markets remained nervous during February. Investors awaited further evidence of whether or not the contagion had spread, as anticipated, into the safest pockets of the US credit markets. At the end of the month, it appears that even the Fed's emergency rate cuts have failed to halt the downward spiral into a full blown recession. The flight to quality continued as two-year US Treasury returns plummeted to 1.6% and the yield curve steepened. Many investors misjudged the latest collapse in the credit markets and had changed positions to take advantage of the anticipated rebound from the lows of January. However, it appears the leverage within the system is still much too extreme for any immediate recovery. This resulted in more high profile casualties emerging. Most notable of these was Peloton Capital who, despite profiting handsomely last year from shorting sub-prime securities, were caught short of collateral to finance their high grade mortgage portfolio. Against this background the US Dollar and Sterling continued to weaken against the Euro. At month end the S&P 500 had fallen 3.5% and the DJ Euro Stoxx 50 by 1.8%. The FTSE 350 Equity Investment Instruments Index enjoyed a positive month rising almost 3% due in part, to a decrease in average discounts. The Trust's NAV increased by 2.98% during February, resulting in a total return for the financial year to date of 2.98%. The share price increased by 0.21% as the discount widened to 5.00%.

The Trust took advantage of localised discount contraction to reduce exposure to some larger, higher risk positions such as Aberforth Smaller Companies and Monks. A small number of shares in Schroder Income & Growth were sold at an 8% discount to NAV. The position in Manchester & London, which has performed relatively well in these difficult markets, was substantially reduced. The Trust selectively added to some smaller positions which had been overlooked by other investors. With a significant cash position building, the decision was taken to diversify cash management away from a single money market fund and the inherent, though small, risk of negative revaluation issues associated with such a product. Much of this cash was invested in a UK Gilt and additional Ecofin Income shares were purchased at close to a 10% yield to next year's maturity.

As European markets declined, the opportunity to realise a significant profit in a Euro Stoxx put spread was taken. A put spread with lower strikes was simultaneously purchased with the intention of reducing the potential for lost premium. The FTSE 100 hedge was also increased to ensure that the delta adjusted exposure of the Trust was maintained at the relevant levels. To comply with its stated discount control policy, the Company repurchased a further 840,000 million shares at a 5% discount. The NAV of Apollo Fund plc, the Trust's largest position, increased 1.93% in February.

Top Ten Holdings		Underlying Exposure		Trust Details		Ordinary Shares	
Apollo Fund	15.2%	UK	30.6%	NAV per Share		124.22p	
Ecofin Water & Pwr	6.6%	N. America	9.3%	Mid-price per Share		118.00p	
Electric & General	6.5%	Europe	16.2%	Premium / (Discount)		(5.00%)	
Scottish Mortgage	6.1%	Asia	8.0%	Net Assets		£46.79m	
Utilico	4.5%	Japan	2.1%	Gross Assets		£56.86m	
Caledonia	4.4%	Latin Am	4.0%	Market Cap		£44.45m	
Real Est Opps ZDP	4.3%	Other	12.4%	February NAV Return		2.98%	
Perpetual Inc & Gth	4.0%	Cash & FI	12.7%	Financial YTD NAV Return		2.98%	
Monks	3.5%	Derivatives	4.7%	IRR since inception		6.46%	
UK Treasury	3.5%			Financial Year-end		31 January	
<b>Total</b>	<b>58.6%</b>			Ordinary Shares	(TCT)	37,665,643	
				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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