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The Cayenne Trust plc February 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

There were further stock market falls in February, with global markets breaking through the lows of 2008. The FTSE 100 Index fell 7.7% and the broader MSCI World Index was 10.5% lower over the month. The FTSE 350 Equity Investment Instruments Index, the Trust's most relevant index was down 7.2%. Against this background, the Trust's NAV declined 6.7% for the month and financial year to date.

The position in RIT Capital was reduced in February as concerns over further write downs in its unlisted portfolio, now accounting for 40% of its gross assets, could cause a further de-rating in the shares by the market. The proceeds were reinvested in Caledonia at an historically wide discount to NAV. The Trust's position in Murray Income was exited at close to NAV. Some of the Trust's European exposure was also reduced as the discount to NAV of Fidelity European Values and JPMorgan European Growth Trusts narrowed markedly over the month. Principle Capital, which was bought in January this year at a discount of over 60% to NAV, was disposed of in February at a discount of just 30% having been a very profitable trade for the Trust. Activist shareholders have put forward restructuring proposals for the company, however, it could take some time to realise this embedded value and a suitable exit was taken.

As part of the Trust's investment in the listed private equity sector, a position in 3i convertible loan stock (CULS) was taken at a yield of over 20%. There has been a great deal of concern surrounding the company, mainly its debt arrangements, ongoing commitments levels and overall management but this would seem to have been overdone by the market. The management does have some degree of flexibility going forward and the CULS have excellent prospects for recovery. Finally a position in 3i Infrastructure was added to over the month at a significant discount to NAV, despite the company sitting on a net cash position of over 50%, making this an attractive investment opportunity at these levels. The company is in a strong position to purchase opportunistic and undervalued assets that exist in the current marketplace and the shares yield over 6%.

As announced to the market on 6th March, the Board has put forward proposals for a bonus issue of subscription shares to shareholders. The subscription shares will have a duration of one year and will be issued to shareholders on a one for five basis. As well as having the potential to increase the size of the Company, the Board believes this is an attractive way in which shareholders can participate in any future growth in the Company's net assets.

As part of its ongoing commitment to maintaining the discount control policy, 66,800 shares were bought into Treasury.

Top Ten Holdings		Underlying Exposure		Trust Details		Ordinary Shares	
Ecofin Water & Pwr	10.0%	UK	25.9%	NAV per Share		80.66p	
Treasury 4¼% 2011	5.8%	N. America	8.6%	Mid-price per Share		80.50p	
Treasury 4¾% 2010	5.7%	Europe	13.1%	Premium / (Discount)		(0.20%)	
Apollo Fund	5.1%	Asia	4.2%	Net Assets		£27.26m	
Electric & General	5.0%	Japan	1.6%	Gross Assets		£36.49m	
Scottish Mortgage	4.8%	Latin Am	1.6%	Market Cap		£27.21m	
Treasury 4% 2009	4.1%	Other	15.5%	February NAV Return		(6.73%)	
Law Debenture	3.5%	Cash & FI	29.5%	Financial YTD NAV Return		(6.73%)	
Caledonia	3.3%	FTSE 100	(13.1%)	IRR since inception		(8.84%)	
3i Group (culs & ord)	3.2%			Financial Year-end		31 January	
Total	50.5%			Ordinary Shares	(TCT)	33,800,950	
				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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