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The Cayenne Trust plc February 2011

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 experienced some volatility for the second month in a row as geopolitical uncertainty dominated investor concerns. While most major markets ended the month in positive territory, the FTSE 350 Equity Investment Instruments Index declined 1%, weighed down by Asian exposure and sterling strength. In this mixed environment, the Trust's NAV fell by 0.8%.

Significant contributions came from Pantheon International Participations, as news flow continued to be positive; and Anglo & Overseas, which announced a voluntary winding-up and reconstruction (details below). Japanese and European trusts also performed well, despite Yen and Euro weakness which should have undermined NAV performance of such overseas assets. Asian exposure was the greatest negative contributor while the hedge positions also some suffered premium erosion.

Electric & General announced that it intends to offer shareholders a cash exit or a roll over into a new Taube Hodson Stonex (THS) OEIC. This unattractive, expensive and experimental plan appears to have been devised without consultation with many major shareholders. Cayenne Asset Management considered this to be against shareholder interests and therefore wrote an open letter to the board, which can be found at <http://thecayennetrust.com/news.php>. The board has ignored some attractive alternatives, including a zero discount policy or a merger with the highly regarded JP Morgan Overseas, in favour of a scheme which, perhaps by chance, has placed the interests of THS ahead of those of a vast number of their shareholders. We reiterate our intention to vote against these proposals, if tabled, and encourage other likeminded shareholders to do the same. This episode is a poor advertisement for the investment trust sector at a time of great opportunity ahead of RDR and should not be allowed to taint the reputation of others.

Alliance Trust began a series of small share repurchases which cynics may argue is merely a sop to investors ahead of Laxey's vote to install a discount control mechanism and alter the shareholder voting structure. These resolutions may not be passed but their tabling has once again raised the issue of corporate governance at Alliance Trust. Perhaps these repurchases are evidence that this industry heavy weight is finally ready to fall into line with what is slowly becoming industry best practise.

It is pleasing to report that the Board of Anglo & Overseas has agreed to what is effectively a merger with EP Global Opportunities and to adopt the latter's discount control policy. This is an excellent outcome for all concerned and will create a combined trust with assets in excess of £100 million. The Trust will retain exposure to this position by accepting some equity in the new vehicle but has taken the opportunity to release cash to be redeployed in other opportunities. It is pleasing to see that more than 70% of shareholders opted to retain their investment in the ongoing vehicle which is a successful result for the sector and the manager. It is hoped that this faith in the manager will be rewarded by improved performance in the future.

In fulfilment of its ongoing commitment, the Trust repurchased 378,529 ordinary shares during February resulting in 412,704 shares being held in Treasury. These shares are available for re-issue at a price which represents a discount narrower than that at which they were purchased. This is currently 4%.

Top Ten Holdings		Underlying Exposure		Trust Details		Ordinary Shares	
Electric & General	5.5%	Equity	53.7%	NAV per Share (Diluted)		132.04p	
Apollo Fund PLC	5.2%	Alt. Equity	18.1%	Mid-price per Share		129.50p	
Law Debenture	4.8%	Real Estate	8.1%	Premium / (Discount)		(1.92%)	
Anglo & Overseas	4.7%	Fixed Int	7.2%	Mid-price per £100 nom culs		£101.50	
Gartmore Irish	4.1%	Warrants	3.6%	NAV Return		(0.81)%	
Pantheon Intl	3.8%	Index Puts	0.7%	Financial YTD NAV Return		(0.81)%	
Edinburgh Dragon culs	3.7%	Cash	8.6%	IRR since inception		4.58%	
3i Group culs	3.5%			Net Assets		£57.03m	
British Empire	3.4%	Index	(37%)	Gross Assets		£71.97m	
F&C Private Equity	3.3%			Market Cap		£55.93m	
				Financial Year-end		31 January	
				Ordinary Shares	(TCT)	43,190,206	
				CULS	(TCTL)	14,953,523	

NAV Performance to 28 February 2011

3 Months	6 Months	1 Year	3 Years	5 Years
4.0%	12.4%	13.7%	10.0%	25.6

Management Fee:	1%
Performance Fee:	10% above hurdle rate
Hurdle Rate:	5% per annum
High Water Mark 31/01/12	147.91 (142.31 xd)

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

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