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The Cayenne Trust plc January 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 a potentially futile effort to stave off a major recession, the United States Federal Reserve Bank cut interest rates twice during the month; firstly by 0.75% between meetings and then by a further 0.50% at the next scheduled meeting a few days later. Dismal housing and consumer confidence figures laid bare the weakness in the US economy, but the potential for increasing inflation remains a major concern. Only time will tell whether these aggressive cuts will be effective or just create far worse problems in the longer term. This is reminiscent of Greenspan's actions following the dotcom collapse, thereby creating conditions where cheap and easily available credit eventually fuelled the sub-prime crisis. Between the two rate cuts, the huge trading losses at Societe General became public, which may explain much of the volatility in the market as these positions were quickly unwound. Against this background, the FTSE 100 Index fell almost 9%, while the S&P 500 and the MSCI World Index were down approximately 6% and 8% respectively. The FTSE 350 Equity Investment Instruments Index, the Trust's most relevant index, was down 6.5% over the month. These declines are despite significant rallies during the last few days of the month. The Trust's NAV decreased 0.06% during January, resulting in a total return for the financial year of 1.74%. The share price increased by 1.51% as the discount narrowed to 2.40%.

It is always disappointing to report a decrease in NAV, however favourable this appears relative to general market movements. For much of the month the Trust performed positively despite the unprecedented volatility in the underlying markets. However, the near 200 point rally in the FTSE 100 during the last two hours of trading on 31st January took the NAV into negative territory, as the assets failed to keep track with the hedge position. It is expected that this should reverse as markets settle down during February.

Over the month, no new positions were entered into, although the tremendous market volatility did allow several positions to be added to at very attractive levels. These included Caledonia, Investec High Income, New Star Investment Trust and EP Global. The position in RIT Capital was actively traded over the period, taking advantage of substantial movements in its discount. At the same time, a few positions were reduced including India Capital Growth warrants and Majedie, raising some useful cash. Electra shares held up well during the turmoil and the shares were sold back to the company. The sale of the Trust's small holding in European Equity Tranche proved to be timely as the company announced a huge write down in the portfolio's Italian exposure several days later. The shares have since fallen by almost 50%.

The hedge book was carefully monitored over the month 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 3.1 million shares at a 5% discount. The NAV of Apollo Fund plc, the Trust's largest position, fell 1.62% in January.

Top Ten Holdings		Underlying Exposure		Trust Details		Ordinary Shares	
Apollo Fund	15.0%	UK	31.5%	NAV per Share		120.59p	
Ecofin Water & Pwr	6.5%	N. America	9.1%	Mid-price per Share		117.75p	
Electric & General	6.3%	Europe	15.5%	Premium / (Discount)		(2.36%)	
Scottish Mortgage	6.1%	Asia	8.3%	Net Assets		£46.43m	
Utilico	4.7%	Japan	2.1%	Gross Assets		£56.54m	
Caledonia	4.4%	Latin Am	4.2%	Market Cap		£45.34m	
Real Est Opps ZDP	4.3%	Other	11.5%	January NAV Return		(0.06%)	
Monks	4.3%	Cash & FI	12.6%	Financial YTD NAV Return		1.74%	
Perpetual Inc & Gth	4.0%	Derivatives	5.2%	IRR since inception		5.19%	
Schroder Inc Gth	3.7%			Financial Year-end		31 January	
Total	59.3%			Ordinary Shares	(TCT)	38,505,643	
				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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