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## The Cayenne Trust plc January 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

Markets were choppy in January and portfolio performance was duly mixed with the combined effect on the Trust being broadly neutral. With 31 January being the Trust's year-end the decline of 0.03% for the month completed an otherwise satisfactory NAV uplift (unaudited) of 14.39% for the full year. Over the same period, the share price (including dividend payment) appreciated 16.15% to 130.50p which represents a 3% discount to NAV.

Of those stocks which made a positive contribution to the NAV, Utilico stood out as the share price appreciated by 15% once the merger with Eclectic Investment Company had been completed. Utilico now has a much broader mandate and this should enable the highly experienced and dynamic management team to take advantage of mispriced situations across a wider variety of sectors. Despite remaining focused on the utility space, this additional flexibility should enhance returns in the future. This recent price appreciation has led to a re-rating of the company's shares but they still appear to be undervalued at a discount to NAV in excess of 20%.

Gartmore Irish is now in the final weeks of its life as an investment company and the managers have taken steps to raise liquidity levels within the portfolio to take advantage of elevated valuations ahead of returning cash to shareholders. This liquidity currently represents 65% of the portfolio and probably reflects a fair approximation of the quantum of shareholders requiring a cash exit. It is encouraging to note that the board and the managers are not only taking positive steps to protect shareholder value at this stage, but are also keeping the market informed of their progress. Electric & General on the other hand seems to have taken a vow of silence since alerting the market in November of its intention to wind-up. At that time the only offer on the table to shareholders was a cash exit or a roll over into an open-end fund run by the same management group. Perhaps other alternatives are being actively considered, otherwise, it's about time investors were updated on progress so that they can decide how best to allocate any return of cash.

During the month the Trust took part in the placing of Edinburgh Dragon Convertible Unsecured Loan Stock (CULS). This is an attractive instrument which yields 3.5% per annum with a seven year maturity. The conversion rate was set at a 10% premium to NAV which, at the calculation date, equated to a 20% premium to the share price. Although this premium is now a little in excess of 25%, this still represents an acceptable reward / risk profile for exposure to a portfolio of Asian equities but with little capital at risk. It has been noted that other funds are likely to issue CULS in the near future and these are likely to feature in the Trust's portfolio if the terms are attractive and the underlying portfolios are of interest.

The Cayenne Trust has completed the issue of its own CULS which now provide structural gearing to the value of £15m at a rate of 3.25% per annum. The conversion rate was set at 67.74 Ordinary shares per £100 nominal of CULS converted. This is equivalent to a price of 147.63p per Ordinary share. Total assets are in excess of £70m and, following the reissue of Treasury shares, the market capitalisation is in excess of £55m. With a hedged portfolio and an active share repurchase and reissue program, the ordinary shares combine above average liquidity with low volatility to produce a unique proposition for exposure to a diversified and undervalued group of assets.

Top Ten Holdings		Underlying Exposure		Trust Details		Ordinary Shares	
Electric & General	5.4%	Equity	51.3%	NAV per Share (Diluted)		133.11p	
Apollo Fund PLC	5.1%	Alt. Equity	15.6%	Mid-price per Share		130.50p	
Law Debenture	4.8%	Real Estate	7.9%	Premium / (Discount)		(3.09%)	
Anglo & Overseas	4.2%	Fixed Int	7.0%	Mid-price per £100 nom culs		£101.50	
Gartmore Irish	4.0%	Warrants	4.0%	January NAV Return		(0.03%)	
Edinburgh Dragon culs	3.6%	Index Puts	0.9%	Financial YTD NAV Return		14.39%	
3i Group culs	3.4%	Cash	12.8%	IRR since inception		4.84%	
British Empire	3.4%			Net Assets		£57.95m	
The European Inv Tst	3.1%	Index	(33%)	Gross Assets		£73.11m	
Pantheon Intl	3.0%			Market Cap		£56.81m	
				Financial Year-end		31 January	
				Ordinary Shares	(TCT)	43,534,808	
				CULS	(TCTL)	15,000,000	

### NAV Performance to 31 January 2011

3 Months	6 Months	1 Year	3 Years
5.2%	12.3%	14.4%	14.2%

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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