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The Cayenne Trust plc July 2006

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

July was a quiet month which saw global equity markets regain some stability despite renewed violence in the Middle East. There was, however, disparity between the performance of major indices; blue chip stocks in the UK, represented by the FTSE 100 gained 1.63% while the more broadly spread FTSE 250 declined by 0.71%. US markets were again uninspiring, with the S&P 500 appreciating by a little over 0.5% to register a gain of less than 2% for the year to date. Meanwhile, Japan continued to drift lower with the Nikkei 225 fluctuating around the 15,000 level to close 0.31% down. In this climate, the more relevant FTSE Equity Investment Instruments Index struggled to make headway being virtually unchanged as managers underperformed their benchmarks. This was in part due to their US\$ exposure, which was 2 cents lower versus Sterling and weighed heavily on overseas holdings. 10 year Treasury yields in the US fell to below 5% as investors headed for safety, while traders appear increasingly confident that the Fed is close to the end of its tightening policy. This 'flight to quality' across all markets caused The Trust to experience a lacklustre month with the NAV decreasing by 0.11%. This equates to a loss of 0.87% for the financial year to date.

There was little portfolio turnover during the month. As markets weakened, the opportunity was taken to add to the position in Perpetual Income & Growth at attractive levels for this well respected trust. Once markets started to recover towards the close of the period, some holdings returned to more normal ratings and some cash was raised as FTSE again approached the 6000 level. Independent Investment Trust and City of London were sold in their entirety. In addition, positions in Monks and Edinburgh were slightly reduced. The latter was sold into the company's share buyback program.

Apollo Fund plc, the Trusts largest holding, also experienced a quiet month with the NAV increasing 0.21%. Having raised some cash, the hedge position was maintained providing slightly increased protection against any further declines in the market.

The last few months has been a difficult period for the Trust. As history shows, the investment trust sector tends to suffer in uncertain times. Confidence remains that a hedged portfolio of high quality assets at attractive valuations should see improved returns in the medium term.

Top Ten Holdings		Underlying Exposure		Trust Details		Ordinary Shares	
Apollo Fund	13.9%	UK	43.6%	NAV per Share		108.94p	
Scottish Mortgage	8.8%	N. America	10.5%	Price per Share		112.5p	
Edinburgh	7.4%	Europe	18.4%	Premium / (Discount)		3.27%	
Electric & General	6.3%	Asia	6.7%	Net Assets		£46.27m	
Monks	5.4%	Japan	3.0%	Gross Assets		£56.27m	
JPM Fleming Merc	4.6%	Other	3.2%	Market Cap		£47.78m	
Real Est Opps ZDP	4.5%	Cash & FI	11.0%	July NAV Return		(0.11)%	
Perpetual Inc & Grth	4.1%	Derivatives	3.6%	Financial YTD NAV Return		(0.87)%	
Murray Income	2.8%			IRR since inception		(1.76)%	
Advance UK	2.7%			Financial Year-end		31 January	
				Ordinary Shares	(TCT)	42,475,143	
				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: Invesco / Cayenne Asset Management Ltd

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