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The Cayenne Trust plc
July 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

July witnessed huge swings in volatility within global financial markets, leaving the FTSE 100 Index down only 3.8% at month end despite having fallen by as much as 8% during the period. The DJ Euro Stoxx 50 Index was only 0.5% lower at month end while the MSCI World Index ended the month 2.5% lower. The worst performing stock market index was the Irish Overall Index, which was down 16% in July. The FTSE 350 Equity Investment Instruments Index, the Trust's most relevant index closed down 1.6% over the period having been 6.75% lower earlier in the month. Against this background, The Cayenne Trust plc's NAV declined 5.49% resulting in a negative year to date NAV return of 10.18%.

The main reasons for the decline in the Trust's NAV were a savage de-rating in both Utilico and Real Estate Opportunities zero dividend preference shares (REOZ). These are two of the largest holdings within the Trust both directly and also on a look through basis when taking into account the position in Apollo. Utilico has historically traded at parity or even a small premium so it is to be expected that the current discount of 20% should narrow. The underlying NAV was actually ahead for the month, which illustrates what effect small indiscriminate sell orders can have on even the best rated trusts in these nervous markets, as buyers retreat. There was a similar situation with REOZ, where a relatively small forced seller of stock resulted in the price being marked down by over 16%; at this price they have an implied yield of over 25% to redemption in May 2011. While it is to be expected that anything with a property and leveraged mandate should suffer weakness, this has now reached extreme levels and once the 30th June statement is released by the company in September, some improvement should occur. Other notable poor performers included Scottish Mortgage, Hansa and Majedie which all caused considerable distress to the Trust's portfolio during the month.

The remainder of the loss was caused by a myriad of events; the widening of discounts within the portfolio, poor hedging correlation, insufficient hedge to withstand the peak of the panic and then the inevitable failure of the trust market to participate in what could be an unsustainable rally.

The Trust maintained a 10% cash position over the month end as it is increasingly apparent that liquidity is at a huge premium. During these quiet days of summer there is little point in being fully invested and at the mercy of large price movements on small volumes. The majority of the hedging strategy is currently in the form of put spread warrants on the FTSE, S&P 500 and Euro Stoxx indices. Insurance in the form of options has become increasingly expensive as markets continue to oscillate so wildly.

Top Ten Holdings		Underlying Exposure	
Apollo Fund	15.5%	UK	36.4%
Ecofin Water & Pwr	8.5%	N. America	8.7%
Scottish Mortgage	6.1%	Europe	15.6%
Electric & General	5.2%	Asia	6.3%
Perpetual Inc & Gth	5.2%	Japan	2.2%
Law Debenture	5.1%	Latin Am	1.6%
Real Estate Opps	4.8%	Other	13.4%
Utilico	3.9%	Cash & FI	11.5%
Caledonia	3.8%	Derivatives	4.3%
New Star Inv Tst	3.5%		
Total	**61.6%**		

Trust Details		Ordinary Shares
NAV per Share		107.22p
Mid-price per Share		102.50p
Premium / (Discount)		(4.40%)
Net Assets		£38.08m
Gross Assets		£47.50m
Market Cap		£36.41m
July NAV Return		(5.49%)
Financial YTD NAV Return		(10.18%)
IRR since inception		(0.25%)
Financial Year-end		31 January
Ordinary Shares	(TCT)	35,519,000
CULS	(TCTL)	9,325,000
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.