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The Cayenne Trust plc June 2007

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

Investor nervousness returned during June, however markets remained resilient to any major setbacks, due in part to the absence of a significant catalyst. Although concerns and uncertainty over interest rates, sub-prime loans and leverage within the financial system remain ever-present, investors appear reluctant to reduce exposure for fear of short term underperformance of their benchmarks. There was a slowdown in private equity activity during June as signs that the wall of money flowing into markets is beginning to slacken, not only due to fewer opportunities, but also due to the higher cost of the leverage available to them. Against this background, the FTSE 100 finished 0.2% lower, the MSCI World Index declined by 0.5%, but of particular note was a fall in the FTSE 250 of 4.8%. The Trust's most relevant index, the FTSE 350 Equity Investment Instruments Index fell almost 3.0%, affected by the weakening dollar and a significant de-rating of UK property funds. The Cayenne Trust NAV was down marginally by 0.56% in June, with the discount almost unchanged at 1.71% as the price declined by 0.38%.

There was limited trading activity within the Trust during June. Discounts, as the index performance indicates, continued to widen and the only substantial buyers within the sector were the investment companies themselves, repurchasing stock for cancellation or treasury purposes. This activity has now reached record levels with as many as twenty trusts a day repurchasing their own shares. Although valuations appear attractive, we are reluctant to employ all of the Trust's structural leverage at this time as markets continue to be vulnerable to setbacks. However, the holding of RIT Capital was increased slightly at an attractive discount to NAV. The only new position taken during the month was Utilico Finance zero dividend preference shares (zdps). This trust recently re-domiciled to Bermuda and the placing of the zdps was part of the process of re-gearing its balance sheet. The change of domicile will allow the company more flexibility in its investment decisions, particularly in the management of its larger positions. The decision was taken in June to sell the holding of Gartmore Irish at a small discount to NAV, as the Irish economy exhibited signs of stress and the Trust's rating could not be justified in the shorter term with fundamentals looking stretched, particularly in the housing market. The holding of Invesco Perpetual Select Global Equity was sold back to the company at an attractive discount to NAV. Both JP Morgan Fleming Mercantile and Manchester & London positions, that have large exposure to the FTSE 250, were reduced over the month. The opportunity was also taken to marginally reduce the Fund's larger holdings in Scottish Mortgage and Monks.

Further adjustments were made to the hedge book during the month to ensure that the delta adjusted short exposure was maintained at the relevant levels. The Trust's largest position, Apollo Fund plc, declined 0.31% in June.

Top Ten Holdings				Underlying Exposure		Trust Details		Ordinary Shares	
Apollo Fund	14.0%	UK	38.6%	NAV per Share		124.25p			
Electric & General	6.8%	N. America	10.0%	Mid-price per Share		122.13p			
Scottish Mortgage	6.2%	Europe	13.2%	Premium / (Discount)		(1.71)%			
Utilico	5.0%	Asia	7.3%	Net Assets		£52.78m			
Treasury 7¼% 12/07	4.8%	Japan	2.9%	Gross Assets		£62.97m			
Fidelity Special Val	4.8%	Other	13.5%	Market Cap		£51.87m			
Monks	4.5%	Cash & FI	11.3%	June NAV Return		(0.56)%			
Perpetual Inc & Grth	4.5%	Derivatives	3.2%	Financial YTD NAV Return		4.80%			
Real Est Opps ZDP	4.0%			IRR since inception		9.69%			
Ecofin Water & Pwr	3.9%			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: Phoenix Administration Services Ltd. / Cayenne Asset Management Ltd.

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