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The Cayenne Trust plc June 2010

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

Major World indices continued to fall during June, with the S&P 500 and the FTSE 100 both declining by over 5%. The DJ Euro Stoxx 50 Index fell less, as much of the disappointing Eurozone news appeared priced in. The FTSE 350 Equity Investment Instruments Index benefited from its relatively high weighting in emerging markets and thus declined only 1.5%. The Trust remains positioned defensively but still experienced a poor result for the month. The NAV fell 2.7% with a few holdings, detailed below, accounting for the majority of this decline. One of these was Apollo Fund plc, the Trust's largest single position, which depreciated by 8.2%.

There were a small number of notable losses in the portfolio and one which is worthy of particular mention. This was a very disappointing month for investors in Real Estate Opportunities (REO) but at least this marks the beginning of the end of this debacle. The results to the end of February were absolutely appalling; the loss of nearly £1 billion for the 14 month period was far worse than even the most bearish of commentators had been expecting. The market finally woke up the perilous state of this company and savage price declines resulted. The Trust's exposure to this situation, without any sales, declined from 1% in May to less than 0.3% at month end. Apollo's performance was also adversely affected by REO during June and this indirect exposure exacerbated the impact on the Trust. This has been an unhappy experience for all concerned and there is a certain sense of relief that, with negligible exposure to this situation remaining, things can't get much worse.

The private equity portfolio, represented by Candover, Pantheon and F&C, again produced a negative contribution to the Trust's NAV, despite positive news from two of the three. The Trust continues to hold a small position in Cazenove Absolute Equity and the intention had been to realise this, as the discount narrowed. Unfortunately, much of the discount erosion to date has been as a result of poor NAV performance (down 7% YTD) rather than positive share price performance. At a 10% discount to NAV, this fund is still too cheap and an opportunity to sell at the right value is awaited patiently.

Once again, the higher beta funds in the Trust's general equity portfolio suffered the greatest declines, but the hedge positions more than mitigated these losses. The Trust continued to purchase Anglo & Overseas at discounts in excess of 15%, as better performance and/or leadership from the Board is expected to materialise sooner rather than later. The Trust is also taking advantage of rather volatile intra-day trading in Martin Currie Portfolio Trust. This fund has a target discount of 7.5%, the Trust purchased stock in excess of this.

The discount management tool available to the Trust is being employed continuously and it is pleasing to note that, even in these trying times, it was necessary to repurchase only 66,875 shares. The manager and the Board continue to be grateful for shareholder support and remain confident that the portfolio exhibits excellent value which will be released over time.

The final exercise of Subscription Shares occurred at month end and as a result 2,555,375 new Ordinary Shares were issued. In addition to this, 723,058 were left to be exercised by the Trustee and the resulting Ordinary Shares will be placed in the market. The excess of sale proceeds over the subscription price, less associated costs and expenses, will be paid to the holders of the unexercised Subscription Shares. The figures below show the position prior to the exercise of both these Subscription Share lots.

Top Ten Holdings				Underlying Exposure		Trust Details		Ordinary Shares	
Apollo Fund	6.1%	UK	23.2%	NAV per Share (Diluted)		119.22p			
Law Debenture	5.7%	Europe	14.6%	Mid-price per Share		115.50p			
3i Group culs	4.6%	N America	7.5%	Premium / (Discount)		(3.12%)			
Ecofin Water Pwr culs	4.0%	Asia	12.5%	Mid-price per sub share		6.50p			
Anglo & Overseas	3.7%	Japan	1.6%	Mid-price per £100 nom culs		£100			
Treasury China Trust	3.5%	Latam	2.0%	June NAV Return		(2.67%)			
British Empire	3.4%	Other	12.4%	Financial YTD NAV Return		2.65%			
Terra Catalyst	3.2%	Fixed Int.	11.2%	IRR since inception		2.97%			
Caledonia	3.2%	Cash	13.1%	Net Assets		£45.63m			
European Inv Tst	3.2%	Index	(39%)	Gross Assets		£55.00m			
				Market Cap		£43.78m			
NAV Performance to 30 June 2010				Financial Year-end		31 January			
3 Months	6 Months	1 Year	3 Years	Ordinary Shares	(TCT)	37,905,943			
(2.4%)	3.3%	15.5%	(0.3%)	CULS	(TCTL)	9,171,000			
				Subscription Shares	(TCTS)	3,278,433			
				Management Fee:		1%			
				Performance Fee:		10% above hurdle rate			
				Hurdle Rate:		5% per annum			
				High Water Mark 31/01/11		Yes			

Data source: Phoenix Administration Services Ltd. / Cayenne Asset Management Ltd.

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