



Cayenne Asset Management Limited
23 Buckingham Gate
London SW1E 6LB

T: 020 7233 8899
F: 020 7233 8989
E: info@cayenneasset.com
W: www.thecayennetrust.com

The Cayenne Trust plc March 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

Volatility still haunts the markets as the global credit crisis plays out. Its latest victims, in the shape of Bear Stearns and Carlyle Capital, would have been considered above any problems only a matter of weeks before their demise. Massive Federal Reserve intervention continues to support money markets but this short term optimism has been replaced by fear, leading to further equity declines on several occasions already. Large hedge fund losses have been ignored but eventually investors will have to decide on whether these failures demonstrate that models based on probability for incremental gain rely on the frequency of exceptional events not occurring as often as they have done in the last decade. The Bank of England continues to provide much needed liquidity but Sterling Libor still topped 6%, house price declines accelerated and commercial property continued to fall. Developed equity markets initially declined by up to 10% during the month but later recovered as the Fed and JP Morgan took action to rescue Bear Stearns. The FTSE 100 ended the month down 3.1%, the DJ Euro Stoxx was 2.6% lower and the S&P was just 0.6% weaker. The FTSE 350 Equity Investment Instruments Index retreated by 2.2%. The Trust's NAV declined by 3.1% in March making the financial year to date return a negative 0.2%. This is a hugely disappointing result but one which has left the portfolio exhibiting extremely good value.

Some positions produced particularly disappointing returns at the portfolio level. Of greatest impact was the poor underlying performance of the Trust's holdings in Utilico and its sister fund, Utilico Emerging. These experienced torrid times as their NAVs declined 11% and 7%, while their warrant prices declined by 18% and 16% respectively. It must be remembered however that these two trusts have historically been exceptionally rewarding positions and confidence remains that their long term performance will recover. Other notable losses occurred in Ecofin and Hansa Trust also due to portfolio underperformance while New Star Investment Trust, EP Global and ING UK Real Estate suffered significant discount widening. It seems that the Trust has been through a period where the hedge positions and the assets have dislocated somewhat. The Managers have experienced such events in the past and there is no intention to change the investment style as it is believed that this conservative approach will produce substantial returns in the future.

Liquidity in the investment trust sector has been particularly poor during this period of uncertainty. The Trust did take advantage of the market weakness to make some small additions to the existing positions in New Star Investment Trust, Law Debenture and EP Global at attractive valuations. The Trust has a net cash position and remains well positioned to take advantage of further opportunities as they arise. The Trust continues to be well hedged against any further general market setbacks as the delta adjusted exposure was maintained at relevant levels. During March 266,000 shares were bought into Treasury and 104,000 shares were cancelled.

Top Ten Holdings		Underlying Exposure		Trust Details		Ordinary Shares	
Apollo Fund	15.2%	UK	33.7%	NAV per Share		120.31p	
Ecofin Water & Pwr	6.9%	N. America	9.0%	Mid-price per Share		113.75p	
Electric & General	6.5%	Europe	15.4%	Premium / (Discount)		(5.45%)	
Scottish Mortgage	6.2%	Asia	6.6%	Net Assets		£44.94m	
Caledonia	4.7%	Japan	2.5%	Gross Assets		£55.07m	
Real Est Opps ZDP	4.4%	Latin Am	1.7%	Market Cap		£42.49m	
Utilico	4.0%	Other	13.6%	March NAV Return		(3.12%)	
Perpetual Inc & Gth	4.0%	Cash & FI	11.6%	Financial YTD NAV Return		(0.23%)	
UK Treasury	3.6%	Derivatives	5.9%	IRR since inception		4.67%	
Monks	2.9%			Financial Year-end		31 January	
Total	58.4%			Ordinary Shares	(TCT)	37,351,643	
				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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