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The Cayenne Trust plc March 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

The FTSE 100 gained 6.1%; the S&P 500 rose 5.9%, while the DJ Euro Stoxx 50 Index recovered well from February's decline, rising 7.4%. The FTSE 350 Equity Investment Instruments Index kept pace with global markets gaining 6.6%. Despite the Trust's significant hedge position on the FTSE 100, strong performance from some portfolio constituents resulted in the NAV gaining 5.5%. With an increased hedge position and further cash reserves following the subscription share exercise after month-end, the Trust is well positioned to withstand further political and economic uncertainty. The NAV of Apollo Fund plc, the Trust's largest single position, appreciated by 9.4%.

Unsurprisingly, significant contributors to NAV performance were equity trusts represented in the Trust's top ten holdings with Law Debenture; Black Rock World Mining; JPMorgan Overseas; and Polar Capital leading the way. These positions alone counteracted almost all of the loss incurred by the hedge position. Also of note were contributions made by New Star Investment Trust, Electric & General and British Empire. In the warrant book, Asian and Emerging Market warrants continued to fulfil their promise by contributing significant appreciation while little capital was put at risk. The best performing investment, however, was China Real Estate which successfully completed its tender process. The company repurchased 1.5 million shares at £3.30 while the majority of the shares tendered were placed with investors rather than cancelled. Following the tender, the share price rose sharply, closing 25% ahead for the month. As a result of this elimination of the shareholder overhang and, once the proposed change of listing to Singapore takes place later in the year, the discount (currently 62%) should narrow even further.

March was rather a quiet month in terms of trading both for the Trust and the market in general. However, despite this relative lack of liquidity, the Trust was able to complete its sale of 3i Infrastructure ordinary shares for a substantial profit. Exposure to this position was maintained through the purchase of the company's warrants. Positions in Advance Developing Market subscription shares, Black Rock Latin America culs and RIT Cap were also sold to crystallise useful gains. With this limited number of sales, and cognizant of elevated equity market levels, it is natural that there are limited purchases to report. The position in The European Investment Trust was increased as the discount remained at extreme levels while the stock overhang was slowly removed. This is now getting towards a full position for the Trust and it is expected that the discount will narrow as performance picks up and the share buyback programme continues to operate. At the same time, it is a disappointing to report that the performance of Anglo & Overseas has been a little lacklustre lately and that the company appears content to let the discount widen beyond 15%. There is no doubt that on both counts the required action will be forthcoming eventually and therefore the opportunity was taken to increase the position at attractive levels.

As alluded to earlier, approximately 50% of the Subscription Shares were exercised on 31 March and the resulting ordinary shares, together with existing ordinary shares, are entitled to collect a dividend of 2.2p (as announced with the final results on 14th April). This dividend will be paid on 18th June to holders on the register at the close of business on 28th May. Full details of the Trust's results for the full year to 31 January 2010 can be found on the website. Any Subscription Share holders who have not yet taken the opportunity to exercise their entitlement to purchase ordinary shares at 106p are reminded that their last opportunity to do so will be at the end of June 2010. The data below is as at the close of business on 31 March and hence prior to the last subscription share exercise.

Top Ten Holdings				Underlying Exposure		Trust Details		Ordinary Shares	
Apollo Fund	6.8%	UK	26.0%	NAV per Share (Diluted)		124.45p			
Law Debenture	6.3%	Europe	16.3%	Mid-price per Share		118.5p			
3i Group culs	4.6%	N America	9.4%	Premium / (Discount)		(4.78%)			
Ecofin Water Pwr culs	4.2%	Asia	14.4%	Mid-price per sub share		8.75p			
China Real Estate Op	4.2%	Japan	1.8%	Mid-price per £100 nom culs		£100			
European IT	3.7%	Latam	2.0%	February NAV Return		(5.5%)			
British Empire	3.7%	Other	9.6%	Financial YTD NAV Return		(5.2%)			
JPM Overseas	3.7%	Fixed Int.	11.8%	IRR since inception		3.7%			
Electric & General	3.6%	Cash	8.6%	Net Assets		£44.8m			
Blackrock Wrld Mining	3.4%	Index	(30.0%)	Gross Assets		£54.1m			
				Market Cap		£41.6m			
				Financial Year-end		31 January			
				Ordinary Shares	(TCT)	35,188,367			
				CULS	(TCTL)	9,171,000			
				Subscription Shares	(TCTS)	6,408,666			
				Management Fee:		1%			
				Performance Fee:		10% above hurdle rate			
				Hurdle Rate:		5% per annum			
				High Water Mark 31/01/11		146.07p			

NAV Performance to 31 March 2010			
3 Months	6 Months	1 Year	3 Years
5.9%	7.3%	48.5%	4.0%

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

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