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The Cayenne Trust plc March 2011

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

March was a month of two halves as major markets fell sharply due to events in the Middle East and Japan, only to close almost unchanged as fears subsided. The FTSE 350 Equity Investment Instruments Index ended up 2.3%, outperforming the wider market for the first time this year, as Asia and the Emerging Markets made significant gains towards the end of the month. Sterling weakness also contributed towards this outperformance by the investment companies sector. The Trust's NAV appreciated by 1.0%.

The merger of Anglo & Overseas and EP Global was completed as expected and a mixture of cash and stock was taken. Gartmore Irish is now in liquidation and the first payment, representing approximately 96% of the NAV, was received shortly after month end. Although this position still shows on the portfolio, much of this cash has been reinvested. The remainder, less costs, will be returned when illiquid assets have been sold.

The Trust participated in the new issue of Standard Life UK Smaller Companies CULS which enjoyed a strong debut and now trades at a 6% premium to issue price. Investments in Alliance Trust, Law Debenture, and JP Morgan Overseas were increased in the face of market weakness and at advantageous discount levels.

Following the announcement that Thames River Multi Hedge was suspending its redemption facility, there was a significant pick up in trading activity. The company became more active in the market, repurchasing shares on a regular basis. With this in mind, the decision to enter a position was taken and the Trust built initial exposure equating to approximately 2% of the portfolio. This fund, whose manager is well known to Cayenne, has a reasonable track record and a well diversified portfolio. There is great comfort that, despite recent problems, they will act in the best interests of shareholders going forward and that, either performance will improve or the future of the fund will have to be considered seriously. Either way, the investment should prove to be profitable in the medium term.

The two private equity positions, Pantheon International Participations and F&C private Equity, continued to make steady progress over the month as news flow remained positive. Indeed, there appears to be significant value across this sector and investors are becoming more aware of this opportunity. This should continue as more listed private equity funds release positive results and investors become more comfortable with valuations. Despite recent positive price performance, this remains one of the cheapest asset classes in the investment company sector and further appreciation is anticipated.

As the tax year drew to a close, it appears that portfolio realignment led to an increase in the number of the Trust's shares on offer. As a result, and in fulfilment of, its ongoing commitment to minimise the discount, the Trust repurchased 543,583 shares. As usual, these shares were placed in Treasury and, together with previously repurchased shares, are available for reissue to investors at a discount to NAV of 4%.

The Trust continues to employ an active hedging strategy which covers the majority of the underlying equity exposure. In addition, much of the portfolio exposure to Euro and Yen positions have been hedged back to Sterling, as both currencies could be vulnerable in the current climate.

Top Ten Holdings		Underlying Exposure		Trust Details		Ordinary Shares	
Law Debenture	6.0%	Equity	54.7%	NAV per Share		133.36p	
Electric & General	5.5%	Alt. Equity	20.5%	Mid-price per Share		128.50p	
Apollo Fund PLC	5.3%	Real Estate	8.3%	Premium / (Discount)		(3.65%)	
Gartmore Irish	4.1%	Fixed Int	9.3%	Mid-price per £100 nom culs		£103.50	
Pantheon Intl	4.0%	Warrants	3.4%	NAV Return		1.01%	
F&C Private Equity	4.0%	Index Puts	0.8%	Financial YTD NAV Return		0.19%	
Edinburgh Dragon culs	3.6%	Cash	3.0%	IRR since inception		4.70%	
3i Group culs	3.5%			Net Assets		£56.87m	
British Empire	3.5%	Index	(35%)	Gross Assets		£71.77m	
European Inv	3.3%			Market Cap		£54.80m	
				Financial Year-end		31 January	
				Ordinary Shares	(TCT)	42,646,623	
				CULS	(TCTL)	14,953,523	

NAV Performance to 31 March 2011

3 Months	6 Months	1 Year	3 Years	5 Years
0.2%	8.8%	8.9%	14.7%	23.9

Management Fee:	1%
Performance Fee:	10% above hurdle rate
Hurdle Rate:	5% per annum
High Water Mark 31/01/12	147.91 (142.31 xd)

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

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