



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 May 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

Record oil prices together with increasing global inflationary pressures continued to dominate the headlines during May. Discounts on investment trusts narrowed marginally over the month, with the FTSE 350 Equity Investment Instruments Index, the Trust's most relevant index, increasing 0.48%. The FTSE 100 declined 0.55%, while the S&P 500 and MSCI World Index increased just over 1%. Against this background, the Trust's net asset value increased 0.91%, resulting in a decline for the financial year to date of 2.44%. Over the month, the share price remained unchanged while the discount was held at close to 5%.

It is pleasing to report a positive month for the Trust following a difficult few months for investors. Trading activity was relatively quiet as liquidity levels remained low causing some pricing anomalies and various positions were increased at advantageous levels. Scottish American was sold from the portfolio following a period of relatively lacklustre performance unlike other holdings from the Baillie Gifford stable, notably Monks and Scottish Mortgage. In addition, the board of Scottish American seems less proactive regarding the trust's valuation and, with this in mind, there seems little reason to hold this investment in preference to the other Baillie Gifford names. While many investment trusts still languish on deep discounts, it is encouraging to note that some of the Trust's longer term holdings are beginning to show signs of an improvement in rating.

In many cases, discounts have widened despite the existence of implicit or even explicit targets. Indeed, there appears to be growing unrest at the lack of follow through on many promised discount control mechanisms. Peter Spiller, one of the more respected members of the investment trust community, commented in the annual report of Capital Gearing Trust that: "Quite apart from consideration of the integrity of the boards involved, this development is unhelpful to the future of the investment company movement. Growth can only be based on trust." An observation which sums up the current state of the market and may explain why many investors are reluctant to take advantage of the tremendous value currently available across the sector.

The Trust continues to be hedged against general market setbacks with put options on the S&P, FTSE and DJ Euro Stoxx. In addition to hedging equity exposure, further defensive positions were entered into as the Trust purchased the SVG Capital convertible unsecured loan stock at a yield of 8.25%.

Over the month 308,643 shares were cancelled as 277,643 shares were bought into Treasury. Apollo Fund plc, the Trust's largest holding appreciated by 1.10%.

Top Ten Holdings		Underlying Exposure		Trust Details		Ordinary Shares
Apollo Fund	15.6%	UK	34.8%	NAV per Share		116.62p
Ecofin Water & Pwr	7.4%	N. America	9.7%	Mid-price per Share		110.00p
Electric & General	7.2%	Europe	16.8%	Premium / (Discount)		(5.68%)
Scottish Mortgage	6.5%	Asia	7.7%	Net Assets		£43.12m
Real Estate Opps	5.2%	Japan	2.7%	Gross Assets		£52.58m
Law Debenture	5.1%	Latin Am	2.0%	Market Cap		£40.67m
Utilico	4.7%	Other	13.7%	April NAV Return		0.91%
Perpetual Inc & Gth	4.3%	Cash & FI	9.0%	Financial YTD NAV Return		(2.44%)
New Star Inv Tst	3.4%	Derivatives	3.6%	IRR since inception		3.33%
Majedie	3.3%			Financial Year-end		31 January
<b>Total</b>	<b>62.7%</b>			Ordinary Shares	(TCT)	36,975,000
				CULS	(TCTL)	9,325,000
				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.

This document is distributed by Cayenne Asset Management Ltd to Professional Clients and Eligible Counterparties only. It is solely for information purposes and is not intended to be, and should not be construed as, an offer or recommendation to buy or sell investments. If you are in any doubt as to the appropriate course of action, you are recommended to consult an independent financial advisor. The value of an investment in the Company, and the income derived from it, may go down as well as up and an investor may not get back the amount of money invested. The Company seeks to preserve capital and minimise volatility by the use of derivative instruments however, there is no guarantee that this strategy will be effective and therefore the value of the Company's investments may fall. The price of the Shares will be determined by supply and demand in the market as well as NAV per Share. The market price of the Shares is therefore likely to fluctuate and may represent either a premium or discount to NAV per Share. The use of borrowings (including CULS) should enhance returns to shareholders if the value of underlying assets rises but the it will have the opposite effect if assets decline. Past performance of the Company is not a guide to its future performance.