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The Cayenne Trust plc May 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 DJ Euro Stoxx 50 Index fell a further 6.0% during May, but outperformed many other regions as the Eurozone crisis showed signs of contagion. Despite a late rally, the FTSE 100 ended down 6.6%, having been 10% lower at one point and the S&P 500 declined 8.2%. The FTSE 350 Equity Investment Instruments Index benefited from sterling weakness and marginal discount contraction but still declined by 4.7%. The Trust remains positioned defensively and, as a result, losses were limited to 1.9%. The NAV of Apollo Fund plc, the Trust's largest single position, depreciated by 5.1%.

Once again, the hedge positions positively contributed towards the Trust's overall returns. Indeed, the active management and dynamic nature of the hedge produced a profit in excess of the loss made by the general equity positions held. Despite not being directly correlated to equity markets, the Trust's 20% exposure to special situations, accounted for much of the excess loss this month as sentiment impacted on private equity, utility and real estate assets. These asset classes are impossible to hedge effectively and, as such, will remain unprotected, other than by the discounts at which they are currently valued. There is great optimism that underlying assets are valued conservatively and that a cessation of market turbulence will allow for a continued recovery in their ratings. China Real Estate Opportunities made the largest single negative contribution to performance as the process of moving the company from AIM to Singapore got underway. Selling by UK retail investors ahead of this move undoubtedly impacted the price as trading volume remained thin. When this company starts trading as a Singapore Business Trust in June, it is expected that new investors will be attracted by this more relevant listing and that the reversal in price will prove temporary.

A small number of the Trust's marginal holdings were reduced or sold at close to Net Asset Value; the most notable being Invesco Perpetual UK Select and Temple Bar. Having made an exceptional contribution to recent performance, the JP Morgan Overseas position was slightly reduced as its shares traded at a premium to NAV following retail demand. This remains a significant position for the Trust but a partial realisation will allow for re-entry should the premium rating slip. The fortunes of both Aberforth Smaller Companies and Anglo & Overseas continue to suffer and the opportunity was taken to purchase stock in both funds at discounts in excess of 15%. These were the only two purchases of note.

In such trying times it is imperative that discount management tools are employed even more diligently than usual. In accordance with its on going commitment to repurchase shares available in the market at a 5% discount to NAV, the Trust was again active in buying shares into treasury. This month 190,000 shares were repurchased and the resulting 2,617,639 treasury shares are available for investors to buy at a discount of approximately 4%. As such, the Trust continues to provide liquidity in its own shares to the benefit of all shareholders.

Subscription Shareholders are reminded that 30 June 2010 marks their final opportunity to subscribe for ordinary shares at 106p. During May, the Trust's ordinary shares were marked ex the final dividend of 2.2p as declared by the Board. This dividend, as approved by shareholders at the AGM on 10 June, will be paid on 18 June 2010.

Top Ten Holdings				Underlying Exposure		Trust Details		Ordinary Shares	
Apollo Fund	6.5%	UK	23.4%	NAV per Share (Diluted)		122.49p			
Law Debenture	5.6%	Europe	15.3%	Mid-price per Share		117.50p			
3i Group culs	4.4%	N America	8.5%	Premium / (Discount)		(4.08%)			
Ecofin Water Pwr culs	3.9%	Asia	14.8%	Mid-price per sub share		12p			
China Real Estate	3.5%	Japan	1.6%	Mid-price per £100 nom culs		£100			
Anglo & Overseas	3.5%	Latam	2.0%	May NAV Return		(1.94)%			
British Empire	3.4%	Other	10.3%	Financial YTD NAV Return		5.41%			
JPM Overseas	3.2%	Fixed Int.	11.1%	IRR since inception		3.63%			
European IT	3.2%	Cash	11.7%	Net Assets		£47.1m			
Caledonia	3.1%	Index	(36%)	Gross Assets		£56.4m			
				Market Cap		£44.6m			
NAV Performance to 31 May 2010				Financial Year-end		31 January			
3 Months	6 Months	1 Year	3 Years	Ordinary Shares	(TCT)	37,972,818			
5.7%	8.0%	20.9%	1.7%	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		143.87p			

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

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