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The Cayenne Trust plc November 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

As expected, market volatility continued into November, with the major equity indices re-testing the lows of October. However, a strong rally into month-end saw the FTSE 100 record a relatively modest monthly fall of 2%. Elsewhere, the S&P 500 index fell 7.5%, while the MSCI World Index declined 6.7%. The Trust's most relevant index, the FTSE 350 Equity Investment Instruments Index recorded a decline of 4.3%. The Cayenne Trust's NAV increased 0.7% during November, resulting in a negative financial year to date return of 26.1%.

The ferocious battering of the investment trust market continues. The current outlook for the sector as a whole appears bleak, with plenty of commentators questioning the entire future of the closed-end structure. Many funds have reneged on their discount control policies; share buy backs are the only real source of liquidity as investors and market makers step back from committing capital to the sector. There is likely to be a period of consolidation as the ludicrous quantity, and dubious quality, of recent new issues caused supply to far outweigh demand in these dysfunctional markets. Despite current fears, history suggests that the closed-end sector is cyclical and times such as these usually provide the greatest opportunity. Although the Trust has the ability to take advantage of such opportunities, due to its large cash position, the Manager remains wary of the numerous 'value traps' in the market.

As notified to the market on 21st November 2008, the cost of hedging the Trust's portfolio had increased to an unacceptable level following the declines in global equity markets and the related rise in volatility. This was deemed unlikely to provide sufficient protection against continued falls in equity valuations, and to continue hedging when markets may stage a recovery could prove to be counter-productive. The decision was taken, with the approval of the Board, to run significantly smaller hedge positions and a larger cash balance (in the form of Gilts) to act as a cushion against any further market falls.

Hedging aside, portfolio activity during November was relatively quiet. The position in Alliance Trust was increased at attractive levels and the deeply discounted holding in China Real Estate Opportunities was added to. The holding in Terra Catalyst Fund, managed by Laxey Partners, was increased in the belief that, to retain any credibility, the Board will shortly be compelled to buy in shares to meet discount control obligations. This company had committed to repurchase shares if, for a period of 20 days, the discount is in excess of 15%, so it beggars belief that the shares currently trade at a 40% discount.

Top Ten Holdings		Underlying Exposure		Trust Details		Ordinary Shares
Treasury 4% 2009	9.0%	UK	23.8%	NAV per Share		87.93p
Ecofin Water & Pwr	8.7%	N. America	8.9%	Mid-price per Share		85.0p
Apollo Fund	6.4%	Europe	13.9%	Premium / (Discount)		(3.33%)
Treasury 4¾% 2010	5.3%	Asia	3.9%	Net Assets		£29.95m
Treasury 4¼% 2011	5.3%	Japan	1.9%	Gross Assets		£39.25m
Electric & General	5.0%	Latin Am	1.5%	Market Cap		£28.96m
Scottish Mortgage	4.9%	Other	16.2%	November NAV Return		0.71%
Law Debenture	4.1%	Cash & FI	29.9%	Financial YTD NAV Return		(26.06%)
Alliance Trust	3.8%	Derivatives	0%	IRR since inception		(6.83%)
Schroder Inc Gth	3.5%			Financial Year-end		31 January
Total	52.6%			Ordinary Shares	(TCT)	34,066,500
				CULS	(TCTL)	9,171,000
				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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