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The Cayenne Trust plc October 2007

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

Global equity markets continued their strong recovery in October following the recent turmoil in the credit markets. Emerging markets were particularly strong with Brazil and India increasing 8% and 14% respectively. The Dollar continued its slide against major currencies and reached a low of over US\$2.07 against Sterling at month end. The price of oil reached US\$96 a barrel adding concerns to global inflation. Against this background, the FTSE 100 Index rose just under 4%, while the S&P 500 Index increased by 1.5%. The Trust's most relevant index, the FTSE 350 Equity Investment Instruments Index was up 3.5% during October. The Cayenne Trust plc's NAV increased 0.48% over the month with a financial year to date increase of 3.7%.

Positions in World Trust Fund and RIT Capital were sold during October. World Trust Fund in particular has outperformed its peers due to its large exposure to emerging markets. Several positions were reduced including Electric & General, Caledonia and British Empire with a view to creating capacity to re-enter when prices subside. The listed property sector has fallen sharply over recent months with concerns over the commercial property market causing many funds to languish on discounts of over 30%. The Trust has made a small initial investment in this sector and will continue to monitor the sector closely.

Prelude Trust, which was purchased as a 'sleeper' position awaiting the maturity of their portfolio of venture capital investments, announced a decrease of some 7% in their NAV for the end of September. This was particularly disappointing as the management had indicated in July that the NAV would be broadly flat through the year end, followed by the potential for some useful realisations or revaluations. It is difficult to continue to trust a management group that appears so incompetent at forecasting the value of their holdings. At the current share price however, down 15% since the news, there is little option but to continue to hold the position and pressurise the company into raising cash to return to shareholders. This position, together with widening discounts, held back the performance of the Trust leaving the portfolio with substantial value relative to historical levels. There is always a lag effect and it is to be expected that, if markets continue at these levels, some of these prices will bounce back to their previous levels sooner rather than later.

In terms of the hedge book, a new FTSE 100 Index Put Spread for January expiry was purchased to ensure that the delta adjusted market exposure remained at the correct levels. The Trust remains well hedged against any market setbacks. Apollo Fund plc, the Trust's largest position increased 0.39% over October.

Top Ten Holdings		Underlying Exposure		Trust Details		Ordinary Shares	
Apollo Fund	13.6%	UK	36.5%	NAV per Share		122.97p	
Electric & General	6.3%	N. America	8.9%	Mid-price per Share		121.25p	
Ecofin Water & Pwr	5.8%	Europe	14.1%	Premium / (Discount)		(1.40%)	
Scot Mortgage	5.3%	Asia	7.4%	Net Assets		£52.23m	
Monks	5.0%	Japan	2.1%	Gross Assets		£62.45m	
Treasury 7¼% 12/07	4.8%	Other	14.4%	Market Cap		£51.50m	
Fidelity Special Val	4.7%	Cash & FI	13.9%	October NAV Return		0.48%	
Utilico	4.4%	Derivatives	2.7%	Financial YTD NAV Return		3.73%	
Real Est Opps ZDP	4.2%			IRR since inception		7.15%	
Perpetual Inc & Gth	4.2%			Financial Year-end		31 January	
				Ordinary Shares	(TCT)	42,475,143	
				CULS	(TCTL)	10,000,000	
				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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