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The Cayenne Trust plc October 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

Against a background of economic and financial turmoil, the FTSE All Share Index ended October down 12%, despite having been down 22% at one stage during the month. Elsewhere, the MSCI World Index was down 19%, while the DJ Euro Stoxx 50 was down 15%. Sterling weakened by more than 10% against the US Dollar while global oil prices recorded their worst ever recorded monthly fall. The FTSE 350 Equity Investment Instruments Index, the Trust's most relevant index fell 18% taking this year's decline to 35%. The Cayenne Trust plc's NAV fell 14.2%, resulting in a financial year to date decline of 26.6%.

Listed private equity and commercial property were two of the worst hit sectors in the Trust, with discounts widening further as doubts over future asset values and funding requirements affecting sentiment dramatically. As de-leveraging continued, global equities declined dramatically and the Trust's holding in Scottish Mortgage, suffered a terrible month with its net asset value declining 25%. This trust has been a stellar performer over the past four years, but gave back most of this performance in as many weeks. Elsewhere, Utilico fell by 32%, Utilico Emerging warrants by 60% and Hansa Trust by 31% in very thin volumes as market makers stepped away from committing any capital to the sector.

With the market in freefall, many discounts within the investment trust universe narrowed considerably as the market failed to keep up with the performance of underlying holdings, causing some trusts to trade at premiums to net asset value. The opportunity was taken to reduce some positions into this pricing anomaly, such as Temple Bar, Perpetual Income and Growth and Law Debenture. Relatively liquid FTSE 100 iShares, that directly track the index, were bought to replace these positions to ensure that the portfolio participated in any market recovery, without potential discount widening diluting returns. This trade proved profitable for the Trust and offered a degree of flexibility in managing the portfolio's beta and meant that the hedge position required limited adjustment. In the case of Law Debenture, the position was bought back as the valuation later returned to more sustainable levels. In terms of new positions, BlackRock World Mining was purchased during the month when the mining sector looked oversold in the short term, while a small holding in Artemis Alpha was taken at an attractive discount to net asset value. A position in Alliance Trust was also bought as the shares languished on an historically wide discount to net asset value.

The Trust enjoys a large cash equivalent position, in the form of short dated Gilts, that will be used to take advantage of opportunities as they arise. However as equity markets remain volatile, this cash position is proving invaluable in hedging the gearing of the portfolio.

Top Ten Holdings		Underlying Exposure		Trust Details		Ordinary Shares	
Apollo Fund	9.7%	UK	30.1%	NAV per Share		87.29p	
Treasury 4% 2009	9.0%	N. America	9.2%	Mid-price per Share		83.5p	
Ecofin Water & Pwr	8.6%	Europe	14.3%	Premium / (Discount)		(4.34%)	
Treasury 4¾% 2010	5.3%	Asia	4.0%	Net Assets		£29.77m	
Electric & General	5.1%	Japan	1.9%	Gross Assets		£39.02m	
Scottish Mortgage	5.1%	Latin Am	1.5%	Market Cap		£28.48m	
Law Debenture	4.4%	Other	16.0%	October NAV Return		(14.24%)	
Ishares FTSE 100	3.9%	Cash & FI	19.1%	Financial YTD NAV Return		(26.58%)	
Schroder Inc Gth	3.7%	Derivatives	3.9%	IRR since inception		(7.26%)	
New Star Inv Tst	3.4%			Financial Year-end		31 January	
Total	58.2%			Ordinary Shares	(TCT)	34,106,500	
				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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