



The Cayenne Trust plc October 2011

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

Having experienced such a poor third quarter, it was perhaps inevitable that equity markets would attempt to stage some kind of a fight back. Few could have predicted a rally of such magnitude that, at one point, the FTSE 100 was 17% off its intra-month low. Some of these gains were eventually given up and the FTSE 100 recorded a return of 8.1% over the calendar month. This volatility was largely a symptom of the political brinkmanship being played out in the Eurozone. It is likely that longer term investors will continue to ignore value investments until a catalyst materialises or until the tribulations of global financial markets are relegated from the front pages.

With the NAV declining 1%, the Trust performed relatively poorly against such unbridled, and perhaps misplaced, euphoria. While it is always a disappointment to report a negative monthly return, it is important to retain focus on the longer term over which the Trust continues to generate respectable returns, with low volatility by concentrating on fundamental value and controlling risk.

Long equity positions performed positively with higher beta funds leading the way. Market strength was used to reduce exposure to some of these names and consequently the Scottish Mortgage and British Empire positions were sold in their entirety. Exposure to Blackrock World Mining was reduced substantially at the month end, as the price recovered sharply from the 12 month low experienced earlier in October.

The Trust's exposure to the deeply discounted Listed Private Equity (LPEq) sector was adjusted, with the partial sale of F&C Private Equity and the purchase of Electra. These holdings were subsequently the worst and best performing funds respectively within the Trust's alternative equity portfolio. 3i Group also recovered well and this position was therefore reduced. Press reports now suggest that activist investor, Laxey Partners, is proposing that 3i should distribute its holding in 3i Infrastructure to shareholders. Cayenne has long been an advocate of the disposal of this stake, but disagrees with Laxey's reported mechanism for the process. We suggest that the 3i Infrastructure position is sold and the cash raised used to repurchase 3i shares in the market. Elsewhere in the LPEq sector, Q3 results are starting to flow and so far there have been few surprises. In addition, news of realisations above the carrying value adds weight to the argument that this sector remains desperately undervalued, especially as boards are finally becoming more proactive in enhancing value for shareholders.

Ecofin Water & Power's initial investment focus brought some early success, but as it drifts further into the renewable energy sector, the decision was taken to reduce exposure to this investment. The proceeds of this sale were reinvested into Picton Property Income, which has a well-managed portfolio of commercial property based predominantly in the south-east of England. Following the move to a self-managed status, the interests of management and shareholders are more clearly aligned. It also appears that the managers are attempting to grow the business via opportunistic acquisitions, which should add value in the long-term. The Trust has been invested in Picton before and recent price weakness creates an opportunity to re-invest at a discount of 35%. A covered yield of nearly 10% is more than adequate reward for the patience that may be required before a better rating is attained.

The Trust's portfolio continues to be well hedged using a combination of puts on the FTSE 100 and short futures positions. During the month, 25,000 shares were repurchased at a 5% discount to NAV. There are now 2,345,945 shares held in treasury, which are available for reissue at a discount to NAV of 4%.

| Top Ten Holdings | | Underlying Exposure | | Trust Details | | Ordinary Shares | |
|-----------------------|------|---------------------|--------|-----------------------------|--------|-----------------------|--|
| Apollo Fund PLC | 5.2% | Equity | 44.1% | NAV per Share | | 125.30p | |
| Law Debenture | 4.6% | Alt. Equity | 28.3% | Mid-price per Share | | 120.00p | |
| Thames River Hedge+ | 4.4% | Real Estate | 10.6% | Premium / (Discount) | | (4.23%) | |
| Pantheon Intl | 3.9% | Fixed Int | 7.6% | Mid-price per £100 nom culs | | £104.50 | |
| Treasury China Trust | 3.8% | Warrants | 2.0% | NAV Return | | (1.11%) | |
| Caledonia | 3.6% | Cash | 6.4% | Fiscal Year NAV Return | | (5.51%) | |
| Utilico Investments | 3.6% | Put Options | 1.1% | NAV Return since inception | | 20.03% | |
| Edinburgh Dragon culs | 3.5% | Index Short | | IRR since inception | | 3.29% | |
| F&C Private Equity | 3.4% | Delta Adj | (38.5) | Net Assets | | £51.69m | |
| SVM Global | 3.3% | Gross | (100%) | Gross Assets | | £66.58m | |
| | | | | Market Cap | | £49.51m | |
| | | | | Fiscal Year-end | | 31 January | |
| | | | | Ordinary Shares | (TCT) | 41,256,965 | |
| | | | | CULS | (TCTL) | 14,953,523 | |
| | | | | Management Fee: | | 1% | |
| | | | | Performance Fee: | | 10% above hurdle rate | |
| | | | | Hurdle Rate: | | 5% per annum | |
| | | | | High Water Mark 31/01/12 | | 147.91 (141.31 xd) | |

NAV / AIC Global Sector to 31 October 2011

| | 3 Month | 6 Month | 1 Year | 3 Year | 5 Year |
|--------|---------|---------|--------|--------|--------|
| NAV | (6.4%) | (5.8%) | (0.2%) | 48.8% | 15.8% |
| Sector | (6.8%) | (9.0%) | (1.0%) | 45.9% | 17.2% |

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