



Cayenne Asset Management Limited
23 Buckingham Gate
London SW1E 6LB

T: 020 7233 8899
F: 020 7233 8989
E: info@cayenneasset.com

The Cayenne Trust plc September 2006

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

September proved to be another relatively quiet month, despite well documented failures in the hedge fund industry and the related fall in hydrocarbon fuel and other commodity prices. In the US, hopes of a soft landing increased as oil declined while the dollar strengthened a little and the yield curve flattened from its previously inverted state. Major equity markets (with the exception of Japan) continued to recover from the lows of June and are now re-testing 2006 highs. The S&P 500 advanced by 2.5%, while European stocks also headed higher. In the UK, the FTSE 100 struggled to keep pace with overseas rivals, due in part to high weightings in oil and commodity stocks. Mid-cap stocks fared much better as the FTSE 250 index continued its strong recovery by gaining 4% on continued M&A speculation. The Trust's most relevant index, the FTSE 350 Equity Investment Instruments Index, benefited from the majority of these factors and hence gained 2.6%. The Trust made reasonable gains during the month with the NAV increasing by 1.65% while the price increased by only 0.46%. This equates to an NAV gain of 1.16% for the financial year to date but a price gain of 2.56%.

Portfolio turnover continued to be light as valuations remained in a tight range. However, the Trust was able to add to its positions in Perpetual Income & Growth and Electric & General Investment Trusts at discounts in excess of 7%. The Trust took advantage of the stock market strength to slightly reduce positions in a number of the other generalist trusts. A purchase of Strategic Equity Capital was undertaken when the discount to NAV reached double figures. In the venture capital sector the position in Electra was sold into a share buyback at a discount of 2.5% as the company failed to offer any other positive action from their recent strategic review. The decision was also taken to decrease exposure to HG Capital whose portfolio valuations now appear to be up with events.

Apollo Fund plc, the Trusts largest holding, also produced reasonable returns with the NAV increasing 1.32%. The hedge position was maintained to provide protection against potential market weakness.

Top Ten Holdings				Underlying Exposure		Trust Details		Ordinary Shares	
Apollo Fund	13.9%	UK	44.4%	NAV per Share		111.18p			
Scottish Mortgage	8.6%	N. America	10.5%	Price per Share		110.25p			
Electric & General	6.7%	Europe	18.2%	Premium / (Discount)		(0.84)%			
Edinburgh	6.6%	Asia	6.6%	Net Assets		£47.22m			
Perpetual Inc & Grth	5.2%	Japan	3.3%	Gross Assets		£57.22m			
Real Est Opps ZDP	4.4%	Other	3.3%	Market Cap		£46.83m			
Utilico Emerging	3.9%	Cash & FI	12.0%	September NAV Return		1.65%			
JPM Fleming Merc	3.8%	Derivatives	1.7%	Financial YTD NAV Return		1.16%			
Murray Income	2.8%			IRR since inception		1.75%			
				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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