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The Cayenne Trust plc September 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

The list of falling indices for September was extensive but of particular note were the FTSE 100 Index which fell 13.0%, the S&P 500 down 9.1% and the FTSE 350 Equity Instrument Index down by a massive 14.2%. The global credit crisis reached a crescendo at the end of the month with the failure of American politicians to pass the Paulson rescue plan. Against this background, the Trust's NAV declined 4.6% in September, resulting in a negative return of 14.4% for the financial year to date. The discount narrowed to 3.1%.

With high levels of volatility in the markets, much of the trading activity was undertaken within the relatively liquid hedge book. Index put spreads were rolled down and short exposure was reduced at month-end as the FTSE 100 fell to 3 year lows below 4700. With the impending adoption of TARP in Washington, it was felt that this was a prudent step in order to reduce the risk of a significant loss of put premium should markets rally strongly. This obviously proved to be somewhat premature, as the malaise continued into October as the crisis deepened. It is clear that markets are significantly oversold but fear reigns. Despite this panic, this reduced level of hedge seems appropriate while the Company's cash exposure now equates to a quarter of its gross assets. Much of this liquidity is invested in short dated gilt edged securities and a small amount is on deposit at the custodian; JP Morgan Chase. The remainder, nearly \$7m, is held within Apollo Fund which has spent the last few weeks raising cash levels in response to a redemption request from the largest shareholder. This redemption triggered the need for other shareholders to reduce their positions and, as a result, the board of Apollo has decided that all cash will be returned to investors in an orderly manner. The first such payment, representing 50% of the Company's investment, was made on 10th October. Apollo also holds some illiquid assets on deeply distressed valuations and the manager, in response to shareholder requests, is examining the possibility of establishing a successor vehicle to hold these investments for a defined period to allow a return of capital at more reasonable valuations as some semblance of order returns to markets.

Over the course of September, the Company repurchased a total of 258,000 shares into treasury at an average discount of approximately 5%.

Top Ten Holdings		Underlying Exposure		Trust Details		Ordinary Shares	
Apollo Fund	17.5%	UK	27.4%	NAV per Share		102.11p	
Ecofin Water & Pwr	8.1%	N. America	6.1%	Mid-price per Share		99.00p	
Electric & General	5.1%	Europe	12.6%	Premium / (Discount)		(3.05%)	
Law Debenture	5.1%	Asia	3.9%	Net Assets		£35.71m	
Scottish Mortgage	5.1%	Japan	1.8%	Gross Assets		£45.08m	
Real Estate Opps	3.9%	Latin Am	1.1%	Market Cap		£34.62m	
Utilico	3.5%	Other	18.1%	September NAV Return		(4.64%)	
New Star Inv Tst	3.4%	Cash & FI	24.3%	Financial YTD NAV Return		(14.43%)	
Schroder Inc Gth	3.2%	Derivatives	4.7%	IRR since inception		(2.01%)	
Perpetual Inc & Gth	3.0%			Financial Year-end		31 January	
Total	57.9%			Ordinary Shares	(TCT)	34,973,500	
				CULS	(TCTL)	9,295,000	
				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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