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The Cayenne Trust plc
September 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

Markets endured a third turbulent month resulting in the worst quarter since 2002, with the Euro again at the eye of the storm. The FTSE 100 fell 5% and the FTSE Equity Investment Instruments Index, the Trust's most relevant index, declined by 6.5%. The Trust encountered a difficult month with the NAV falling 3.5%. This equates to a decline for the fiscal year of 4.1% and for the calendar year of 4.5%. While disappointing in absolute terms, the Trust continues to perform well against many of its peers and equity indices over most time periods (as shown below left). This negative performance comes in spite of significant portfolio protection and can be attributed to a particularly poor period for alternative investments.

The Listed Private Equity (LPE) sector experienced significant headwinds during September despite deeply discounted valuations. Evidence suggests that, despite current economic uncertainty, secondary Limited Partnership transactions are continuing to attract demand and that these are currently being priced at asset value or a small discount. Following last month's de-rating, the LPE sector is, on average, valued at a discount in excess of 35%. The increasing disparity between these two markets suggests that a significant re-rating of the sector is necessary. In addition, many LPE funds with direct investments are completing portfolio sales at, or in excess of, book valuation. It is difficult to see this dislocation in valuation persisting and, although Q3 NAVs are likely to be revised down, it appears that much, if not all, the bad news is priced in. Various meetings with managers have been held over the recent weeks and confidence remains that the sector is in far better shape than market prices would indicate. The Trust, together with other portfolios managed by Cayenne Asset Management, now holds significant stakes in a number of these funds and will not hesitate in engaging with Boards if action to reduce these discounts is not forthcoming in the short term.

The Real Estate sector is equally frustrating and shares many of the problems associated with LPE. Again, we see these more esoteric alternative sectors being overlooked and thus prices are liable to overshoot on the downside as any sell orders fail to attract buying interest. As has happened numerous times in the past, this imbalance will be resolved over time and patience should be rewarded over the longer term. However, as with LPE, Boards urgently need to focus on these issues so that shareholders can be confident that their interests are being protected and their concerns are being addressed. In the meantime, we will continue to work to protect and enhance our interests as shareholders and remain confident that the inherent value will be extracted in the long run.

On a more positive note, the Trust's equity portfolios held up relatively well and outperformed most equity indices. Equity market weakness was counteracted by hedge positions which protected the portfolio against losses from this exposure. There were even a few positive performers to note including Utilico and the two technology trusts managed by Polar Capital and RCM. IT continues to be an interesting theme where rapid development of internet based technologies continue to enable corporate cost reduction. In these austere times, it appears that these funds are well placed to benefit from exposure to the low capex environment of the cloud, virtualization and mobility. Meanwhile, M&A in the sector continues to lend support to undemanding valuations.

Over the summer, one of the Trust's larger shareholders informed the manager that he needed to realise his investment. Approximately two-thirds of this holding was acquired by other investors and one third was repurchased by the Trust. The final part of this transaction was completed in September and, as a result, 592,853 shares were repurchased into Treasury at a 5% discount. There are now 2,320,945 share in Treasury which are available for re-issue at a 4% discount.

Top Ten Holdings		Underlying Exposure	
Apollo Fund PLC	5.2%	Equity	45.5%
F&C Private Equity	4.6%	Alt. Equity	27.9%
Thames River Hedge+	4.4%	Real Estate	8.5%
Law Debenture	4.3%	Fixed Int	7.5%
Pantheon Intl	3.6%	Warrants	1.8%
3i Group	3.5%	Cash	6.1%
Treasury China Trust	3.5%	Put Options	2.7%
Edinburgh Dragon culs	3.5%	Index Short	
Caledonia	3.4%	Delta Adj	(40%)
Ecofin Power & Water	3.4%	Gross	(90%)

NAV / AIC Global Sector to 30 September 2011

	3 Month	6 Month	1 Year	3 Year	5 Year
NAV	(5.6%)	(4.3%)	4.2%	28.6%	19.9%
Sector	(13.1%)	(12.5%)	(3.2%)	21.9%	12.9%

Trust Details		Ordinary Shares
NAV per Share		126.70p
Mid-price per Share		121.00p
Premium / (Discount)		(4.50%)
Mid-price per £100 nom culs		£104.50
NAV Return		(3.45%)
Fiscal Year NAV Return		(4.46%)
NAV Return since inception		21.30%
IRR since inception		3.53%
Net Assets		£52.30m
Gross Assets		£67.18m
Market Cap		£49.95m
Fiscal Year-end		31 January
Ordinary Shares	(TCT)	41,281,965
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)

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