

# The Cayenne Trust plc

## Results for the year to 31 January 2009

*A soft copy (PDF) of the full Report & Accounts of the Company for the year to 31 January 2009 can be downloaded from the Company's website at: [www.thecayennetrust.com](http://www.thecayennetrust.com)*

### Chairman's Statement

During the financial year under review, the Company's Net Asset Value ("NAV") per Ordinary share, calculated in accordance with AIC guidelines, declined 33.99p (28.18%) and a dividend of 1p was paid on 16<sup>th</sup> May 2008. This equates to a total return for the year of (27.35%). 31 January 2009 marks the end of the third year since Cayenne Asset Management Limited took over the investment management of your Company and during this period the NAV (total return) per Share has declined 23.26p (21.17%) compared to falls in the FTSE 350 Equity Investment Instruments Index ("FTSE 350 EIII") and FTSE All Share Index of 27.27% and 29.01% respectively. This has been a tumultuous year in global markets and the reasons for the Company's performance are set out in the Investment Manager's report which follows. It is disappointing to report a loss of this magnitude despite your Company's strong performance relative to its peer group.

As a result of an increase in income received by the Company in the last financial year, your Board is recommending a final dividend of 1.4p (2008: 1.0p). If approved by shareholders, this will be paid on 12 June 2009. This significant increase in the dividend is due to two factors. First, income has been received on substantial liquid positions, consisting of gilt edged securities and short term cash holdings, resulting from the realisation of equity positions during the year. Secondly, shares repurchased by your Company during the year carry no entitlement to dividends and accordingly revenue earned is being shared amongst fewer shares outstanding at year end. Shareholders should not assume that the Company will attempt to maintain this level of dividend in future years.

Your Board's commitment to the Company's stated policy, to repurchase shares available in the market at prices representing discounts greater than 5% to NAV, resulted in 4,637,893 Ordinary shares being repurchased during the year. 3,975,643 of these were cancelled together with £829,000 nominal of the Company's Convertible Unsecured Loan Stock. Your Company has been one of a limited number of investment companies to adhere to its stated intent to manage the discount at which its shares trade and shareholders have therefore benefited from very low discount volatility.

Enclosed with this Annual Report is a circular which sets out details of a proposed bonus issue of subscription shares. If shareholders pass the relevant resolution, subscription shares will be issued in a ratio of one subscription share for every five existing Ordinary shares (excluding those held by the Company in treasury). Should these subscription shares be subsequently subscribed, shareholders will benefit from an increase in the share capital of the Company and in its net assets, which is likely to increase the liquidity of the shares in the market. Shareholders will also benefit from a reduction in the Total Expense Ratio which had recently been increasing, due in part to the smaller number of shares in issue as a result of share repurchases by the Company.

While it is too early to say whether financial markets are ready to stage a recovery the portfolio exhibits some extremely good characteristics. Your Company currently has one quarter of its assets held in short dated liquid securities which the Investment Manager believes can be re-invested opportunistically as cash is received over the next few months. In addition, should the subscription for new shares be forthcoming, there will be opportunity to commit this cash to a sector which is likely to contain shares having exceptional reward/risk characteristics.

**Jonathan Agnew**

*Chairman*

15 April 2009

## Investment Manager's Report

The year under review was dominated by the most tumultuous events experienced in global financial markets for several generations. While difficult times had been anticipated, the scale of the problems that emerged dwarfed all expectations. Markets started the year quietly, albeit with some trepidation of what might beset them as the scale of excess leverage within the system came to light in 2007. By early Spring the first of a series of financial tsunamis appeared and these escalated in speed, size and severity as the year progressed. In the USA, Bear Stearns, Lehman Brothers, Fannie Mae, Freddie Mac, and AIG collapsed. Meanwhile, the ebbing tide appears to have exposed some high profile names as frauds of exceptional proportions and longevity. Internationally and domestically, it now transpires that the banking industry was built upon a bed of sand. Financial oversight was liberalised with Bank of England independence and the repeal of the Glass-Steagall Act in the US. At the same time, interest rates trended lower and financial engineering became ever more innovative. As banking balance sheets and collateral values were artificially inflated, easy lending fuelled the retail obsession and shopping became the national pastime.

Warning here a year ago that, 'this crisis may still be far from over', steps were taken in an attempt to insulate the portfolio from adverse conditions. Unfortunately, the Company appears to have fared particularly badly over the year. What went so wrong that, even with correct foresight, such poor returns were experienced? The short answer is that performance relates to various combinations of three related issues; leverage, illiquidity and volatility.

Throughout the year, the Company maintained exposure to a number of blue chip funds which were considered to be of superior quality. Of these, Alliance Trust, EP Global, Perpetual Income & Growth and Schroder Income Growth put in commendable performances. Meanwhile, Scottish Mortgage and Law Debenture suffered a particularly turbulent period and cost the Company significant NAV erosion. In hindsight, it was erroneous to hold these positions as the climate deteriorated. Scottish Mortgage was clearly poorly positioned for the environment but having significantly reduced the position close to its peak, it now seems prudent to maintain the current exposure to benefit from any return of stability in global markets. Law Debenture made some early forays into a declining market and suffered as a consequence. It is believed that there is significantly more value now inherent in Law Debenture's trustee business as the economic climate deteriorates and as it becomes a greater proportion of the fund's assets.

Recognising that 2008 was likely to be a difficult year, a decision was taken to increase cash positions within the Company to counteract the potential for a worsening climate. Investors will remember that, even in the best of times, the closed-end fund sector is not blessed with an abundance of liquidity. For this reason, as 2008 got underway, an effort was made to increase cash by reducing exposure to more easily tradable but higher risk equity funds. These were positions which could be easily re-entered as the storms passed. Emerging market exposure was reduced as Monks and Scottish American were sold. Smaller company exposure was reduced by the sale of Aberforth Smaller Companies and Caledonia was sold to reduce potential concerns over smaller financial stocks and the possibility of discount expansion.

The effect of these sales was to further concentrate the portfolio in less liquid issues which tended to be investment companies in which the respective managers had significant shareholdings. These also tended to be funds where the underlying assets have historically been less correlated to equity market movements. The rationale was clear. In difficult times, it is prudent to align one's interests with the people calling the shots. These managers tend to purchase deeply discounted assets with a long term view that substantial value will, over time, be realised. As major owners of their companies they generally consider themselves somewhat immune from the problems of short term volatility but sometimes need reminding of their obligations to public shareholders.

Being invested alongside some of these managers, in these markets, has proved to have been poor judgement as they have been unable for various reasons to give much, if any, support to their share prices. In some cases, they made some very poor investment decisions resulting in the permanent loss of capital which has affected parts of their portfolios. Much of this was caused or exacerbated by the presence of structural leverage in various investments. The failure to consider the potential magnitude of the disruption to the system caused by the uniquely dire set of circumstances outlined above resulted in significant losses. In hindsight, some apparently obvious mispriced situations, especially in the real estate sector, were in fact "value traps" into which the Company was drawn and, as yet, has failed to exit.

Much has been written here and in the monthly Investment Manager's reports on the subject of Real Estate Opportunities zero dividend preference shares. It is possible that the market is right and that the year-end valuation of 20p is a fair price, in this environment, for a quasi-bond with a two year life redeeming at 235p. The company is highly leveraged, although not on the scale of many other property companies. Assets are in Ireland, Battersea and China with the former particularly out of favour and management are in the process of renegotiating loans with a recently nationalised Irish bank. There is every chance that the new terms will be more punitive. It is

believed that the Irish Government will seek to avoid calling in these debts and attempt to find a solution which leaves the management in control, the shareholders intact (but diluted) and the assets in private ownership.

New Star Asset Management's trials and tribulations have been well documented in the news media. The principal, John Duffield, released equity from the company in 2007, increasing its leverage and in 2008 it breached covenants and ended up in bank ownership. It is currently being sold for a fraction of its previous value. The Company owns New Star Investment Trust (NSI), an independent corporate entity which invests in funds managed by New Star and more recently, by other managers. NSI is 60% owned by John Duffield and it was assumed that he would be keeping a close eye on the portfolio make-up to carefully select best ideas for investment. The NAV of the company declined 40% and the share price by 48% over the period. At a 37% discount to NAV and with management about to change, the future structure of this company is surely up for debate.

Utilico Investment Trust and its sister fund, Utilico Emerging caused significant distress over the period. The price of the former declined 70% and the latter, where the warrants were held, fell by 88%. An accusation could be levelled that leveraged returns contributed to and perhaps flattered the long term track record, but their portfolio seemed to have the right ingredients for the climate. The opposite was unfortunately true as hedges proved insufficient, core investments were annihilated and the leverage increased into a declining market. However, with a discount at the company level of over 30% and look through discounts on its holdings far in excess of this, no immediate exit is being sought.

The savage de-rating of listed private equity reflects the challenging landscape for the sector, however, the apparent widespread falls in share prices have opened several interesting opportunities which the Company has taken advantage of. The first of these, 3i Group, has been particularly hard hit in part due to unfounded rumours of a rights issue that may be required to shore up the company's balance sheet. Although the company is highly geared, there is a reasonable degree of flexibility with both its debt arrangements and future funding commitments, making the shares an attractive investment at a discount of over 70% to NAV. Similarly the company's convertible unsecured loan stock was bought yielding over 20% and trading significantly below par. Other positions of note are Electra Private Equity and LMS Capital which have net cash and are conservatively managed with low levels of outstanding future commitments. Quality management with cash reserves and access to deals should have the ability to create substantial value for shareholders in the medium term.

Investing in the commercial property sector over the past twelve months has been as painful as attempting to catch the proverbial falling knife. Listed real estate funds have suffered particularly badly as declining asset values in their leveraged structures have put enormous pressure on the covenants on outstanding bank loans. Although the initial investment in the sector has been somewhat premature, at current levels the market value of many companies could be said to represent a call option on a return to stability. Confidence remains that ING UK Real Estate could benefit markedly once there is further clarity over the renegotiation of its loan covenants.

Thus, the Company's portfolio was exposed to investments which were, to a greater or lesser extent, pervaded by illiquidity and leverage; two of the enemies highlighted earlier. In addition, errors in qualitative judgement were made in relation to how some managers would behave in times of crisis. To compound this negativity, illiquidity and leverage increased exponentially over the year as the crunch became a full blown crisis from which paralysis has ensued. Enormous intra-day volatility gathered momentum over the course of the year with currencies, equities and corporate debt making historical monthly price movements in hours of trading.

This was the 'wrong sort of volatility', and in particular the kind of volatility which makes it impossible to trade and worse, makes it impossible to hedge in a cost effective manner. It became prohibitively expensive to buy puts, and shorting large amounts of index futures was potentially dangerous in rising markets as the Company's assets became less correlated with major indices. The solution was to increasingly rely on index put spreads to capture quantifiable declines rather than open ended falls. As markets fell in an orderly manner, this strategy was moderately successful as strike prices could be reset lower and further out to maintain protection. Again, a failure to correctly predict the catastrophic sell off following the collapse of Lehman Brothers meant that this put spread strategy was insufficient to protect the portfolio from the market's 30% decline in the autumn.

On 21 November 2008, the Company announced that the cost of hedging had become prohibitively expensive and that the risk of losses in a significant bear market rally had materially increased. To that extent, all the put spreads were sold and the resulting cash was added to existing deposits to provide a cushion against further market falls. In January, following a stock market rally, some futures were sold to partially reinstate the hedge position. At the year-end, the Company's portfolio was approximately 50% exposed to listed equity markets, 25% to alternative assets and utilities and 25% in cash and short-dated securities. In addition, the short positions on the FTSE 100 covered nearly 20% of the portfolio.

## Income Statement

	Year ended 31 January 2009			Year ended 31 January 2008		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Losses on investments held at fair value	-	(16,355)	(16,355)	-	(1,555)	(1,555)
Current assets held at fair value:						
Gains on futures contracts	-	497	497	-	-	-
Gains on listed put warrants	-	5,357	5,357	-	2,382	2,382
(Losses)/gains on forward currency contracts	-	(1,480)	(1,480)	-	151	151
Gains on cancellation of 3.25% Convertible Unsecured Loan Stock 2011	-	90	90	-	-	-
Exchange differences	-	(33)	(33)	-	(26)	(26)
Investment and other income (note 2)	1,149	-	1,149	990	-	990
Investment management fee	(78)	(313)	(391)	(94)	(377)	(471)
Other expenses	(342)	(21)	(363)	(311)	(30)	(341)
<b>Net return/(loss) before finance costs and taxation</b>	<b>729</b>	<b>(12,258)</b>	<b>(11,529)</b>	<b>585</b>	<b>545</b>	<b>1,130</b>
Interest payable and similar charges	(100)	(400)	(500)	(106)	(424)	(530)
<b>Return/(loss) on ordinary activities before taxation</b>	<b>629</b>	<b>(12,658)</b>	<b>(12,029)</b>	<b>479</b>	<b>121</b>	<b>600</b>
Tax on ordinary activities	-	-	-	-	-	-
<b>Transfer to / (from) reserves</b>	<b>629</b>	<b>(12,658)</b>	<b>(12,029)</b>	<b>479</b>	<b>121</b>	<b>600</b>
<b>Return / (loss) per Ordinary share: (note 3)</b>						
Basic	1.76p	(35.42)p	(33.66)p	1.13p	0.29p	1.42p
Diluted	1.72p	(35.42)p	(33.66)p	1.13p	0.29p	1.42p

The total column of this statement is the profit and loss account of the Company. The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies.

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the year.

A statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

## Reconciliation of Movements in Shareholders' Funds

	Share Capital £'000	Share Premium £'000	Special Reserve £'000	Capital Redemption Reserve £'000	Equity Component CULS 2011 £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
<b>At 31 January 2008</b>	<b>10,401</b>	<b>9,192</b>	<b>22,926</b>	<b>218</b>	<b>1,161</b>	<b>2,722</b>	<b>634</b>	<b>47,254</b>
3.25% Convertible Unsecured Loan Stock 2011 bought back and cancelled	-	-	-	-	(96)	8	-	(88)
Shares bought back and held in treasury	-	-	(4,881)	-	-	-	-	(4,881)
Shares cancelled out of treasury	(994)	-	-	994	-	-	-	-
Net (loss)/return from ordinary activities	-	-	-	-	-	(12,658)	629	(12,029)
Final dividend paid for 2008	-	-	-	-	-	-	(373)	(373)
<b>At 31 January 2009</b>	<b>9,407</b>	<b>9,192</b>	<b>18,045</b>	<b>1,212</b>	<b>1,065</b>	<b>(9,928)</b>	<b>890</b>	<b>29,883</b>
<b>At 31 January 2007</b>	<b>10,619</b>	<b>9,192</b>	<b>-</b>	<b>27,570</b>	<b>1,161</b>	<b>2,658</b>	<b>580</b>	<b>51,780</b>
Cancellation of Capital Redemption Reserve	-	-	27,570	(27,570)	-	-	-	-
Share reduction costs	-	-	-	-	-	(57)	-	(57)
Shares bought back and held in treasury	-	-	(3,629)	-	-	-	-	(3,629)
Shares bought back and cancelled	(218)	-	(1,015)	218	-	-	-	(1,015)
Net return from ordinary activities	-	-	-	-	-	121	479	600
Final dividend paid for 2007	-	-	-	-	-	-	(425)	(425)
<b>As at 31 January 2008</b>	<b>10,401</b>	<b>9,192</b>	<b>22,926</b>	<b>218</b>	<b>1,161</b>	<b>2,722</b>	<b>634</b>	<b>47,254</b>

## Balance Sheet

	31 January 2009	31 January 2008
<b>Fixed Assets</b>		
Investments held at fair value through profit or loss	37,212	48,534
<b>Current Assets</b>		
Listed put warrants held at fair value through profit or loss	-	2,906
Futures contracts held at fair value through profit or loss	488	-
Forward currency contract held at fair value through profit or loss	-	7,340
Debtors	157	3,844
Cash at bank	969	2,961
	<u>1,614</u>	<u>17,051</u>
<b>Creditors: amounts falling due within one year</b>		
Forward currency contracts held at fair value through profit or loss	-	(7,550)
Other creditors	(316)	(1,590)
	<u>(316)</u>	<u>(9,140)</u>
<b>Net current assets</b>	<u>1,298</u>	<u>7,911</u>
<b>Total assets less current liabilities</b>	<u>38,510</u>	<u>56,445</u>
<b>Creditors: amounts falling due after more than one year</b>		
3.25% Convertible Unsecured Loan Stock 2011	(8,627)	(9,191)
	<u>(8,627)</u>	<u>(9,191)</u>
<b>Net assets</b>	<u>29,883</u>	<u>47,254</u>
<b>Capital and reserves</b>		
Called up share capital	9,407	10,401
Share premium account	9,192	9,192
Other reserves		
Special reserve	18,045	22,926
Capital redemption reserve	1,212	218
Equity component 3.25% Convertible Unsecured Loan Stock 2011	1,065	1,161
Capital reserve	(9,928)	2,722
Revenue Reserve	890	634
<b>Equity Shareholders' Funds (note 4)</b>	<u>29,883</u>	<u>47,254</u>
<b>Net asset value per ordinary share</b>		
Basic	88.23p	122.72p
Diluted	88.23p	122.72p

## Cash Flow Statement

	Year ended 31 January 2009	Year ended 31 January 2008
	£'000	£'000
<b>Net cash inflow from operating activities</b>	6,576	2,293
<b>Servicing of finance</b>	(303)	(326)
<b>Financial investment</b>	(2,218)	4,714
<b>Equity dividends paid</b>	(373)	(425)
<b>Share reduction costs</b>	-	(57)
<b>Net cash inflow before financing</b>	<u>3,682</u>	<u>6,199</u>
<b>Financing</b>		
Cancellation of 3.25% Convertible Unsecured Loan Stock 2011	(760)	-
Shares bought back and held in treasury	(4,881)	(3,629)
Shares bought back and cancelled	-	(1,015)
	<u>(5,641)</u>	<u>(4,644)</u>
<b>(Decrease)/ Increase in cash during the year</b>	<u>(1,959)</u>	<u>1,555</u>
<b>Reconciliation of net cash flow to movement in net debt</b>		
(Decrease)/increase in cash during the year	(1,959)	1,555
Exchange movements	(33)	(26)
Non-cash flow movements:		
Notional interest charge on 3.25% Convertible Unsecured Loan Stock 2011 - income	(40)	(41)
Notional interest charge on 3.25% Convertible Unsecured Loan Stock 2011 - capital	(158)	(162)
Cancellation of 3.25% Convertible Unsecured Loan Stock 2011 - Cancellation of debt element	762	-
<b>Change in net debt</b>	<u>(1,428)</u>	<u>1,326</u>
<b>Opening net debt</b>	<u>(6,230)</u>	<u>(7,556)</u>
<b>Closing net debt</b>	<u>(7,658)</u>	<u>(6,230)</u>

## Notes to the Financial Statements

### 1. Accounting policies

The financial statements have been prepared under the historical cost convention under the Companies Act 1985 except that certain assets and liabilities are stated at their fair value as allowed under the fair value accounting rules of Accounting Standards and with the Statement of Recommended Practice ("SORP") "Financial Statements of Investment Trust Companies", issued by the Association of Investment Companies in January 2009.

The accounting policies are consistent with the policies set out in the annual report for the year ended 31 January 2008.

### 2. Investment and other income

	Year ended 31 January 2009 £'000	Year ended 31 January 2008 £'000
<b>Income from investments</b>		
UK dividends	787	716
Unfranked investment income	74	22
UK fixed interest	189	92
Short term investment fund income	86	138
	<u>1,136</u>	<u>968</u>
<b>Other income</b>		
Deposit interest	13	22
<b>Total income</b>	<u>1,149</u>	<u>990</u>
<b>Total income comprises:</b>		
Dividends	861	738
Interest	288	252
	<u>1,149</u>	<u>990</u>

There were no special dividends treated as capital received during the year (2008: nil).

All the above income relates to assets held at fair value through profit or loss except for deposit income which is from assets recorded at amortised cost using the effective interest rate method.

### 3. Return per Ordinary share

#### a) Basic earnings

	Year ended 31 January 2009	Year ended 31 January 2008
<b>Total earnings per Ordinary share</b>		
Total earnings	£(12,029,000)	£600,000
Weighted average number of Ordinary shares in issue during the year	35,732,298	42,205,445
Total earnings per Ordinary share	<u>(33.66)p</u>	<u>1.42p</u>

The total earnings per Ordinary share above can be further analysed between revenue and capital, as follows:

#### Revenue earnings per Ordinary share

Revenue earnings	£629,000	£479,000
Weighted average number of Ordinary shares in issue during the year	35,732,298	42,205,445
Revenue earnings per Ordinary share	<u>1.76p</u>	<u>1.13p</u>

#### Capital earnings per Ordinary share

Capital earnings	£(12,658,000)	£121,000
Weighted average number of Ordinary shares in issue during the year	35,732,298	42,205,445
Capital earnings per Ordinary share	<u>(35.42)p</u>	<u>0.29p</u>

#### Diluted earnings

The diluted revenue return per Ordinary share has been calculated on the assumption that the 3.25% Convertible Unsecured Loan Stock 2011 was fully converted on the first day of the financial period giving a weighted average of 42,401,138 Ordinary shares and based on net revenue after taxation for the year ended 31 January 2009 of £729,000. The diluted revenue earnings per Ordinary share of 1.72p includes the savings of finance costs of the loan stock.

The effect of the 3.25% Convertible Unsecured Loan Stock 2011 on the capital and total earnings per Ordinary share is anti-dilutive. The diluted capital and total earnings per Ordinary share are therefore equal to the basic returns per Ordinary share.

### 4. Net asset value per Ordinary share

	31 January 2009	31 January 2008
Net asset values attributable	£29,883,000	£47,254,000
Ordinary shares in issue at the end of the period*	33,867,750	38,505,643
Basic net asset value per Ordinary share	<u>88.23p</u>	<u>122.72p</u>

The basic net asset value per Ordinary share is based on the net assets of £29,883,000 which includes the deduction of the liability component of the 3.25% Convertible Unsecured Loan Stock 2011 and on 33,867,750 Ordinary shares being the number of Ordinary shares in issue at the year end, excluding 3,762,250 Ordinary shares held in treasury.

The 3.25% Convertible Unsecured Loan Stock 2011 has an anti-dilutive effect on the net asset value per Ordinary share, and therefore the diluted net asset value is equal to the basic net asset value.

Under the Association of Investment Companies (AIC) guidelines, the basic net asset value per share is calculated as follows:

	<b>31 January 2009</b>	31 January 2008
<b>Total Assets less current liabilities (per the balance sheet)</b>	<b>£38,510,000</b>	£56,445,000
Redemption value of 3.25% Convertible Unsecured Loan Stock 2011	<b>£(9,171,000)</b>	£(10,000,000)
<b>Net assets (CULS at par value)</b>	<b>£29,339,000</b>	£46,445,000
<b>Ordinary shares in issue at the year end</b>	<b>33,867,750</b>	38,505,643
Basic net asset value per Ordinary share	<b>86.63p</b>	120.62p

## 5. Share Capital

	<b>2009 £'000</b>	2008 £'000
<b>Authorised:</b>		
220,000,000 Ordinary shares of 25p each (2008: 220,000,000)	<b>55,000</b>	55,000
<b>Called-up and fully paid:</b>		
37,630,000 Ordinary shares of 25p each (2008: 41,605,643)	<b>9,407</b>	10,401

During the year 4,627,893 Ordinary shares were bought back into treasury at a cost of £4,880,455. 3,975,643 Ordinary shares have been cancelled out of treasury. The Ordinary shares in issue at the year end includes 3,762,250 Ordinary shares held in treasury (2008: 3,100,000).

On 25 April 2006 the Company issued 3.25% Convertible Unsecured Loan Stock 2011 ("CULS") for a nominal value of £10,000,000. The CULS can be converted into Ordinary shares during the months of January and July at a rate of 70.77 Ordinary shares for every £100 nominal of CULS. Interest is paid on the CULS on 31 January and 31 July each year. 20% of the interest is charged to revenue and 80% is charged to capital in line with the Board's expected long-term split of returns from the investment portfolio of the Company. During the year the Company bought back and cancelled 829,000 nominal of the CULS at a cost of £759,600.

Subsequent to the year end the Company bought back into treasury a further 231,550 Ordinary shares for an aggregate consideration of £182,358 and cancelled from treasury (on a FIFO basis) 256,500 Ordinary shares. At the date of this announcement there are 37,373,500 Ordinary shares in issue and 3,737,300 Ordinary shares held in treasury.

## 6. Investment Objective & Policy

The Cayenne Trust plc is a UK investment trust listed on The London Stock Exchange with a limited life (see Note 8). Its investment objective is to achieve consistent positive absolute returns, and its Investment Policy is as follows:

The Company invests principally in the securities of UK investment trust companies and other closed-end funds. It also has the flexibility to invest in listed or unlisted open-ended funds and may invest in any security issued by any exchange traded fund, investment fund, investment company, holding company or similar collective investment scheme. In order to seek to achieve consistent positive absolute returns, the Company may occasionally hold positions in other equities, bonds or money-market instruments.

Up to 15% of the Company's assets, at the time of investment, may be invested in Apollo Fund plc. Apollo is an open-ended offshore fund, managed by Cayenne Asset Management Ltd, with an investment objective of achieving higher rates of return than can generally be achieved by traditional long term stock market investment by maintaining investments which are thought to be significantly undervalued and are likely to have limited liquidity.

The Company will seek to ensure preservation of capital by use of derivative and similar instruments to the extent permissible within the regulations governing investment trust companies and the Listing Rules.

In selecting investments, the Manager is not constrained by any limits on geographical or sectoral distribution of investments by the funds in which the Company invests. As a fund of funds the portfolio is diversified through investment in a wide range of asset classes, geographical regions and currencies.

The Company may invest up to 100% of its assets in equities which are not investment entities, bonds or money market instruments.

The Company intends to conduct its affairs so that it satisfies the conditions for approval from HM Revenue & Customs as an investment trust as set out in section 842 of the Income and Corporation Taxes Act 1988. Accordingly, the Company will not invest more than 15% of its gross assets, at the time of investment, in any company which is not, itself, an investment trust.

Borrowings are restricted to twice the aggregate of the paid up nominal capital plus the capital and revenue reserves. The absolute limit on borrowings is more fully described in the Articles.

No more than 10% in aggregate of the value of the Company's assets will be invested in other listed closed-ended investment funds, save that this restriction does not apply to the extent that such companies themselves have stated investment policies to invest no more than 15% of their total assets in other listed closed-ended investment companies or investment trusts.

## 7. Principal Risks

There can be no guarantee that any appreciation in the value of the Company's investments will occur or that the investment objective of the Company will be achieved. The price of the Company's shares is subject to a number of factors, including the interaction of supply and demand, NAV per share and dividend yield, and is likely to fluctuate. The market value of the Company's CULS is also subject to the interaction of supply and demand, and the price, NAV per share and dividend yield of the Ordinary shares they are convertible into.

Investors should be aware that:

- the Company's policy is to use derivatives and similar instruments to hedge against volatility in the NAV per share and the NAV is unlikely in rising markets to be as high as would be the case if market risk was not hedged, but conversely the NAV in falling markets is likely to be higher than would be the case if market risk was not hedged;
- whilst the use of borrowings (including through the CULS) should enhance the NAV where the value of the Company's underlying assets is rising at a rate greater than the interest rate on the borrowings, it will have the opposite effect where the underlying asset value is falling or is rising at a rate lower than the interest rate on the borrowings;
- the company's investment approach seeks to generate returns by investing in securities the Manager believes to be undervalued. There can be no guarantee that the perceived value in the Company's portfolio will however be realised in any expected timeframe or at all;
- in respect of trades in derivatives and similar instruments, the Company will be exposed to credit risk on the counterparties with which it trades, and although it will seek to transact only with major established counterparties it will bear the risk of settlement default by clearing houses, exchanges and counterparties which could have a material adverse effect on the Company;
- the Company's portfolio is constructed without reference to any stock market index and it is likely that there will be periods when its performance will be quite unlike that of any index. There can be no assurance that such divergence will be wholly or even primarily to the Company's advantage;
- market liquidity in the shares of investment trusts is frequently inferior to that of shares issued by larger companies and investors may have difficulty in selling such securities. The Company also invests in other investment trusts which may suffer from similar liquidity issues at times of extreme volatility which could adversely affect the NAV.

#### **8. Duration of the Company**

The Articles of Association require the Directors to propose an ordinary resolution at the Annual General Meeting of the Company in 2011, and at each Annual General Meeting thereafter, that the Company should continue as an investment trust. If the resolution for continuation is not put, or is not passed at an Annual General Meeting, the Directors are obliged to convene, within three months thereafter, a General Meeting to propose a special resolution for the voluntary winding up of the Company.

#### **9. Availability of report and Comparative information**

The financial information contained in this report does not constitute statutory accounts for the year ended 31 January 2009 nor 31 January 2008 as defined in the Companies Act 1985 but is derived from those accounts. The statutory accounts for the year ended 31 January 2008 have been delivered to the Registrar of Companies and those for the year ended 31 January 2009 will be delivered following the Company's annual general meeting; they can also be downloaded from the Company's website: [www.thecayennetrust.com](http://www.thecayennetrust.com) Hard copies can be obtained from the Registered Office of the Company and will be posted to Shareholders shortly.

The auditors reported on those accounts; their report was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and did not contain any statements under section 237 (2) or (3) of the Companies Act 1985.

## **Directors' Responsibility Statement**

The Directors of the Company (*Jonathan Agnew (Chairman), Christopher Jones, Sir Laurence Magnus*) confirm that to the best of their knowledge:

- a) that the financial statements for the year to 31 January 2009 have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- b) the Management Report (which comprises the Chairman's Statement, Investment Manager's Report and Notes 6, 7 and 8 above) includes a fair review of development and performance of the business and of the position of the Company, together with the principal risks and uncertainties that the Company faces.