



## The Cayenne Trust plc

Interim Management Statement 01 August to 31 October 2007

### Material Events

During the period under review HMRC confirmed that it would stand down from the VAT case with JP Morgan Fleming Claverhouse / AIC. As a result, managers of investment trusts may, with immediate effect, no longer apply VAT to fee invoices of client investment trusts. Cayenne Asset Management issued an invoice for the quarter ending 31 October 2007 which met with this requirement and has confirmed that all future invoices will also be prepared in accordance with the new guidelines. Cayenne Asset Management has informed the Company that it will immediately repay all VAT charged under its management of the Company from 31 January 2006 to 31 July 2007. This amounts to £90,408.69 (0.21p per share) which will be reflected in the NAV calculated as at 20 November 2007. Interim results for the half-year ending July 2007 were published on 27 September 2007. As the Company releases its Net Asset Value per share on a daily basis, there was no significant market sensitive information contained within these interim results. The Chairman did, however, state that "on the basis of the income likely to be generated by the current portfolio, that the dividend payable for the year ending January 2008 is likely to be less than the 1p paid in June 2007 for the year ending 31 January 2007." The Company has Shareholder approval to buy back its shares. The first such purchase of 180,000 shares was on 13<sup>th</sup> November 2007 at 117.75p. This equates to a discount to NAV of 4.1%, the maximum discount at which the shares have traded since inception. The maximum premium over the period under review was 1.1%.

### The Investment Manager's Report

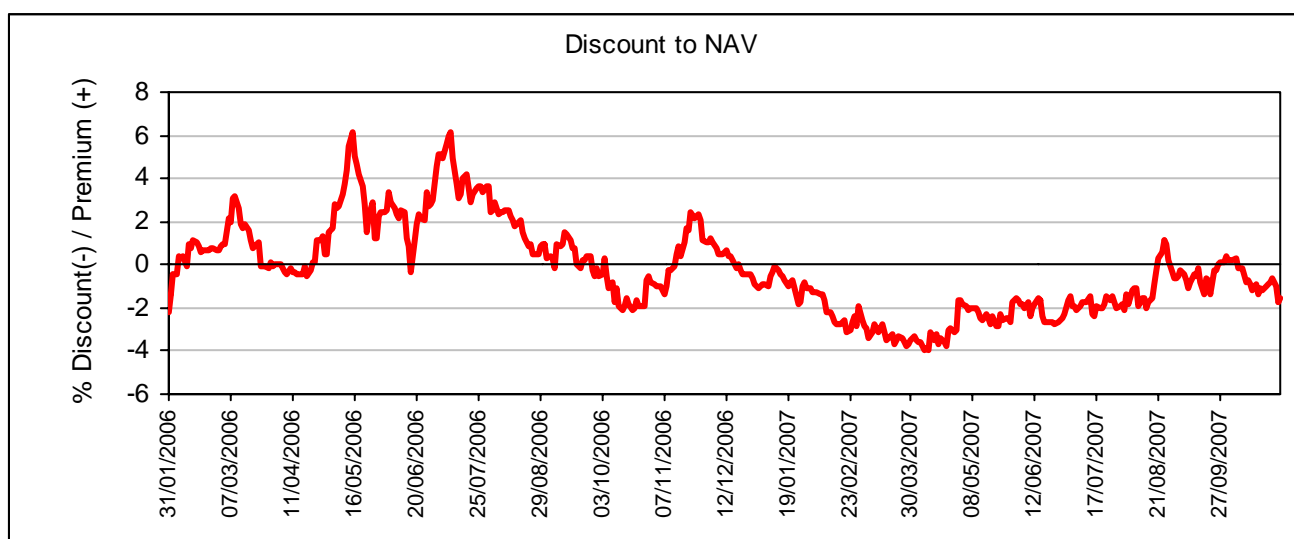
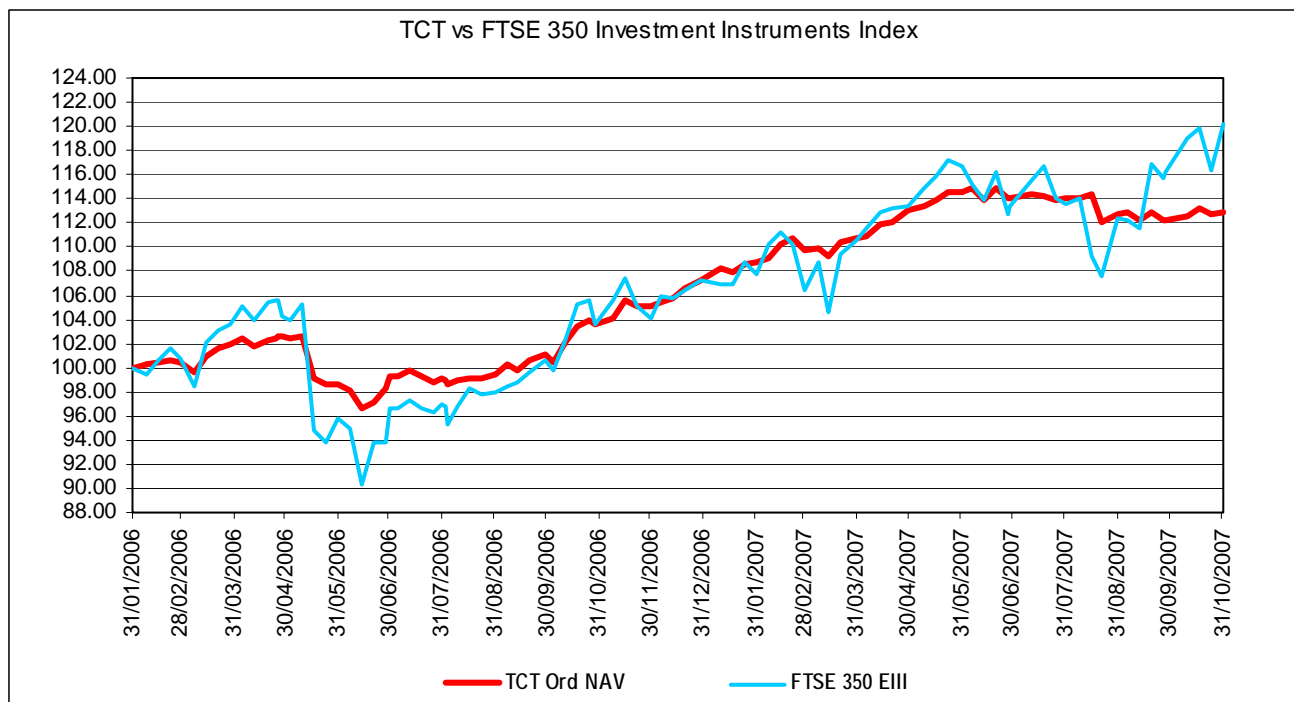
The period under review, 31 July 2007 to 31 October 2007, was uncommonly volatile and began with the culmination of extreme bearishness towards equities. This commenced in June when announcements from BNP and other banks caused investors to significantly re-price risk. Sentiment turned in the middle of August when an emergency rate cut by the Fed created irrational and potentially dangerous exuberance, particularly in the emerging markets. The period closed with the FTSE 100 retesting recent record highs, as if nothing untoward had occurred over the summer months. In times like these, investment trust investors and market participants tend to limp to the sidelines while asset prices are left to the mercy of declining liquidity. The end result is that discounts widen, volumes evaporate and valuations suffer. In all, from peak to trough, the FTSE 100 declined 13% while your Company's NAV declined less than 3%. Unfortunately, while the market has recouped those losses, your company's NAV has made little progress. This is due, in part, to the hedge position which protected the portfolio so well in those turbulent summer months. However, of greater influence is the significant underperformance of some assets due to widening discounts as the underlying market recovered and trust prices didn't. This phenomenon has created a significant store of value within the portfolio which should be returned to shareholders over time as markets settle. Two positions, which together account for one third of the periods loss, are worthy of further explanation. Listed property funds suffered a dramatic re-rating during the credit crisis and none more so than ING Real Estate, which had traded at 125p at the end of 2006 and a maximum premium of 15% to NAV. This was purchased at a discount to NAV of 22% at a little over £1. It was anticipated that some devaluation of properties would occur but the subsequent de-rating of the shares has been savage. These currently trade below 80p and at a discount of over 30% to the 30<sup>th</sup> September NAV. It is believed that this sector will provide good opportunities to acquire high quality assets at attractive valuations in the near future. Unfortunately, although small, it appears that this initial investment was accumulated a little prematurely. The second position is one where confidence in the quality of the assets has been lost. Prelude Trust, which was purchased as a 'sleeper' position awaiting the maturity of their portfolio of venture capital investments, announced a decrease of some 7% in their NAV for the end of September. This was particularly disappointing as the management had indicated in July that the NAV would be broadly flat through the year end, followed by the potential for some useful realisations or revaluations. It is difficult to maintain faith in a management group that appears so incompetent at forecasting the value of their holdings. However, with the share price down 15% since the news, there is little option but to continue to hold the position and pressurise the company into raising cash to return to shareholders. With these two notable exceptions, the majority of the portfolio remains focused on either funds which invest in global blue chip equities or those funds whose managers have a particular sector specialisation. Both of these should be able to avoid any potential market minefields and thus benefit from any recovery in sentiment. With valuations stretched, a conscious effort has been made to avoid high weightings in mining stocks and the emerging markets. Your Company had a significant cash position at the end of October and stands ready to employ this resource to purchase distressed assets when the opportunity arises. This has obviously been a disappointing period as far as relative performance is concerned, but the manager's overriding concern and long held belief is that the preservation of capital in the short term leads to greater long term performance.

### Financial Position

The Net Asset Value of the Company at 31 October 2007 was £52,232,314 which equates to 122.97p per share at which date, the mid-price of the Company's shares was 121p. By way of comparison, at 31 July 2007, the NAV and share price were 125.33p and 123p respectively. The Company's shares are listed on the London Stock Exchange and its NAV is released daily via the LSE on RNS. Up to date information concerning the Company's financial position can be found at [www.thecayennetrust.com](http://www.thecayennetrust.com). In addition to shareholder funds, there is £10 million of convertible unsecured loan stock outstanding. Prior to conversion, this loan stock acts as structural gearing for shareholders, which equates to approximately 120%. Stock holders can convert at a rate of 70.77 Ordinary shares per £100 nominal of CULS in the years to 2011. At 31 October 2007, The Cayenne Trust had total assets of £62,449,310. At 19 November 2007, the last date prior to the publication of this report, the NAV per share was 123.16p and the share price was 118.25p.

## Financial Performance

The Company aims to achieve consistent positive absolute returns and, as such, performance should not be measured against stock market or other indices. If, however, investors consider that an index comparison is relevant, the Company's most relevant benchmark is the FTSE 350 Equity Investment Instruments Index. Over the third quarter, this index rose by 5.91%; while your Company's NAV depreciated by 1.87%. Since the beginning of the current financial year, 31 January 2007, the NAV has appreciated by 3.9% while the index has risen 3.7%.



Top Ten Holdings		Underlying Exposure		Trust Details at 31 October 2007		Ordinary Shares	
Apollo Fund plc	13.6%	UK	36.5%	NAV per Share	122.97p		
Electric & General	6.3%	N. America	8.9%	Mid-price per Share	121.00p		
Ecofin Water & Pwr	5.8%	Europe	14.1%	Premium / (Discount)	(1.60)%		
Scottish Mortgage	5.3%	Asia	7.4%	Net Assets	£52.23m		
Monks	5.0%	Japan	2.1%	Gross Assets	£62.45m		
Treasury 07/12/07	4.8%	Other	11.0%	Market Cap	£51.39m		
Fidelity Spec. Values	4.7%	Cash & FI	13.9%	Q3 NAV Return	1.87%		
Utilico	4.4%	Derivatives	2.7%	Q3 Share Price Return	0.82%		
Real Est Opps ZDP	4.2%	Latin America	3.4%	NAV IRR since inception	7.15%		
Perpetual Inc & Gth	4.2%			Share Price IRR since inception	7.01%		
				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		

This Interim Management Statement is solely for information purposes and is not intended to be, and should not be construed as, an offer or recommendation to buy or sell investments. If you are in any doubt as to the appropriate course of action, you are recommended to consult an independent financial advisor. The value of an investment in the Company, and the income derived from it, may go down as well as up and an investor may not get back the amount of money invested. The Company seeks to preserve capital and minimise volatility by the use of derivative instruments however, there is no guarantee that this strategy will be effective and therefore the value of the Company's investments may fall. The price of the Shares will be determined by supply and demand in the market as well as NAV per Share. The market price of the Shares is therefore likely to fluctuate and may represent either a premium or discount to NAV per Share. The use of borrowings (including CULS) should enhance returns to shareholders if the value of underlying assets rises but it will have the opposite effect if assets decline. Past performance of the Company is not a guide to its future performance.