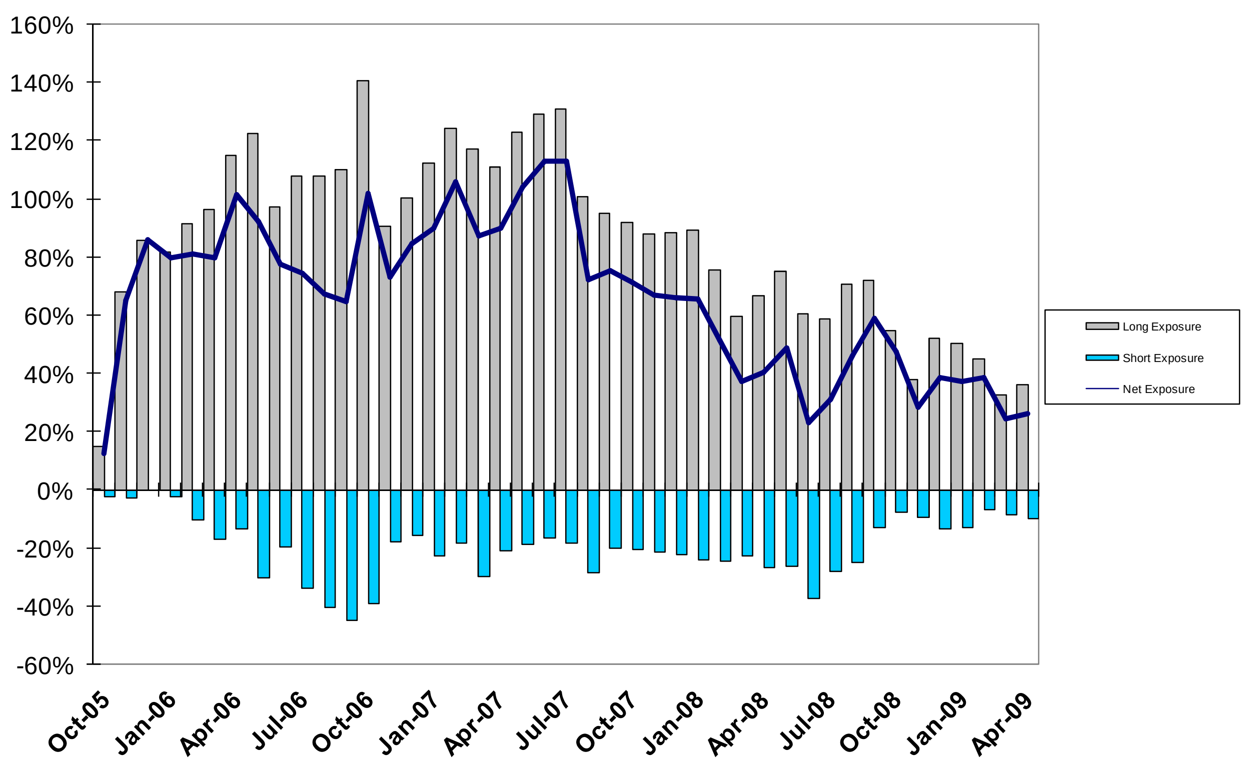
INVESTMENT UPDATE AND NTA – APRIL 2009

FUND PERFORMANCE*

Performance to 30th April 2009	CDM	All Ords
1 Month	3.44%	6.07%
3 Months	6.64%	9.73%
6 Months	-1.41%	-3.31%
1 Year	-19.18%	-30.36%
2 Years (% per Annum)	-15.31%	-18.47%
3 Years (% per Annum)	-0.54%	-6.47%
Annualised return since inception	7.63%	-1.47%
Inception to date accumulated return	30.16%	-5.17%

* Before Management and Performance Fees

PORTFOLIO EXPOSURE ANALYSIS



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PORTFOLIO SECTOR ANALYSIS

Sector	Long	Short	Net
Software & Services	11.86%		11.86%
Banks	7.16%		7.16%
Telecommunication Services	5.76%		5.76%
Diversified Financials	4.49%		4.49%
Energy	2.03%	-0.92%	1.12%
Consumer Services	1.05%		1.05%
Health Care Equipment & Services	0.51%		0.51%
Materials	3.31%	-2.86%	0.45%
Media	0.04%	-2.00%	-1.97%
Transportation		-4.05%	-4.05%
Exposure	**36.22%**	**-9.83%**	**26.39%**
Cash on hand			**73.61%**

MARKET AND COMMENTARY

Cadence Capital Limited NTA estimates as at 30th April 2009:

Gross NTA	$0.98800
Pre Tax NTA	$0.80082
Post Tax NTA*	$0.89416

**Including net deferred taxed assets (deferred taxed assets less deferred tax liabilities)*

To get weekly estimates of the NTA for Cadence Capital Limited please visit www.cadencecapital.com.au

For the three years and seven months to 30th April 2009, Cadence Capital Limited has returned a gross performance of 30.2% compared to a fall in the All Ordinaries Accumulation Index of -5.2%.

During the month of April, Cadence Capital Limited returned a positive gross performance of +3.44% compared to an increase in the All Ordinaries Accumulation Index of +6.07% and an increase in the Small Ordinaries Accumulation Index of +13.52%.

The fund finished the month 36.2% long, 9.8% short and with a net long exposure of 26.4%. The net exposure for March 2009 was 24.4%.

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Where to From Here

In the last twelve months the investment world has witnessed some dramatic changes and significant uncertainty surrounding the future investment environment. Accordingly, we thought it timely to review recent events and outline our thoughts for the future.

Since 1 July 2008 the Australian All Ordinaries Index has fallen approximately 28.8%, and at the most recent low of 3052.5 the All Ordinaries Index was down 42.8% in nine months.

Below is an outline of the general global forces affecting the Australian markets, and the basis underpinning our investment decisions to date, many of which still remain relevant.

Synchronized Global 'Boom' to Synchronized Global Recession

At the recent G-20 Summit it was announced that the OECD predicts the global economy will contract by 2.7% this year, with developed countries contracting by 4.3%. The rate of economic contraction in many parts of the world is the worst on record since the 1930's. Whilst Australia's economy remains reasonably robust compared to many other parts of the world, it is inevitable that in an environment where our trading partners are in serious economic decline, or recession, our economy will be affected. Quite clearly the ability to deliver earnings growth during periods of economic contraction is seriously curtailed and for most companies negative earnings growth is an inevitable reality.

Commodity prices have fallen after a period of 'super normal prices'. One of the most obvious changes for Australia has been the speed at which commodity prices rallied during periods of economic expansion and the speed at which commodity prices fell once the majority of the world moved into negative GDP growth. With the Australian economy having such a dependence on resource companies and commodity exports, the fall in commodity prices has had, and will continue to have, a dramatic effect on profitability for the Australian economy. The problem has been compounded by falling demand for many commodities so that the combination of lower prices and volumes for commodities has had a dramatic effect on profitability.

An era of 'Government Bail-Outs'

The recent G-20 Summit referred to an international government commitment to a US$5 trillion fiscal stimulus package by 2010. There seems to be some uncertainty as to how this statement should be read in light of European stated policies and in particular Germany and Frances policies. Trying to gauge the exact extent and size of the entire global or US commitment is proving difficult as well. In late 2007, when equity markets first started to react negatively to news on financial structure uncertainty, and the need for government assistance, the size of the bailout package was mooted to be around US$600 billion. This number quickly grew to US$1 trillion, then US$2 trillion, then US$3 trillion and more recently, depending on the particular financial commentator involved, this number may have grown to around US$8 trillion. The sheer size of the proposed bailout packages is calling into question the appropriate level of government debt to

GDP, with some countries running anything from 30% debt to GDP to 100% debt to GDP. Perhaps more worrying than the size of the government debt, and how it will eventually be repaid, is the likelihood of success of these initiatives. The larger the bailout packages become the greater their likelihood of success in the short term, but the more damaging the effects in the long term. It is worth bearing in mind that a bail-out of this size is unprecedented.

Risks to the Financial System

Clearly there are risks to the entire financial system that equity markets have become aware of in the past 18 months and it could be argued these risks were always there. What is clear is that these risks do not simply disappear once again. One of the more disturbing developments from the G-20 Summit was that the Financial Accounting Standards Board (FASB) approved changes to allow companies to use significant judgment in valuing assets. It has been speculated that these changes could significantly bolster bank profits in the US. Whilst this may appear good news in the short term, the reality is that when these assets are valued on their ability to produce cash earnings, as opposed to subjective valuation measures, these assets have dropped significantly in value. The apparent attempt to maintain asset prices above market values, to bring stability to the financial system, is a major concern.

Falling Asset Prices after sustained Price Rises

Australia in particular has become accustomed to a long period of appreciating asset prices for property, shares and bonds. The spectacular rise in prices in particular components of these asset classes has been extensively written about, as has the corresponding increase in debt as a percentage of household income. In the last 18 months we have seen the logic of increasing prices forever, called into question, with significant and sometimes spectacular price falls in many asset classes. These price falls combined with high levels of associated debt have undoubtedly lead to ‘nervousness’ which can be more accurately measured in terms of volatility. Volatility within the markets has in turn lead to risk aversion, which has in turn lead to insurance premium pricing (put protection) increasing significantly.

Against a backdrop of negative GDP growth, significantly lower commodity prices, government ‘bailout’ initiatives, financial system risk and falling asset prices it is our task to determine which stocks to invest in and whether to invest in equities as opposed to holding cash.

Where to From Here

Clearly the macroeconomic environment outlined above cannot change overnight or indeed in the short term. The first observation then is that periods of recession or negative GDP growth take a substantial amount of time to work through the system.
In light of the fact that a concerted global effort is underway to ‘bailout’ the world economy we would like to paint a positive picture for the future. However, the myriad of economic data currently being reported is at best ambiguous and at worst extremely negative. As a result investors globally are attempting to interpret large amounts of ambiguous data on a daily basis. This ambiguous data creates uncertainty which in turn

creates volatility. The second observation is that high volatility looks set to continue. Recent comparisons with market movements in the 1930's are particularly worrying as the market between 1929 and 1939 effectively went through a 'boom bust cycle' eight times. We can only hope that we do not experience this amount of volatility. Quite clearly the volatility in the Australian market since the beginning of our calendar year has been very high, with the net result that the market is flat. Assuming this type of risk for no return is less than ideal.

As to the risks in the financial system, we can only attempt to interpret what US commentators in particular are advising. At the extreme are comments that the US banking system is, in effect, insolvent, whilst other commentators are indicating that financial markets are showing tentative signs of improving and that some liquidity may be reappearing in the system. All we can hope to do is monitor developments within the global banking system and remain cautious in such an uncertain environment.

Finally in terms of asset price movements and in particular equity price movements, volatility has been high. Companies with the most extreme price falls have more recently experienced the most extreme price 'bounces'. It does not necessarily follow that owning equities with extreme price volatility has been the best investment. In fact, on a risk adjusted basis, in an uncertain environment, we have a strong preference for owning equities that display below average levels of volatility. Once volatility in the overall market starts to fall, the investment environment will start to improve and returns on a risk adjusted basis will improve.

As a consequence we envisage reducing our high levels of cash in the future. The rate at which we see this money being invested will vary depending on the level of volatility in the market. Large amounts of negative news and ambiguous data have already been digested and incorporated into equity prices, and the fact that the market is reacting reasonably well to poor economic data, and poor earnings, tends to suggest that the probability of investing now is skewed in our favour. We remain cautiously optimistic in this environment of delivering enhanced returns.

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