



AUGUST 2006 INVESTOR REPORT

FUND PERFORMANCE*

	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	YTD
Cadence Capital Limited	0.34%	1.75%	4.04%	7.64%	4.29%	5.08%	5.59%	2.36%	-1.75%	-1.78%	2.70%	34.20%
All Ordinaries Acc Index	-3.83%	4.35%	3.09%	3.65%	0.70%	4.81%	2.40%	-4.34%	1.86%	-1.51%	3.18%	14.74%
Small Ordinaries Acc Index	-3.74%	2.98%	1.45%	3.76%	2.13%	6.32%	1.02%	-4.02%	1.13%	-0.43%	3.72%	14.74%

*Before Performance Fees and Tax

PORTFOLIO SECTOR ANALYSIS

Sector	Long	Short	Total
Commercial Services & Supplies	18.97%		18.97%
Software & Services	17.59%	-8.34%	9.25%
Materials	11.87%	-5.49%	6.37%
Energy	10.41%	-2.35%	8.06%
Insurance	8.48%	-1.64%	6.84%
Health Care Equipment & Services	7.12%		7.12%
Capital Goods	7.10%	-2.61%	4.49%
Banks	6.97%		6.97%
Media	6.94%	-3.92%	3.02%
Unspecified	3.54%	-0.07%	3.47%
Food Beverage & Tobacco	2.92%	-4.90%	-1.98%
Telecommunication Services	2.41%	-0.23%	2.18%
Real Estate	2.06%	-3.03%	-0.97%
Retailing	1.30%		1.30%
Food & Staples Retailing	0.16%		0.16%
Transportation		-2.22%	-2.22%
Automobiles & Components			0.00%
Consumer Durables & Apparel		-1.90%	-1.90%
Consumer Services		-3.81%	-3.81%
Gross Exposure	107.83%	-40.52%	67.31%
Net Cash / (Debt)			32.69%

PORTFOLIO EXPOSURE ANALYSIS %

	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06
Equity Long	14.9%	68.0%	85.9%	81.9%	91.5%	96.6%	114.9%	122.4%	97.4%	107.9%	107.8%
Equity Short	2.5%	2.7%	0.0%	2.3%	10.1%	16.8%	13.4%	30.1%	19.7%	33.6%	40.5%
Gross Exposure	17.4%	70.8%	85.9%	84.3%	101.6%	113.4%	128.3%	152.5%	117.1%	141.4%	148.4%
Net Exposure	12.4%	65.3%	85.9%	79.6%	81.3%	79.8%	101.5%	92.3%	77.7%	74.3%	67.3%

MARKET AND COMMENTARY

Cadence Capital Limited closed on the 31st August 2006 with a Net Tangible Asset Backing (NTA) of \$1.30694 pre fees, tax and dividends and \$1.20596 post fees and tax. As of the 30th of August 2006 Cadence Capital Limited is quoted ex an 8 cent fully franked dividend, bringing the post dividend NTA to \$1.12596. To get weekly estimates of the NTA for Cadence Capital Limited please visit www.cadencecapital.com.au

During the month of August, Cadence Capital Limited returned a gross performance of 2.70% compared to a rise in the All Ordinaries Accumulation Index of 3.18% and a rise in the Small Ordinaries Accumulation Index of 3.72%. The fund finished the month 107.83% long, 40.52% short and with a Net Long Exposure of 67.31%. The net exposure of the fund for July was 74.3%.

Most Australian Stock Exchange listed companies have now reported the June 2006 Full Year results. Having visited the management of many companies over the reporting season, and analyzed many profit results, a number of general themes emerged.

The June 2006 results in Australia were **generally strong**, reflecting a strong July 2005 to June 2006 period for Australian Corporate profits. This period is behind us now, and the Managers of Australia's corporations are turning their minds to the economic landscape for the periods July 2006 - June 2007 and July 2007 - June 2008.

Corporate management commented on three particular themes in the Australian economy:

- Companies are experiencing **significant** cost pressures. Industrial companies are experiencing hard commodity price increases of between 50% and 90%, whilst companies dealing in soft commodities are experiencing more conservative, but by no means insubstantial, cost pressures. The full impact of these cost pressures did not affect profitability as much in the June 2006 period as they will in the year ahead.
- Labor shortages, skills shortages and wage pressure are beginning to appear in many parts of the economy, and more particularly, in the resource and finance sectors. The full effect of these wage pressures will be felt in the year ahead.

- Management of many companies spoke of two distinct economies within Australia. The Western Australian and Queensland economy and the remainder of the States. The economies of Western Australia and Queensland are growing quickly and corporate profitability in these States is strong, whilst the economies in the remaining States have slowed significantly.

As a consequence of the general trends outlined above, Corporate Australia appears cautious in forecasting strong earnings growth in the year ahead. Stated more conservatively, management is cautious in forecasting the strong earnings growth they have experienced over the past few years.

As we know, the value of a stock is largely determined by earnings, and in particular, earnings growth. In an environment of slowing earnings we should look more closely at stock valuations and be vigilant of potential deterioration in these stock valuations.

We should also be mindful of the fact that, in periods of rising interest rates and inflation, stock valuations in general tend to struggle (with the exception of resource stocks and particular industries with pricing power). Of potentially greater concern, **in periods of rising interest rates and inflation with little or no earnings growth**, asset valuations in general struggle. The Australian economy does not appear to have flat earnings growth at the moment. However, there are a few emerging trends suggesting growth is actually slowing, in a period of emerging inflation.

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