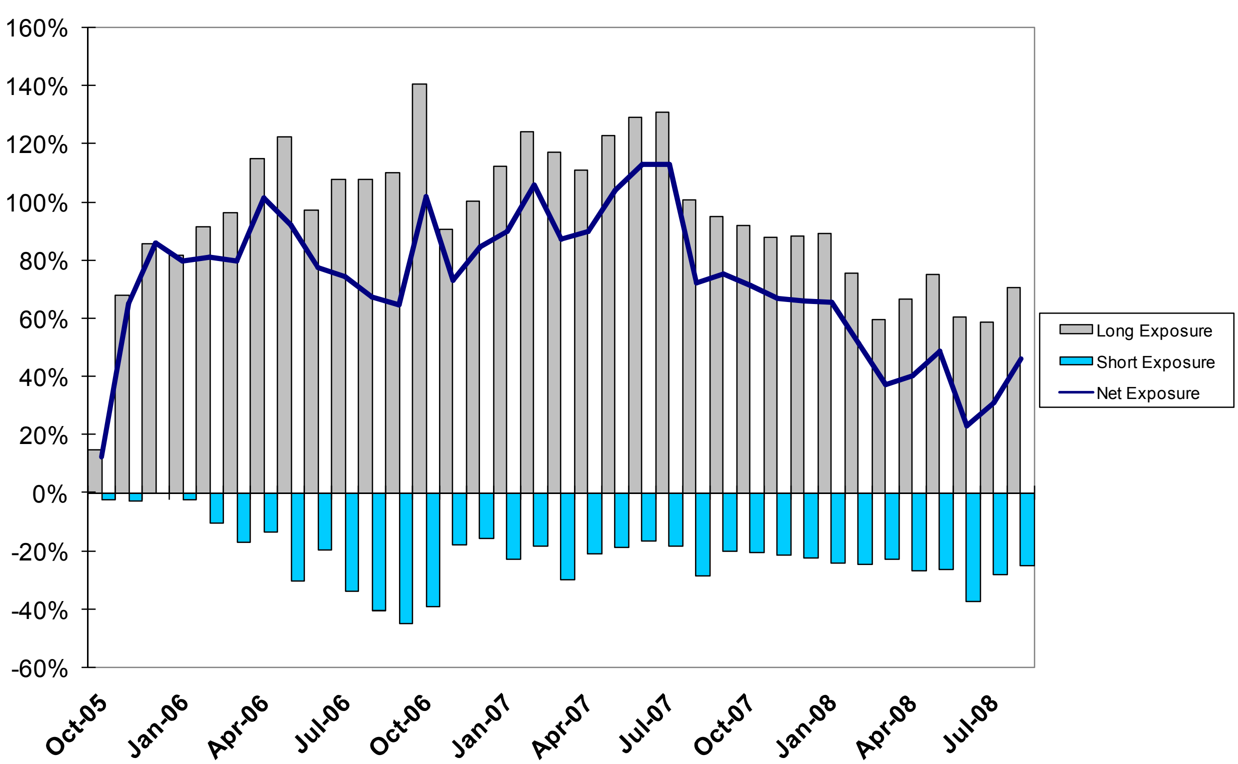
INVESTMENT UPDATE AND NTA - AUGUST 2008

FUND PERFORMANCE*

Performance to 31st August 2008	CDM	All Ords
1 Month	3.26%	4.02%
3 Months	-3.72%	-8.63%
6 Months	-3.54%	-6.07%
1 Year	-8.40%	-13.12%
2 Years (% per Annum)	10.05%	5.40%
Annualised return since inception	18.12%	8.68%
Inception to date accumulated return	62.54%	27.47%
* Before Management and Performance Fees		

PORTFOLIO EXPOSURE ANALYSIS



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PORTFOLIO SECTOR ANALYSIS

Sector	Long	Short	Net
Capital Goods	15.12%		15.12%
Diversified Financials	12.76%		12.76%
Software & Services	10.87%		10.87%
Telecommunication Services	6.02%		6.02%
Materials	10.66%	-5.58%	5.08%
Retailing	2.38%		2.38%
Pharmaceuticals, Biotechnology & Life Sciences	2.02%		2.02%
Commercial Services & Supplies	1.72%		1.72%
Media	1.47%		1.47%
Banks	1.46%		1.46%
Real Estate	1.23%		1.23%
Automobile & Components	1.09%		1.09%
Food Beverage & Tobacco	0.97%		0.97%
Consumer Services	0.74%		0.74%
Health Care Equipment & Services	0.61%		0.61%
Transportation		-2.82%	-2.82%
Energy	1.68%	-6.40%	-4.72%
Insurance		-9.89%	-9.89%
Exposure	**70.79%**	**-24.69%**	**46.10%**
Cash on hand			**53.90%**

MARKET AND COMMENTARY

Cadence Capital Limited NTA estimates as at 31 August 2008:

Gross NTA	$1.23377
Pre Tax NTA	$1.06090
Post Tax NTA*	$1.06663

**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 35 months to 31st August 2008, Cadence Capital Limited has returned a gross performance of 62.5% compared to a rise in the All Ordinaries Accumulation Index of 27.5%. Cadence Capital Limited has generated an annualized return before fees of 18.1% per annum since inception.

During the month of August, Cadence Capital Limited returned a positive gross performance of 3.26% compared to an increase in the All Ordinaries Accumulation Index of 4.02% and an increase in the Small Ordinaries Accumulation Index of 1.94%.

The fund finished the month 70.79% long, 24.69% short and with a net long exposure of 46.10%. The net exposure for July 2008 was 31.13%.

The Reporting Season in Review

A large part of our day is spent visiting companies and attending presentations for Australian Securities Exchange listed stocks to determine what the earnings for a particular company are, and more importantly what the expected earnings are going to be for the next two years. We are particularly interested in Earnings per share growth relative to Price/earnings multiples (Price Earnings Growth Ratio or PEG ratio) as well as operating cash flow yields.

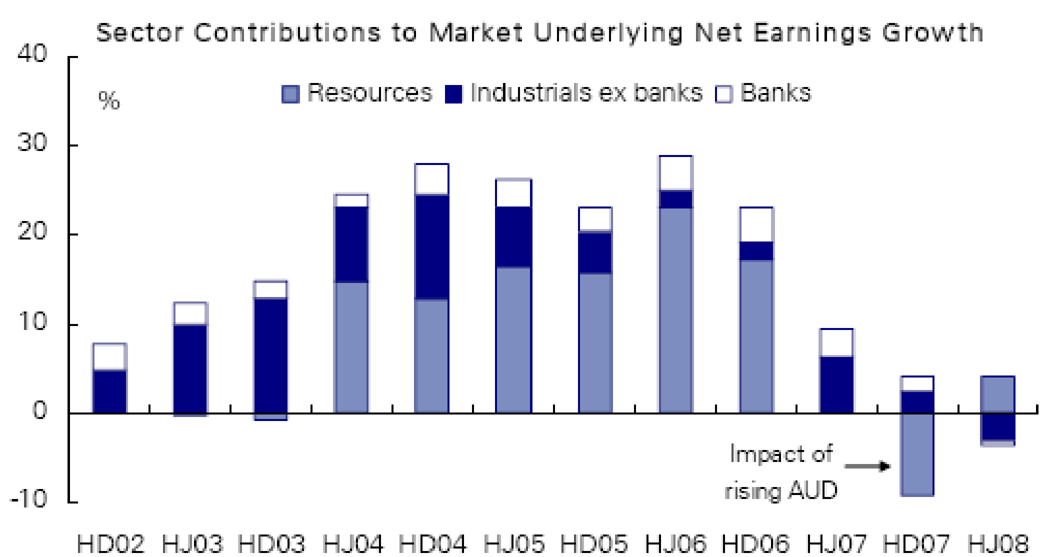
A review of the earnings growth for the year ended June 2008 reveals and confirms some interesting findings:

- Earnings **growth** for the resources sector fell dramatically for the year ended June 2008, although earnings were still very strong,

- Earnings **growth** for the Industrial sector slowed in the second half of the 2008 financial year, and

- Earnings **growth** for the banks slowed less than the dramatic fall in bank share prices suggested they would (although asset write offs in the financial sector were widespread).

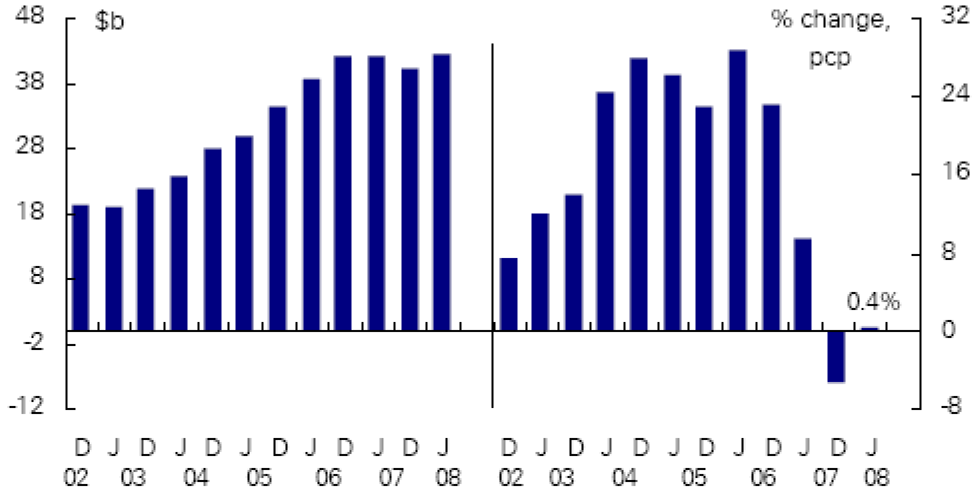
As can be seen from the chart below this slowing in earnings growth, when viewed in total has been significant over the 2008 financial year.



Source: Company data, Deutsche Bank

The chart below shows the percentage change in underlying net earnings half-year on half-year. This analysis shows how significant the change has been when viewed on a six-monthly basis.

Market Half-yearly Underlying Net Earnings*

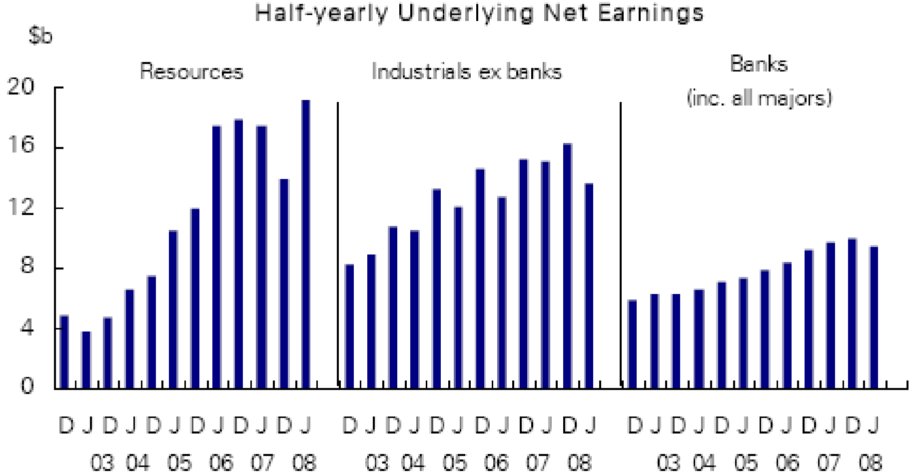


* Includes 106 of the largest companies. Excludes infrastructure. Contains estimates for companies with Mar/Sep year ends. Source: Company data, Deutsche Bank

When we analyse the quantum of the earnings by sector (below) we can see how significant the growth in Resource earnings has been for Australia since 2002. Earnings have grown from around $8bn p.a. to nearly $40bn p.a. during the period. This highlights one of the really interesting points from this reporting season. Whilst **earnings** for the resources sector have been at record levels, the **earnings growth** experienced by the resources sector has been much lower in light of the cyclical nature of commodity prices, a high Australian dollar, supply side constraints and the challenge of growing production levels.

Our conclusion is that whilst resource earnings are likely to continue to be strong the headwinds outlined above will make it difficult to deliver the levels of **earning growth** the sector has experienced over the past six years.

Half-yearly Underlying Net Earnings



Source: Company data, Deutsche Bank

The second interesting observation from the 2008 reporting season was that financial stocks excluding banks presented the area of weakest earnings in the market. Whilst, most major banks have not yet reported, indications at the half year were that underlying earnings were not slowing as quickly as share prices were falling. The dilemma here is whether analyst earnings estimates are correct or, whether the share prices are a good forward indicator of the earnings to follow. As a result of this uncertainty we remain cautious on the banks.

The third observation from the reporting season was that industrial **earnings growth was negative** for the first time in many years. This should not be a surprise. The outlook presented by management for many industrial stocks was that they expected weaker earnings over the next six to twelve months. What is interesting however, is that many of the cyclical industrial stocks such as retailing, transport, building materials, media and gaming have shown significant increases in share prices over the past three months, suggesting that the market is already factoring in some improvement in the cyclical industrial sectors, despite the fact that the analysts forward looking estimates are low or negative.

In conclusion, despite the fact that earnings for the year just gone were reasonably good, the corresponding earnings growth and earnings growth outlook are at best sending mixed messages. Perhaps of more concern are earnings growth forecasts that are potentially still too high for many parts of the economy.

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