CADENCE CAPITAL LIMITED

DECEMBER 2005 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	Sep-06	YTD
Cadence Capital Limited	0.10%	1.41%	6.39%										8.00%
All Ordinaries Acc Index	-3.83%	4.35%	3.09%										3.45%
Small Ordinaries Acc Index	-3.74%	2.98%	1.45%										0.57%

*Before Management Fees

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	Sep-06
Equity Long	14.9%	68.0%	85.9%									
Equity Short	2.5%	2.7%	0.0%									
Gross Exposure	17.4%	70.8%	85.9%									
Net Exposure	12.4%	65.3%	85.9%									

PORTFOLIO SECTOR ANALYSIS

	LONG	SHORT	TOTAL
Materials	28.52%		28.52%
Commercial Services & Supplies	14.26%		14.26%
Unspecified	8.76%		8.76%
Capital Goods	8.72%		8.72%
Health Care Equipment & Services	5.36%		5.36%
Consumer Services	4.84%		4.84%
Insurance	3.71%		3.71%
Pharmaceuticals & Biotechnology	2.99%		2.99%
Energy	2.50%		2.50%
Banks	2.26%		2.26%
Diversified Financials	2.13%		2.13%
Consumer Durables & Apparel	1.87%		1.87%
Gross Exposure	**85.93%**	**0.00%**	**85.93%**
Net Cash / (Debt)			**14.07%**

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MARKET AND COMMENTARY

Cadence Capital Limited closed on the 30th December 2005 with a Net Tangible Asset Backing (NTA) of $1.034 pre tax and fees and $1.020 post tax and fees.

During the month of December, Cadence Capital Limited returned a gross performance of 4.08% compared to a rise in the All Ordinaries Accumulation Index of 3.09% and a rise in the Small Ordinaries Accumulation Index of 1.45%. The fund finished the month 85.9% long, 0.0% short and with a Net Long Exposure of 85.9%.The net exposure of the fund for November was 34.9%.

During the month of December two pieces of information struck us as interesting.

The first was an article in The Economist magazine of the 10th December 2005. The article was headed ‘Hear that hissing sound?’ and outlined the recent update by the Organization for Economic Corporation and Development (OECD) on global house prices. This article contended that Australian house prices were 50% overvalued in Quarter 3 of 2005 and ranked as the most overvalued houses in the world. To judge the fair value of homes, the OECD uses the ratio of prices to rents, which is a quasi price-earnings ratio for housing. Theoretically if house prices are too high relative to rents, potential buyers will rent not buy, eventually pushing down real prices. In Australia this ratio is 70% above its average level over the period since 1970.

The second interesting piece of information was the fact that many of the base metals reached new highs during the month of December 2005. In fact many of these base metals have been reaching new highs throughout 2005 and have started 2006 again reaching new highs.

Theoretically higher commodity prices should result in higher prices for manufactured goods which in turn should lead to inflationary pressure. This inflationary pressure should ultimately lead to higher interest rates which in turn precipitate lower asset prices. A meaningful rise in interest rates in 2006 would reverse a falling interest rate trend that has been in place for nearly 18 years in Australia. Should further inflationary pressures emerge this year asset prices in general will be under pressure.

Inflationary pressures and the threat of higher interest rates remain a real risk for asset prices in 2006.

DISCLAIMER

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