



CADENCE
CAPITAL

DECEMBER 2006 INVESTOR REPORT

FUND PERFORMANCE*

Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	YTD
0.85%	8.52%	5.97%	1.47%	1.11%	-0.71%	-0.99%	1.55%	10.55%	-0.48%	7.31%	6.48%	49.33%
Nov-04	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	YTD
3.53%	0.80%	3.83%	0.82%	-2.48%	-5.07%	-1.08%	3.54%	4.15%	4.31%	4.53%	-1.49%	15.89%
Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	YTD
1.91%	4.05%	5.86%	5.25%	2.83%	3.04%	1.55%	-0.87%	-1.78%	2.29%	0.76%	7.93%	37.70%
Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	YTD
6.34%	6.74%											13.51%
* Before Management Fees										Accumulated return	170.50%	

PORTFOLIO EXPOSURE ANALYSIS (%)

	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04
Equity Long	62.3%	104.0%	103.1%	103.1%	108.9%	91.5%	91.9%	71.0%	114.4%	107.3%	128.4%	126.9%
Equity Short	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gross Exposure	62.3%	104.0%	103.1%	103.1%	108.9%	91.5%	91.9%	71.0%	114.4%	107.3%	128.4%	126.9%
Net Exposure	62.3%	104.0%	103.1%	103.1%	108.9%	91.5%	91.9%	71.0%	114.4%	107.3%	128.4%	126.9%
	Nov-04	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05
Equity Long	129.9%	114.4%	107.3%	120.2%	107.2%	78.4%	65.5%	86.0%	99.1%	102.8%	131.9%	121.3%
Equity Short	0.0%	0.0%	0.0%	7.1%	4.6%	11.9%	15.2%	11.9%	17.5%	11.6%	8.1%	15.8%
Gross Exposure	129.9%	114.4%	107.3%	127.3%	111.8%	90.3%	80.7%	97.9%	116.6%	114.4%	140.0%	137.1%
Net Exposure	129.9%	114.4%	107.3%	113.1%	102.6%	66.5%	50.3%	74.1%	81.6%	91.2%	123.8%	105.5%
	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06
Equity Long	119.0%	118.2%	103.8%	86.5%	89.2%	117.7%	127.2%	108.4%	109.7%	101.2%	102.0%	131.2%
Equity Short	13.2%	9.5%	9.3%	11.4%	12.8%	16.3%	31.7%	21.3%	31.9%	35.3%	39.0%	34.5%
Gross Exposure	132.2%	127.7%	113.1%	97.9%	102.1%	134.0%	158.9%	129.7%	141.6%	136.5%	140.9%	165.6%
Net Exposure	105.8%	108.7%	94.5%	75.2%	76.4%	101.3%	95.5%	87.1%	77.8%	65.9%	63.0%	96.7%
	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07
Equity Long	91.8%	101.8%										
Equity Short	18.0%	15.1%										
Gross Exposure	109.8%	116.9%										
Net Exposure	73.8%	86.7%										

PORTFOLIO SECTOR ANALYSIS (%)

Sector	Long	Short	Total
Materials	32.49%	-2.67%	29.82%
Diversified Financials	14.25%		14.25%
Software & Services	9.60%	-4.05%	5.55%
Commercial Services & Supplies	8.52%		8.52%
Capital Goods	7.78%	-0.98%	6.80%
Unspecified	4.92%		4.92%
Media	3.71%	-0.57%	3.14%
Health Care Equipment & Services	3.71%		3.71%
Energy	3.39%	-1.76%	1.62%
Insurance	3.38%	-0.67%	2.71%
Banks	3.05%	-0.47%	2.58%
Real Estate	1.66%	-0.72%	0.95%
Retailing	1.63%		1.63%
Telecommunication Services	1.54%		1.54%
Consumer Services	1.03%		1.03%
Household & Personal Products	0.68%		0.68%
Consumer Durables & Apparel	0.44%		0.44%
Transportation		-0.86%	-0.86%
Automobiles & Components			0.00%
Food & Staples Retailing			0.00%
Food Beverage & Tobacco		-2.34%	-2.34%
Pharmaceuticals & Biotechnology			0.00%
Technology Hardware & Equipment			0.00%
Semiconductors & Semiconductor Equipment			0.00%
Utilities			0.00%
Gross Exposure	101.78%	-15.09%	86.69%
Net Cash / (Debt)			13.31%

MARKET AND COMMENTARY

Cadence Capital unit price estimates as at 31st December 2006:

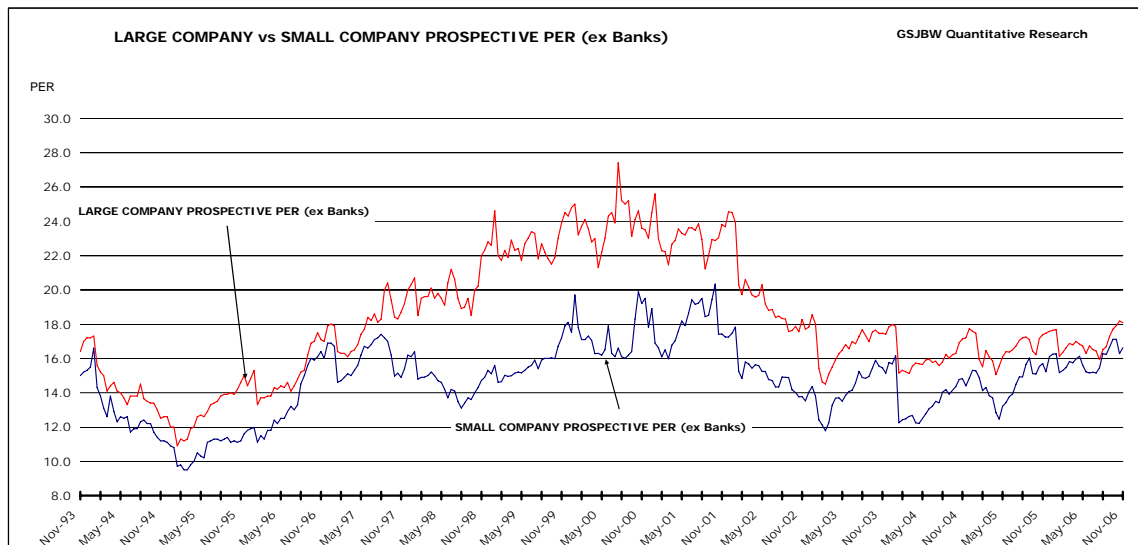
NTA	\$2.70501
Post Distribution	\$2.36998
Post Fees and Distribution	\$1.97115

We are pleased to announce our performance for the three years and two months ended December 2006. During this period the fund has produced an accumulated return of 170.50% prior to management fees. To get weekly estimates of the NTA for Cadence Capital please visit www.cadencecapital.com.au.

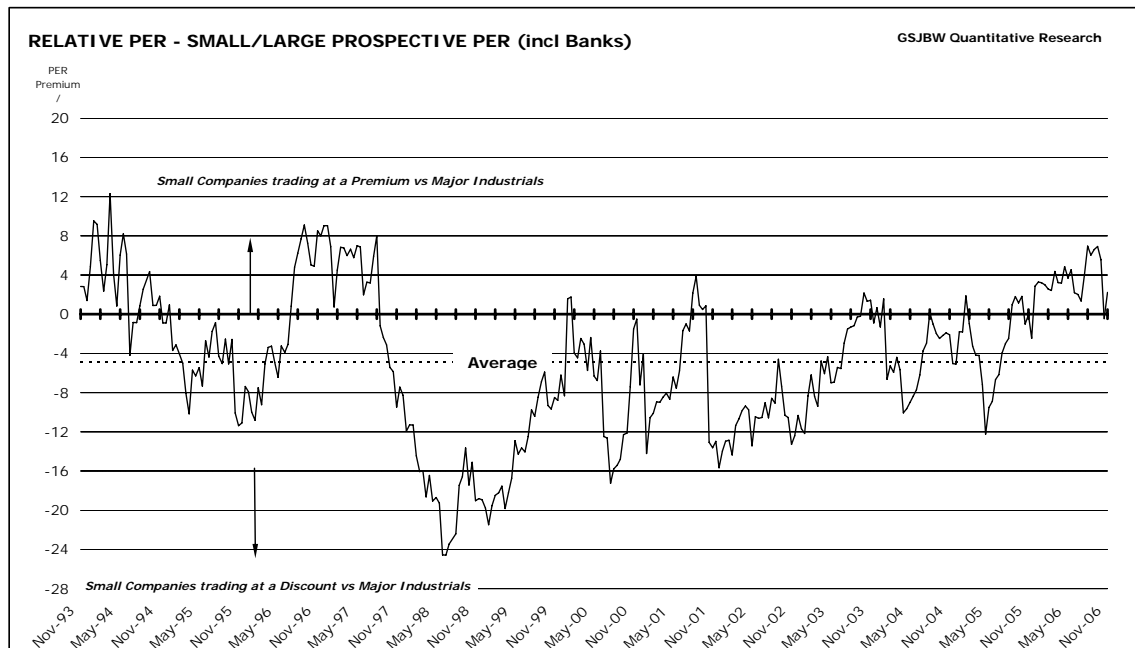
During the month of December, Cadence Capital returned a gross performance of 6.74% compared to a rise in the All Ordinaries Accumulation Index of 3.62% and a rise in the Small Ordinaries Accumulation Index of 4.09%. The fund finished the month 101.78% long, 15.09% short and with a Net Long Exposure of 86.69%.

Small Company vs. Large Company Valuations

Below are two charts taken from the monthly Quantitative research of Goldman Sachs JB Were. These two charts tell an interesting story over the last fifteen years.



Cadence Asset Management Pty Ltd ACN 106 551 062
Level 11, 131 Macquarie Street, Sydney NSW 2000 Australia
Telephone +612 8298 2444, Facsimile +612 8298 2444
Email: info@cadencecapital.com.au



Clearly over the last fifteen years small companies have, on average, traded at a discounted Price to Earnings ratio to the Major Industrial stocks. Theory suggests that this should be the case since smaller companies generally have;

1. less diversification of earnings,
2. less geographical spread and,
3. less diversification of management across divisions.

The general discount that prevails for Smaller companies relative to the Major Industrial Companies does not exist at the moment and has been gradually eroded since the last time they traded at a premium in 1997.

We can speculate on the reasons for this,

1. The market generally is not building in any valuation discount for additional risk at the moment,
2. The Small Companies Index contains a greater number of stocks associated with Resources and Resource-related companies,
3. Stronger demand, or a greater propensity to buy smaller capitalization stocks over this period as investors have seen greater returns from these stocks, and
4. The proliferation of boutique and specialist funds investing exclusively in smaller capitalization stocks.

Irrespective of the reason for this premium, history tells us that this premium is unlikely to be sustained over longer periods of time. Whilst it is too early to say that this premium has eroded, the charts illustrate that in the second half of 2006 the move was back towards parity and may even move back to a discount for smaller companies.

The conclusion then is that there must be an increased level of risk currently associated with owning a portfolio of exclusively smaller capitalization stocks relative to larger capitalization stocks.

Clearly within each of these sectors there are always going to be 'stand out' stocks; it is our task as fund managers to find these 'stand outs'. It may be that more opportunities come from the larger capitalization stocks this year than the smaller capitalization stocks.

DISCLAIMER

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Level 11, 131 Macquarie Street, Sydney NSW 2000 Australia
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