



JULY 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	YTD
Cadence Capital Limited	0.10%	1.41%	6.39%	7.57%	4.23%	5.04%	5.60%	2.25%	-1.69%	-1.80%	32.59%
All Ordinaries Acc Index	-3.83%	4.35%	3.09%	3.65%	0.70%	4.81%	2.40%	-4.34%	1.86%	-1.51%	11.21%
Small Ordinaries Acc Index	-3.74%	2.98%	1.45%	3.76%	2.13%	6.32%	1.02%	-4.02%	1.13%	-0.43%	10.63%

*Before Performance Fees and Tax

PORTFOLIO SECTOR ANALYSIS

Sector	Long	Short	Total
Software & Services	24.36%	-11.54%	12.82%
Materials	14.75%	-4.78%	9.97%
Commercial Services & Supplies	14.62%		14.62%
Energy	11.89%	-0.92%	10.97%
Insurance	8.14%	-1.58%	6.55%
Health Care Equipment & Services	6.82%		6.82%
Banks	6.62%		6.62%
Capital Goods	6.21%	-1.83%	4.38%
Media	6.05%	-1.65%	4.39%
Telecommunication Services	2.51%	-0.22%	2.30%
Real Estate	2.22%	-1.93%	0.29%
Diversified Financials	1.30%		1.30%
Retailing	1.16%		1.16%
Unspecified	1.03%		1.03%
Food & Staples Retailing	0.16%		0.16%
Transportation		-2.96%	-2.96%
Automobiles & Components			0.00%
Consumer Durables & Apparel		-0.43%	-0.43%
Consumer Services		-3.79%	-3.79%
Food Beverage & Tobacco		-1.94%	-1.94%
Gross Exposure	107.85%	-33.58%	74.28%
Net Cash / (Debt)			25.72%

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PORTFOLIO EXPOSURE ANALYSIS %

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

MARKET AND COMMENTARY

Cadence Capital Limited closed on the 31st July 2006 with a Net Tangible Asset Backing (NTA) of \$1.27395 pre tax and fees and \$1.16633 post tax and fees. To get weekly estimates of the NTA for Cadence Capital Limited please visit www.cadencecapital.com.au

During the month of July, Cadence Capital Limited returned a gross performance of (1.80%) compared to a fall All Ordinaries Accumulation Index of (1.51%) and a fall in the Small Ordinaries Accumulation Index of (0.43%). The fund finished the month 107.85% long, 33.58% short and with a Net Long Exposure of 74.28%. The net exposure of the fund for June was 77.7%.

We constantly hear that investors are making investments based on fundamental analysis or that we as fund managers do the same. The interesting part about this statement is that it contains an inherent assumption that everyone is making the same decisions based on the same fundamental information.

It struck us in the middle of July 2006 that the general tone of most articles in the Australian press was incredibly negative and that if you had arrived in Australia around this time you could be forgiven for thinking that the country was in a dire financial crisis. The typical headlines for the month of July were a combination of; 'Oil fears Keep Investors Away', 'Inflation Rears it's Ugly Head', 'Reserve Bank Warns on Interest Rates' and 'The Worst is yet to Come'. What these headlines are reflecting is a general negative sentiment. The obvious reasons for this negative sentiment were that the Reserve Bank of Australia raised interest rates in July and oil and commodity prices were at historically high levels. What we found interesting is that these facts or 'fundamentals' have been around for a long time. Interest rates and oil and commodity prices did not suddenly start rising in July 2006.

In actual fact the Reserve Bank of Australia raised interest rates for the seventh time in a row in July and the oil and commodity prices simply continued an upward price trend. Interest rates and petrol prices have been steadily climbing for two years. What is interesting is that *suddenly we are focusing on the fundamental trend that has been firmly in place for nearly two years*. This is not a sudden change in fundamentals but a sudden change in our *response to these fundamentals*; more accurately described as a change in psychology or sentiment. As we have constantly outlined to our investors, we invest funds on the basis of both fundamental information and emerging trends and sentiment. It is our belief that psychology and sentiment

cause asset valuations to reach extremes, both high and low, before rational factors and fundamental information once again take over. What has been surprising to us is how slow the market has been to react to the trend in fundamental information that has been in place for an extended period.

What does this mean for our fund? In keeping with our more cautious stance on inflation as well as commodity and oil price increases, we have been steadily reducing our long exposure and increasing our short exposure. Our 'bottom up' analysis is highlighting that many stocks are expensive and valuations of assets in general are at historically high levels. In addition market *sentiment and psychology* have now turned negative. We believe that fundamental information and sentiment are now acting consistently.

It is our belief that an investor has the greatest probability of making a profit on an investment when both fundamental and psychological factors are consistent. We outline this philosophy in all of our investment material and will continue to invest on this basis.

DISCLAIMER

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