



SEPTEMBER 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	Sep-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%	1.00%	35.55%
All Ordinaries Acc Index	-3.83%	4.40%	3.04%	3.65%	0.70%	4.81%	2.40%	-4.34%	1.86%	-1.51%	3.18%	1.25%	16.17%
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%	1.74%	14.74%

*Before Performance Fees and Tax

PORTFOLIO SECTOR ANALYSIS

Sector	Long	Short	Total
Materials	18.20%	-5.88%	12.31%
Software & Services	17.90%	-8.61%	9.29%
Commercial Services & Supplies	17.88%		17.88%
Energy	9.06%	-2.33%	6.73%
Health Care Equipment & Services	7.82%		7.82%
Media	7.37%	-4.03%	3.35%
Capital Goods	6.98%	-2.64%	4.34%
Banks	6.75%	-1.23%	5.52%
Insurance	6.13%	-1.57%	4.56%
Real Estate	5.01%	-3.09%	1.91%
Telecommunication Services	2.46%	-0.23%	2.23%
Retailing	2.32%		2.32%
Unspecified	2.01%		2.01%
Transportation		-2.28%	-2.28%
Consumer Durables & Apparel		-1.87%	-1.87%
Consumer Services		-4.34%	-4.34%
Food Beverage & Tobacco		-4.79%	-4.79%
Diversified Financials		-2.01%	-2.01%
Gross Exposure	109.88%	-44.91%	64.97%
Net Cash / (Debt)			35.03%

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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	Aug-06	Sep-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%	109.9%
Equity Short	2.5%	2.7%	0.0%	2.3%	10.1%	16.8%	13.4%	30.1%	19.7%	33.6%	40.5%	44.9%
Gross Exposure	17.4%	70.8%	85.9%	84.3%	101.6%	113.4%	128.3%	152.5%	117.1%	141.4%	148.4%	154.8%
Net Exposure	12.4%	65.3%	85.9%	79.6%	81.3%	79.8%	101.5%	92.3%	77.7%	74.3%	67.3%	65.0%

MARKET AND COMMENTARY

Please note that the Cadence Capital Limited Options (\$1.00 Strike Price) issued to existing shareholders expire on the 31st October 2006. These options are 'deep in the money'. Should you require any assistance in exercising these options please contact our offices on Tel: +612 8298 2444.

Cadence Capital Limited closed on the 30th September 2006 with a Net Tangible Asset Backing (NTA) of \$1.32009 pre fees, tax and dividends, and \$1.13934 post fees, dividends and tax. To get weekly estimates of the NTA for Cadence Capital Limited please visit www.cadencecapital.com.au

During the month of September, Cadence Capital Limited returned a gross performance of 1.00% compared to a rise in the All Ordinaries Accumulation Index of 1.25% and a rise in the Small Ordinaries Accumulation Index of 1.74%. The fund finished the month 109.88% long, 44.91% short and with a Net Long Exposure of 64.97%. The net exposure of the fund for August was 67.3

Whilst markets continue to display significant volatility relative to returns, the market is slowly moving higher.

The big news in September and early October has been the \$8 billion being sought by Telstra in the final sell down of Australia's largest telecommunications company. During the first two weeks of October it appears that fifty per cent of all press is being devoted to Telstra in some form or another.

Given all the press we feel it necessary to comment on Telstra as well. We have used Telstra as an example to show how we evaluate all potential investments on a Fundamental and Technical basis.

Telstra Analysis

Ideal characteristics of a Core Investment:

- Strong Earnings per share growth,
- Price Earnings Multiple low relative to earnings growth,
- Price / Earnings to Growth Multiple in Excess of 2,
- Free Cash Flow Yield of 10% or greater in earnings estimates,
- One Year technical trend analysis – Positive,
- Five Year technical trend analysis – Positive, and
- Liquidity – Good to Excellent.

Below is a brief summary of our analysis on Telstra:

Telstra Fundamental Analysis

Earnings per share growth 2006 – Negative 17.4% - Poor

Earnings per share growth 2007 – Negative 1.1% - Poor

Earnings per share growth 2008 – Negative 3.2% - Poor

Price / Earnings Multiple 2006 – 13.2 times

Price / Earnings Multiple 2007 – 13.3 times

Price / Earnings Multiple 2008 – 13.7 times

Price / Earnings to Growth Multiples 2006 – Negative 1.33 - Poor

Price / Earnings to Growth Multiples 2007 – Negative 0.08 - Poor

Price / Earnings to Growth Multiples 2008 – Negative 0.23 - Poor

Free Cash Flow to Yield Price Yield 2006 – 10.1% - Good

Free Cash Flow to Yield Price Yield 2007 - 3.7% - Average

Free Cash Flow to Yield Price Yield 2008 – 8.9% - Fair

Telstra Technical Analysis

One Year Trend Analysis – Trend **Down** 9.1% on a rolling one year share price.

Five year Trend Analysis – Trend **Down** 29.7% on a rolling five year share price.

Liquidity – Excellent

Our Fundamental Analysis indicates Telstra is a poor to average investment based on fundamentals.

In addition the Technical Analysis above indicates that on most measures we employ Telstra is at best an average investment.

Combining these two forms of analysis, Telstra does not represent a fundamental investment opportunity for our funds and at best represents a trading opportunity.

In assessing the possibility of making a trading profit we consider a number of factors relevant:

- Retail investors are getting Telstra stock at a slight discount which is attractive,
- Once Tranche 3 of Telstra is sold the company will be 100% private as opposed to partly private and partly public. The experience through out the world is that once a telecommunications incumbent becomes fully privatized earnings do improve (at least initially),
- All investors who take up stock in T3 will only have to partly pay for the stock initially but will receive the full benefit of the earnings until the stock becomes fully paid. This effectively allows investors to leverage into the stocks performance which is good, if the stock performs well, and bad if the stock performs poorly, and
- The Dividend Yield on the partly paid share, as opposed to the fully paid share, appears attractive in the short run, but our Free Cash Flow Analysis indicates that these high yields are not sustainable with the current earnings profile.

In summary Telstra does not look attractive to us on a Fundamental basis and there are pros and cons to taking a trading position in the stock. The Top 10 holdings in our Fund display better fundamental and technical characteristics than Telstra and as such it is a shame that so much time and energy is being devoted to one stock.

We reiterate that there are always opportunities in the market and our task is to find these opportunities. The opportunities are not always in the most obvious places. Generally, the least covered and understood an investment opportunity is, the better the potential returns.

DISCLAIMER

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