

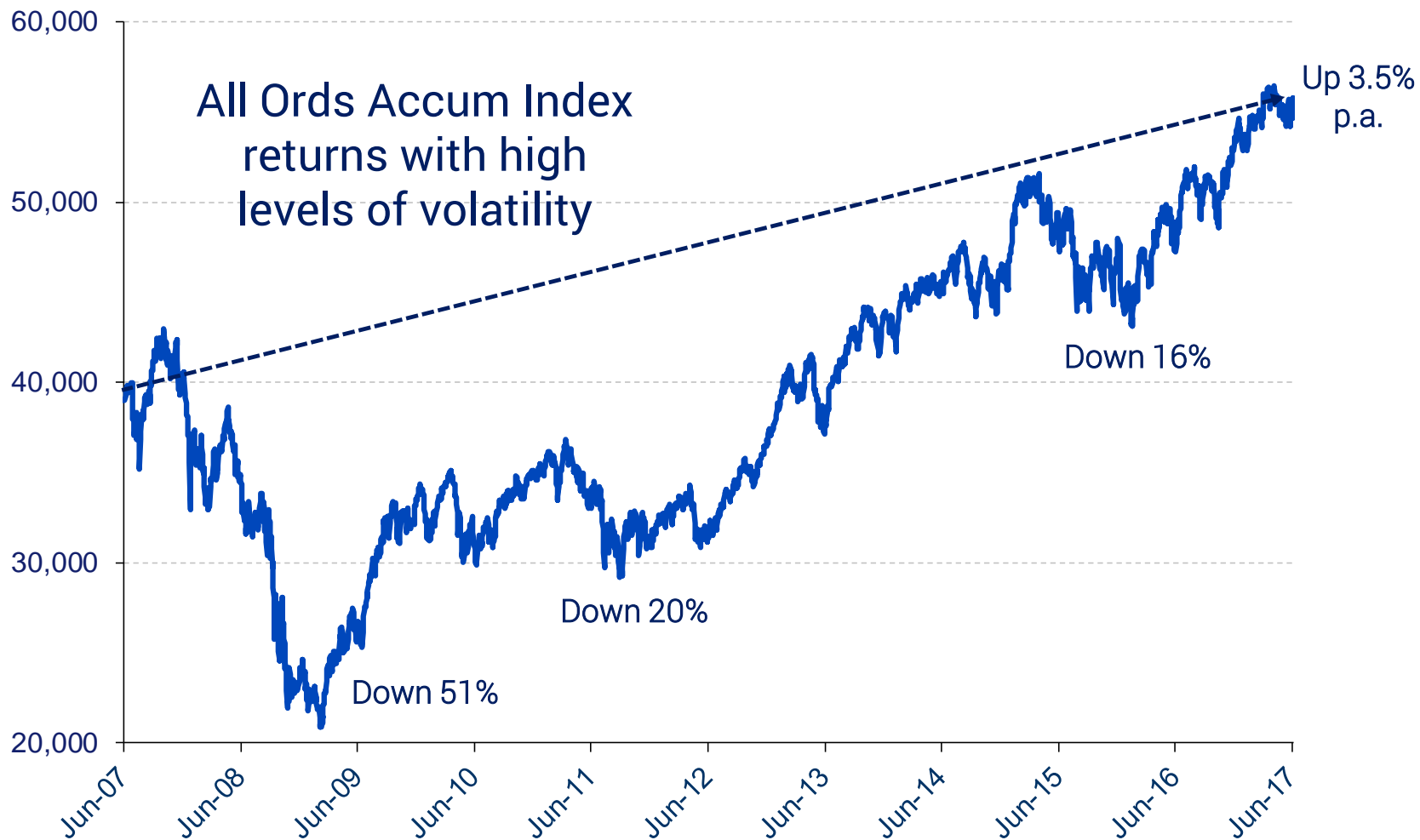


Cadence Capital Limited

Adapting Portfolios to Changing Thematics
AIA Conference – 31st July 2017



Investing in the market over past 10 years





Fund fashion (hope, fear and greed)

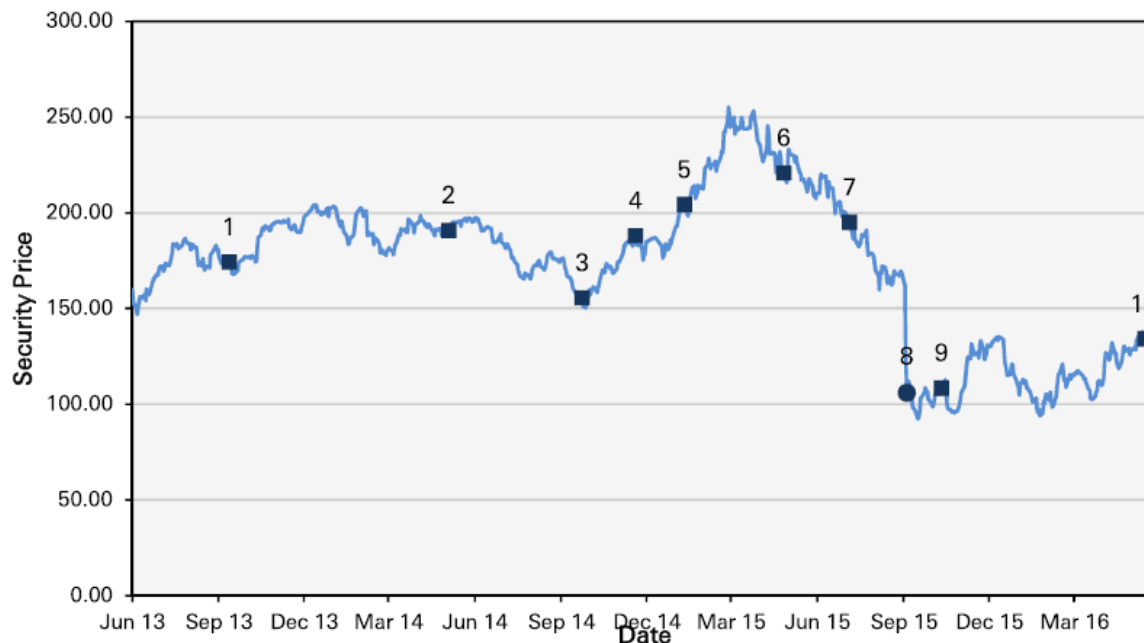




Brokers Changing Recommendations

Historical recommendations and target price: Volkswagen AG (VOWG_p.DE)

(as of 6/16/2016)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9, 2002

**Analyst is no longer at Deutsche Bank

1.	01/10/2013:	Buy, Target Price Change EUR220.00	6.	15/05/2015:	Buy, Target Price Change EUR280.00
2.	23/05/2014:	Buy, Target Price Change EUR225.00	7.	24/07/2015:	Buy, Target Price Change EUR260.00
3.	12/10/2014:	Buy, Target Price Change EUR205.00	8.	23/09/2015:	Downgrade to Hold, Target Price Change EUR130.00
4.	08/12/2014:	Buy, Target Price Change EUR210.00	9.	30/10/2015:	Hold, Target Price Change EUR135.00
5.	29/01/2015:	Buy, Target Price Change EUR230.00	10.	03/06/2016:	Hold, Target Price Change EUR150.00

Source: Deutsche Bank AG London – Auto Manufacturing Volkswagen AG, 17 June 2016



The Investor's Dilemma

How do you make sure that you :

- Invest into equities at the right time?
- Move back into cash at the right time?
- Buy into new trends and new trending stocks at the right time?
- Sell out of a stock once the trend has ended?
- Have exposure to certain companies and sectors at the right time?
- Have exposure to companies in certain countries at the right time?
- Select the fund with the right strategy at the right time?

Is now a good time to buy? – Don't ask
(Peter Lynch)

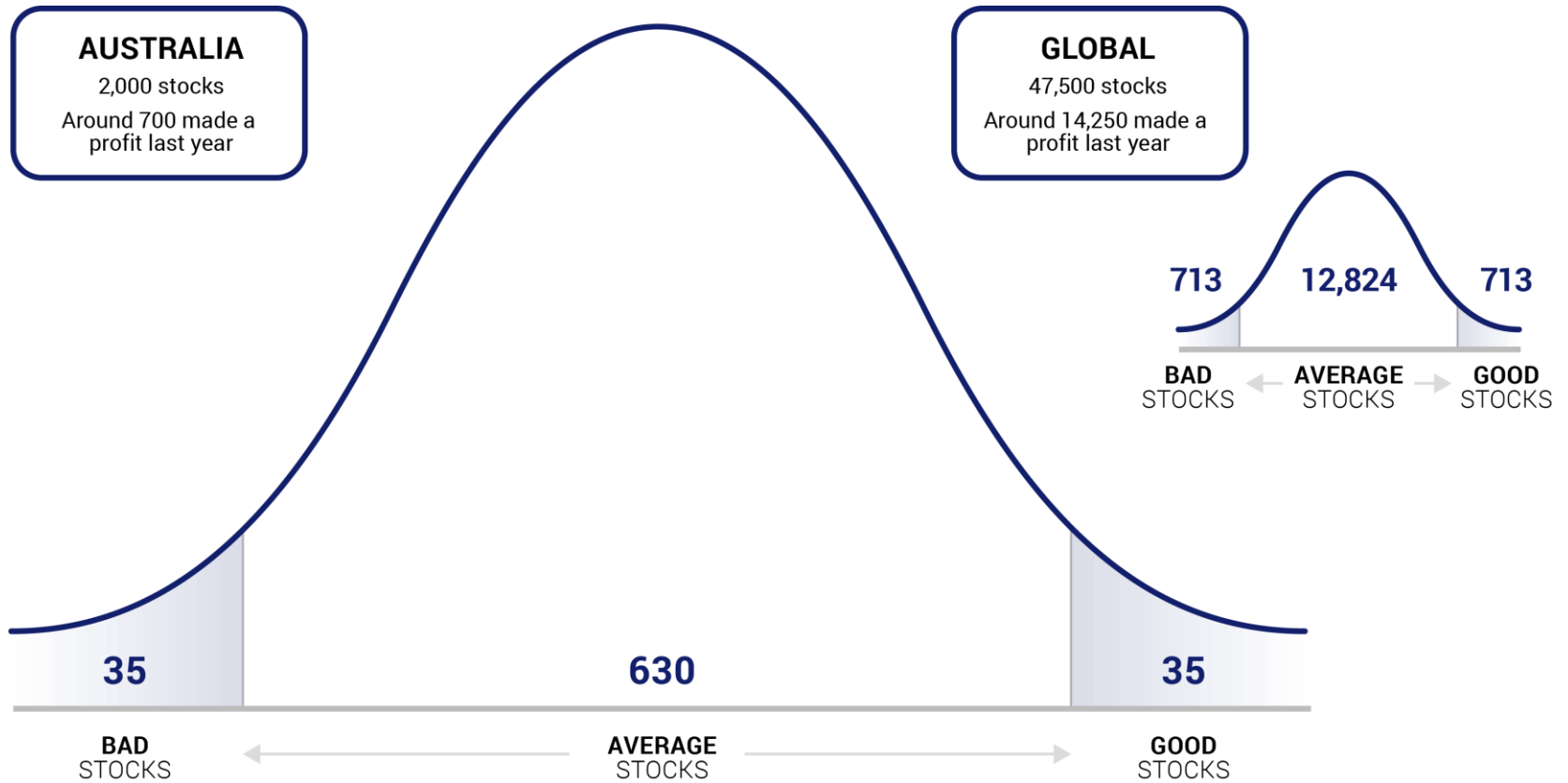


Investment Philosophy and Beliefs

- A combination of **Fundamental** and **Technical** Research has a greater probability of producing higher returns than either Fundamental or Technical analysis alone
- **Fundamental Research:**
 - Price versus Growth (PEG ratios)
 - Operating Cash Flow and Free Cash Flow analysis
 - Balance sheet strength
- **Technical Research:**
 - Disciplined 'Entry and Exit' strategy
 - Scale into and out of positions



Fundamental Research





Fundamental Research

Bad Fundamentals

(For current year and two years estimates)

PEG $\left(\frac{\text{PE}}{\text{EPS Growth}}\right)$ 2+

OCF yield -ve% to 8%

FCF yield -ve% to 3%

Cash No

Debt Yes

Good Fundamentals

(For current year and two years estimates)

PEG $\left(\frac{\text{PE}}{\text{EPS Growth}}\right)$ <1

OCF yield 12% - 15%

FCF yield 8% - 10%

Cash Yes

Debt No



Technical Research

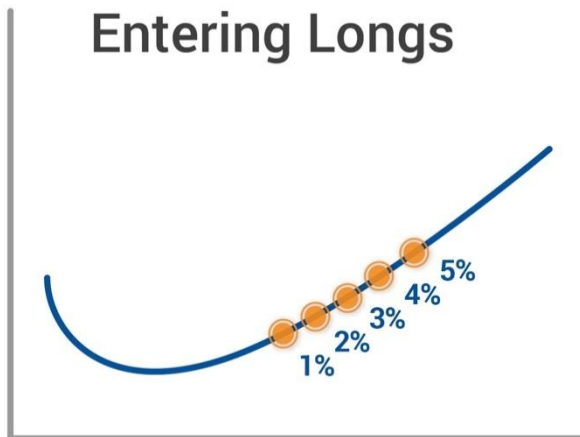


- the short-term (one year) share price and share volume indicators (short term trend)
- the long-term (five year) share price and share volume indicators (long term trend)
- the average weekly volume of shares traded



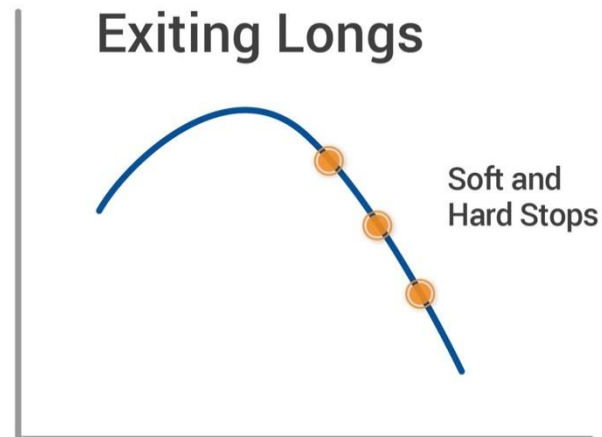
Entry and Exit of Long Positions

Entering Longs



- Wait until trend has turned and then accumulate positions
- Do not average down

Exiting Longs



- Identify a change in trend - 1, 3 and 12 month chart analysis
- Individual stock positions are monitored for a change in trend using bear market variance and liquidity measures

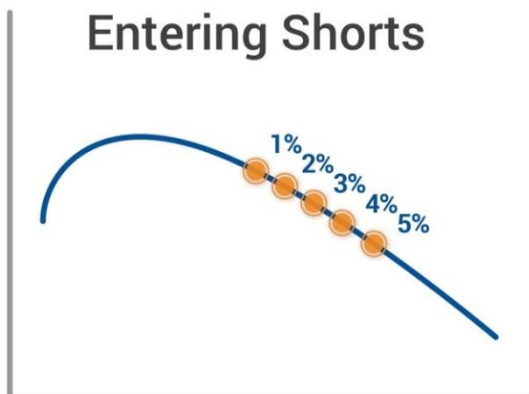


Shorting Strategy and Process

Shorts are monitored very closely because:

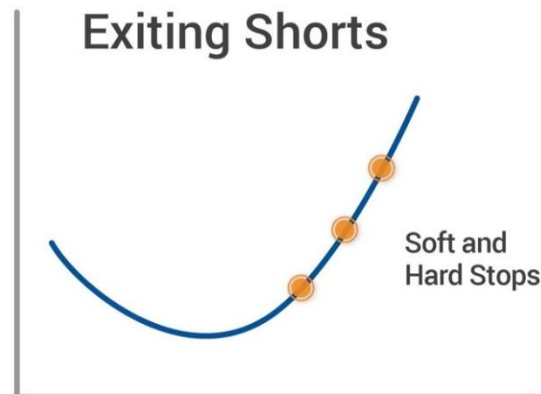
- Losses in short positions can be unlimited
- Markets fall 3 times as quickly as they rise

Entering Shorts



- Over 5 years short exposure has been between 0% and 15% with a maximum of 45% (*opportunistic*)
- Assess – call back, liquidity and market cycle risk

Exiting Shorts



- Stock positions are monitored for a change in trend using bear market variance and liquidity measures
- Alpha generation is the *sole objective* of shorting stocks

Cadence Dashboard summary generated and monitored



Where should I invest?

	CASH	ALL ORDS ACCUM INDEX (11.8 Years)	CADENCE CAPITAL LTD (11.8 Years)
Gross Performance	2.0%	6.4%	15.3%
<i>Less</i> Management Fees	-	(0.2%)	(1.0%)
<i>Less</i> Tax (30%)	(0.6%)	(1.9%)	(4.3%)
Post Tax Return	1.4%	4.3%	10.0%
Yield	1.4% (Fully Franked)	4% (Fully Franked)	6.7% (Fully Franked)
Grossed Up Yield	2.0% (Grossed Up)	5.7% (Grossed Up)	9.6% (Grossed Up)
Capital Growth & Franking	None	0.5%	4.7%
Volatility of Returns	"SECURE"	MARKET VOLATILITY	LESS THAN MARKET (25% CASH)



Performance and Dividend Yield

Performance* to 30th June 2017	CDM**	All Ords	Outperformance
1 Month	1.6%	0.3%	+1.3%
1 Year	17.2%	13.1%	+4.1%
3 Years (per annum)	4.7%	6.8%	-2.1%
5 Years (per annum)	10.4%	11.6%	-1.2%
8 Years (per annum)	18.3%	9.4%	+8.9%
10 Years (per annum)	10.3%	3.5%	+6.8%
Since Inception (11.8 years) (per annum)	15.3%	6.4%	+8.9%
Since Inception (11.8 years) (total return)	430.1%	106.7%	+323.4%

* Gross Performance: before Management and Performance Fees

**Includes the franking value of RHG dividend received in May 2011

- Cadence performance has been achieved whilst holding on **average 25% cash** (less than market risk).
- **Historic Dividend Yield of 6.7% fully franked (9.6% grossed-up)** based on CDM share price on date of ASX announcement.
- CDM is currently trading at around post tax NTA
- Cadence Capital team are the **largest investors** in the strategy
- 50% of Investors are SMSF's



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