Cadence Capital Limited

Investor Presentations
September 2019

Agenda

- At today's presentation we would like to cover:
  - the past year's performance
  - the largest detractors and top performers
  - the discount of our CDM share price to NTA
  - 2019 final dividend
  - the current portfolio & some of our top positions
  - CDM as an investment opportunity, and
  - our Outlook for 2019/2020

Full Year Performance

Fund Performance - 30 June 2019	Gross Performance (before fees)	Net Performance (after fees)	Net Performance Incl. Franking * (after fees)	All Ords Accum Incl. Franking
1 Month	-4.3%	-4.4%	-4.3%	3.5%
1 Year	-20.6%	-21.3%	-20.5%	12.5%
3 Years (per annum)	3.2%	1.7%	3.0%	14.1%
5 Years (per annum)	1.5%	-0.1%	1.0%	10.4%
8 Years (per annum)	6.2%	4.6%	6.5%	10.7%
10 Years (per annum)	13.7%	11.1%	13.4%	11.4%
Since Inception (13.6 years) (per annum)	12.4%	9.8%	11.7%	8.6%
Since Inception (13.6 years) (total return)	397.6%	259.7%	355.6%	211.5%

* including franking on dividends received

- Biggest detractors from performance:
  - ARQ Group (previously Melbourne IT)
  - Emeco Holdings
  - Navigator Global Investments
  - Shine Corporate
  - Teva Pharmaceutical
- Biggest contributors to performance:
  - Bingo Industries
  - Champion Iron
  - Deepgreen Metals
  - Softbank Group
  - Stanmore Coal

Full Year Performance

- In 2019 the fund delivered one of its worst performances since the company's inception 13 years ago.
- There was significant volatility through the year with a 18% correction in global equities in the December quarter followed by a 21% rally back to previous highs by June 2019.
- The correction in late 2018 provided an opportunity for the fund to initiate positions at compelling valuations in several domestic and international companies.
- Some of these stocks are now becoming significant positive contributors to fund performance as we scale into these positions.
- More specifically for CDM, a small number of stocks contributed large negative returns for the fund; ARQ, EHL, TEVA

Full Year Performance - Detractors

- ARQ Group (ASX Code: ARQ) was the largest detractor to fund performance - currently a long investment
  - Cadence first invested in 2013 pre a capital return and special fully franked dividend.
  - We added to our position as the stock was trending up through 2 capital placements for acquisitions. We also participated in ARQ DRP's as the stock trended up. This resulted in a large stake in the company.
  - Cadence lets its winners run which leads to concentrated, profitable positions such as ZFX, MLB, MQG, RHG and RKN.
  - In the case of ARQ liquidity in the stock did not improve with growth in market cap or entry into the ASX 300 Index.
  - Over the past year the company delivered two earnings downgrades related to acquisition integration, timing of Enterprise Services project work, and loss of a key customers in its Small Medium Business division, combined with cost 'blow outs'.
  - We like many other investors were shocked at the speed of these downgrades and the lack of communication with shareholders. We have been engaging with the Board over an extended period on these issues.
  - As large shareholders we are supportive of the new chairman and non-executive director appointments. Karl Siegling was appointed to the Board of ARQ on 16 August 2019.
  - ARQ operates in a growing segment of the market with ongoing migration and digitization of the economy.
  - Whilst we are extremely disappointed with ARQ, we believe that as one of the oldest listed companies in its sector, it can deliver significantly improved earnings and establish itself as a valuable company operating in the sector.

Full Year Performance - Detractors

- Emeco Holdings (ASX Code: EHL) was the second largest detractor - sold
  - The stock price declined significantly in the fourth quarter after being one of the top performers in the market over the preceding 18 months.
  - The EHL position was sold on the way down after being a very profitable position for the fund in the financial year 2018.
  - The stock was caught in the 'cyclical growth' sell-off in late 2018.
  - In addition, the company's further investments into equipment was not positively received by the market as risk aversion increased. It no longer meets our fundamental criteria.
- Teva Pharmaceutical (NYSE Code: TEVA) – sold
  - The company is in the midst of a significant turnaround, however to-date the pressures to revenues have been too significant to be offset through cost-cutting.
  - The US generics industry continues to be challenged and has not recovered as expected.
  - Potential negative fallout from future legislative action has also increased in probability.
  - This is still on our watchlist as a potential turnaround story e.g. MQG, Samsung.

Full Year Performance - Contributors

- Bingo Industries (ASX Code: BIN) - currently a long investment
  - Entered the position in February 2019 after the waste management business posted a downgrade to FY19 earnings guidance.
  - We saw the imminent ACCC decision relating to the DADI acquisition as a win-win situation, with capital management likely in either situation
  - We will discuss this stock in more detail in Part 2 of the year-end webcast.

- Champion Iron (ASX Code: CIA and TSX Code: CIA) - currently a long investment
  - We initiated a position in January in this emerging Canadian iron ore producer as it delivered on mine ramp-up targets. The company purchased the project out of bankruptcy in 2015.
  - Management has a strong track record of shareholder returns.
  - The stock remains very cheap.

Full Year Performance - Contributors

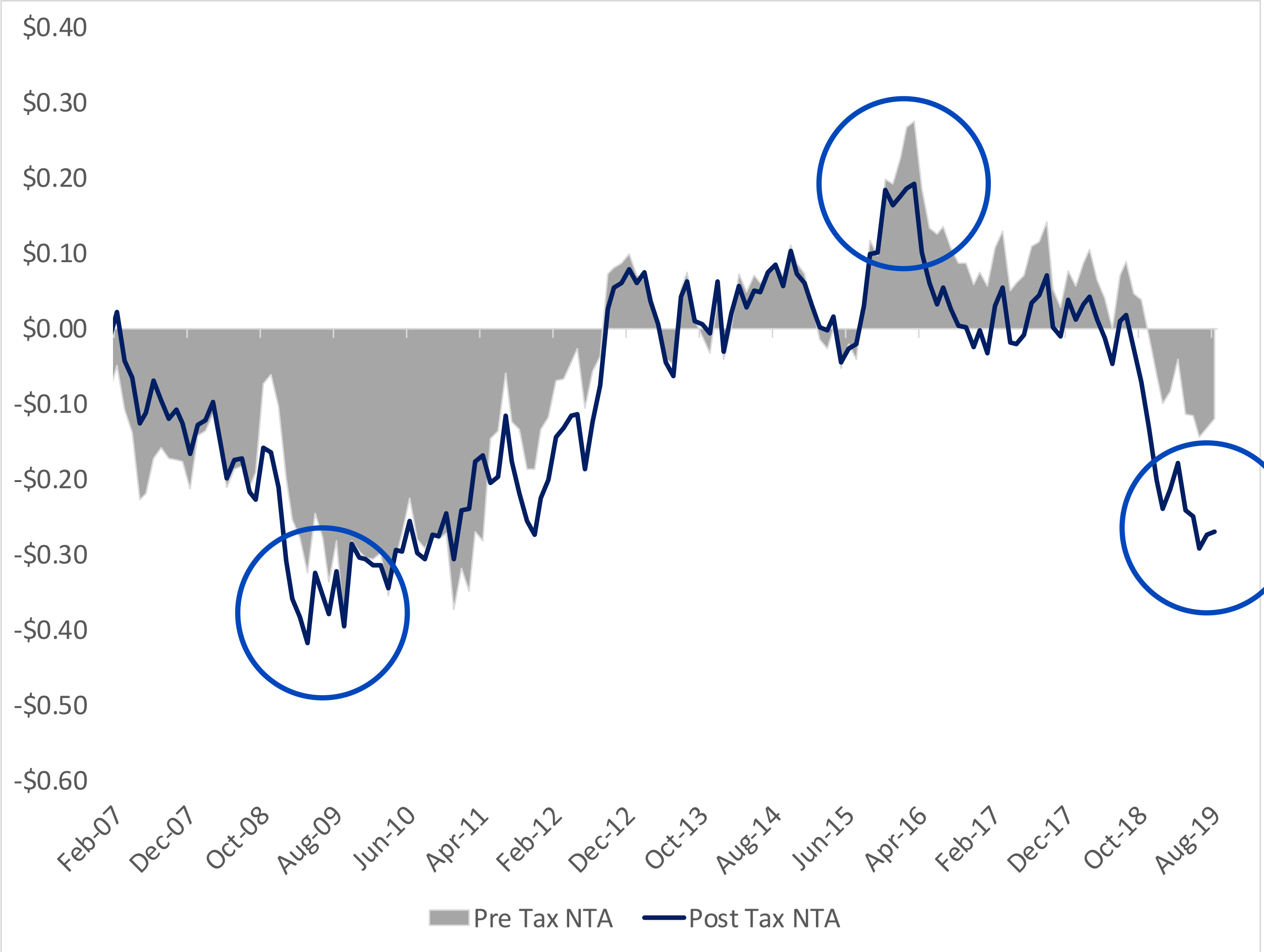
- Stanmore Coal (ASX Code: SMR) - currently a long investment
  - We initiated a position last year through two sell-downs, whilst the share price was still going up.
  - Management has done a good job at building shareholder value through increasing production, reducing costs and making sensible acquisitions.
  - The stock remains very cheap at current coking coal prices with over $90m in net cash on a $380m market capitalisation.
  - Stock is currently under takeover.

- SoftBank Group - sold
  - We initiated a position when a number of SoftBank's underlying positions had risen significantly (listed investments), leading to the stock trading at a 45% discount to NTA.
  - Subsequently Softbank announced that they were raising the Vision $100bn fund. This was a significant raise for the company and will contribute additional earnings to the group.
  - These two factors led to a significant rerating or the stock and after the Softbank share price finished rising and rolled over, we scaled out of the position.

CDM Discount and Premium to NTA

- CDM shares now trade at roughly a 15% to 20% discount to pre-tax NTA.
- The 2019 Full year negative performance of the fund has resulted in a fall in NTA.
- By far the largest factor affecting the CDM share price over recent years, has been the move from a large **premium** to NTA to a large **discount** to NTA. This move from premium to discount is twice as large as the actual losses incurred by the fund.
- This change in investor sentiment has resulted in a share price fall far greater than actual losses.
- The lead up to the Federal election had a negative impact on the LIC sector with expectations of a loss of franking credits. This has not occurred.
- What is being done to address the discount to NTA:
  - Implemented an on-market share buy-back of up to 10% of CDM shares per annum, which is well timed post the 30th June tax loss selling,
  - Ongoing acquisition of CDM shares by the board and management, and
  - An increased marketing effort to existing and potential new investors to explain the opportunity of investing in CDM.
- CDM is trading at a discount to NTA, has a record of strong fully franked dividends and is a fund with a good long-term record following a period of poor short-term performance

CDM Discount and Premium to NTA



Final Dividend

Calendar Year	Interim	Final	Special	Total	Gross (Inc. Franking)
2007	2.0c	2.0c	2.0c	6.0c	8.6c
2008	2.5c	2.2c*	-	4.7c	5.8c
2009	-	2.0c	-	2.0c	2.9c
2010	2.0c	2.0c	-	4.0c	5.7c
2011	3.0c	3.0c	3.0c	9.0c	12.9c
2012	4.0c	4.0c	4.5c	12.5c	17.8c
2013	5.0c	5.0c	1.0c	11.0c	15.7c
2014	5.0c	5.0c	-	10.0c	14.3c
2015	5.0c	5.0c	1.0c	11.0c	15.7c
2016	5.0c	4.0c	-	9.0c	12.9c
2017	4.0c	4.0c	-	8.0c	11.4c
2018	4.0c	4.0c	-	8.0c	11.4c
2019	3.0c	2.0c	-	5.0c	7.1c
TOTAL	**44.5c**	**44.2c**	**11.5c**	**100.2c**	**142.2c**

* Off market Equal access buy back

- 2.0 cents fully franked final dividend bringing the 2019 fully franked full year dividend up to 5.0 cents
- Annualised dividend yield of 6.7% fully franked (9.5% grossed-up) based on the share price of $0.75 as at date of announcement of the dividend.
- Ex date 18th Oct 19, Record date 21st Oct 19, Payment date 30th Oct 19
- No DRP as the shares are currently trading at a large discount to the underlying NTA per share

Top 20 Holdings – 30th June 2019

Top 20 Holdings					
	Code	Position	Direction	Currency	Holding
	MNY	Money3 Corp Ltd	Long	AUD	5.7%
●	CIA	Champion Iron Ltd	Long	AUD	5.0%
	MQG	Macquarie Group Ltd	Long	AUD	4.7%
●	STO	Santos Ltd	Long	AUD	4.6%
●	BIN	Bingo Industries Ltd	Long	AUD	4.5%
	ARQ	ARQ Group Ltd	Long	AUD	4.5%
●	ECX	Eclipx Group Ltd	Long	AUD	4.2%
●	SVW	Seven Group Holdings Ltd	Long	AUD	4.0%
●	1717 HK	Ausnutria Dairy Corp Ltd	Long	AUD	3.5%
	NBL	Noni B Ltd	Long	AUD	3.3%
●	QCOM US	Qualcomm Inc.	Long	AUD	3.2%
	**	Deepgreen Metals	Long	AUD	2.9%
	RMC	Resimac Group Ltd	Long	AUD	2.8%
	SMR	Stanmore Coal Ltd	Long	AUD	2.6%
	SHJ	Shine Corporate Ltd	Long	AUD	2.6%
●	ALL	Aristocrat Leisure Ltd	Long	AUD	2.3%
●	TWE	Treasury Wine Estates Ltd	Long	AUD	2.1%
●	XIP	Xenith IP Group Ltd	Long	AUD	1.6%
●	JD US	JD.COM Inc	Long	AUD	1.6%
●	700 HK	Tencent Holdings Ltd	Long	AUD	1.4%
	Top Portfolio Holdings Net Exposure				**67.0%**

● New positions in the fund

** A Pre-IPO investment in the Materials sector

A more diversified and more liquid portfolio

- We have been adding to new positions that have been performing well

CADENCE CAPITAL LIMITED

YTD Performance (31st August 2019)

Gross Performance* to 31st August 2019	CDM	All Ords Accum	Outperformance
1 Month	-0.7%	-2.2%	1.5%
YTD	1.6%	0.7%	0.9%
1 Year	-17.2%	8.6%	-25.8%
3 Years (per annum)	1.5%	11.1%	-9.6%
5 Years (per annum)	1.4%	8.1%	-6.7%
8 Years (per annum)	6.1%	10.1%	-4.0%
10 Years (per annum)	12.1%	8.6%	+3.5%
Since Inception (13.9 years) (per annum)	12.4%	7.2%	+5.2%
Since Inception (13.9 years) (total return)	405.6%	162.8%	+242.8%

* Gross Performance: before Management and Performance Fees

Eclipx (ECX)- PM Karl Siegling

Stock Profile ECX

Long Position

EPS Growth	**15%**
PE	**9x**
PEG	**0.7**
OCF yield	**11%**
FCF yield	**7%**
Net debt	**$140M**
Market Cap	**$480M**

Fundamental Analysis

- ECX is one of Australia's largest car leasing and fleet services businesses.
- After several earnings downgrades, the stock fell to levels representing 4-5x PE, significantly cheaper than its peers.
- This ascribed no earnings or value to non-core businesses Right2Drive and Grays. Market Capitalisation fell $1.2 billion on $220 million of acquisition.
- Management change is typically an important driver of strategic and operational turnarounds. Large cost savings and rationalization have been flagged as has debt renegotiation.
- Corporate activity remains a possibility; two suitors have approached ECX recently.
- We have added to the position as it starts to re-rate. We will attend the September investor day.

Bingo Industries (BIN) – PM Charlie Gray

Stock Profile BIN

Long Position	
EPS Growth	**22%**
PE	**20x**
PEG	**0.9**
OCF yield	**8%**
FCF yield	**2%**
Net debt	**$300M**
Market Cap	**$1,500M**

Fundamental Analysis

- BIN is a waste management business with operations in metro NSW and VIC.
- At our initial purchase price around $1.30 BIN was trading at 11x PE, a very low multiple given the company's recycling and landfill assets.
- The Dial-A-Dump acquisition approved in February added the strategic Eastern Creek landfill in Western Sydney to the business.
- The earnings outlook is supported by significant price increases implemented from 1 July in NSW and earnings contributions from new recycling and landfill assets.
- Management are aligned with shareholders.

Alibaba (BABA US) – PM Jackson Aldridge

Stock Profile BABA

Long Position	
EPS Growth	**26%**
PE	**25x**
PEG	**0.96**
OCF yield	**6.2%**
FCF yield	**4.6%**
Net cash	**US$30BN**
Market Cap	**US$420BN**

Fundamental Analysis

- Alibaba Group is a Chinese multinational company specializing in e-commerce, retail, payments, cloud computing and other technologies.
- The company will directly benefit from the growing Chinese middle class, set to double from 300 million to 600 million people within the next 5 years.
- Alibaba Cloud is the largest high-end cloud computing company in China.
- Alipay has over 1 billion active users, even with 46% of the Chinese population still transacting with cash or credit.
- The company is growing sales at 35% p.a. on a PE of 25x, with 30 billion of net cash on balance sheet.
- The company is now trading on a PEG ratio of less than 1.

Resimac (RMC) – PM Karl Siegling

Stock Profile RMC

Long Position

EPS Growth	**15%**
PE	**9x**
PEG	**0.6**
OCF yield	**12%**
FCF yield	**11%**
Net cash	**$1M**
Market Cap	**$3M**

Fundamental Analysis

- In all the banking turmoil nonbanks have started to gain market share off a low base and grow earnings
- Similar to two other nonbank positions in our portfolio ECX and MNY, all growing in nonbank lending
- RMC has a strong skill set in RMBS origination, essentially packaging up loans and selling them at a margin
- RMC has also more recently started to integrate and improve its distribution model, particularly non bricks and mortar distribution
- RMC is growing at around 15% per annum and is conservatively valued at around 8 to 9x PE
- We have spoken on this stock before and the rerate from 50 cents per share has begun and is on track as the business model rolls out

CDM as an investment

- CDM is trading at a substantial discount to Pre-Tax and Post-Tax NTA.
- CDM has a history of paying a strong fully franked dividend yield.
- The Company implemented an on-market share buy-back of up to 10% of outstanding shares per annum, which is well timed post the 30th June tax loss selling.
- The Share Buy-back will increase NTA per share for all existing CDM shareholders.
- Ongoing acquisition of CDM shares by the board and management who are the largest investors in the fund.
- Implemented improvements in corporate governance following detailed review.
- An increased marketing effort to existing and potential new investors.
- CDM is an opportunity to invest in a LIC at a substantial discount to NTA with fully franked dividends and a good long-term track record following a period of poor performance.

Outlook

- Investor sentiment continues to swing between optimism and pessimism.
- Central banks continue to play a significant role in financial markets.
- The return to cutting interest rates by the Federal Reserve has once again boosted share prices of companies which rely on, or are supported by, record low interest rates.
- We have experienced a period of PE expansion, eventually there is a risk of PE contraction.
- We continue to look for companies which are cheap relative to their growth profiles (PEG ratio) with good balance sheets. Currently, many stocks have poor PEG ratios.
- In the current environment this typically takes the form of turnarounds, and ‘out-of-favour’ or ’under the radar’ investment opportunities.
- Over the past 6 months the liquidity and concentration of the portfolio has improved significantly. This continues to be a focus. We believe this has reduced risk and will deliver better risk-adjusted returns for shareholders.
- The Cadence investment process continues to identify investment opportunities in this environment.

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