

Cadence Capital Limited (CDM)

Listed Managed Investments

June 2021

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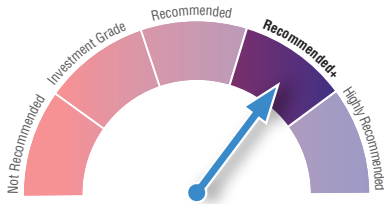
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Rating



LMI Type

Listed investment company

Investment Area

Australia & International

Investment Assets

Listed companies and other

Investment Sectors

Diversified

Key Investment Information

Price (\$) as at 31 May 2021	1.125
Market cap (\$M)	333.9
Shares on issue (M)	296.8
Options on issue (M)	0.0
Shares traded (\$M p.a)	93.1
12-month L/H (\$)	0.60/1.185
Listing date	December 2006

Fees

Management Fee (% p.a)	1.00
Performance incentives (%)	20.0
Performance Hurdle*	ASX All Ords Acc Index

*The Manager will be eligible for the performance fee only if the performance of the portfolio is positive and will be eligible for 20% of the outperformance of the benchmark index or in the event the benchmark index has decreased, 20% of the increase in the value of the portfolio.

Premium/Discount to Pre-tax NTA

As at 31 May 2021	4.8%
3 year average	-10.9%

Dividend Yield*

	%
FY19	9.3%
FY20	6.6%
FYTD21	3.6%

*Based on Share Price as at 31 May 2021

COMPANY OVERVIEW

CDM is a listed investment company with a long/short Australian and international equities investment strategy. The company commenced trading in October 2005 and listed in December 2006. Cadence Asset Management is the Investment Manager of the portfolio. There are no limitations on the level of shorting in the portfolio, however, historically the portfolio has had a long bias. The portfolio may hold cash in the event attractive opportunities cannot be identified.

INVESTMENT OBJECTIVE

The Manager has three key investment objectives: (1) ensure the portfolio is managed on an absolute basis; (2) achieve a high real rate of return, comprising both income (franked to the maximum extent possible) and capital growth; and (3) provide investors the opportunity to co-invest alongside the Manager.

STYLE AND PROCESS

The Manager uses both fundamental and technical trend analysis in making investment decisions and has a disciplined entry and exit strategy. While the ideas generation process is based on the Portfolio Managers fundamental analysis and investment skill, the investment process is largely rules-based, with investment selection, position sizing and timing all determined by fundamental and technical rules. The portfolio is managed according to an open mandate, with no stock, sector or country limitations and, as such, is very much an alpha seeking mandate. The initial investment in an individual stock however cannot exceed 1% of the portfolio at cost. The Manager can further invest in a stock in 1% increments as the stock trends up (for long positions) or down (for short positions) up to a maximum of four more times. The Manager is not a forced seller, meaning that once 5% of the portfolio at cost has been invested, the Manager can let the stock continue to move up or down until the technical indicators suggest exiting the position, unlike other funds which have maximum holding limitations and have to sell down a stock to avoid breaching the limitations.

PORTFOLIO CHARACTERISTICS

CDM invests in a portfolio of domestic and international listed companies, with the portfolio predominantly invested in domestic shares. The portfolio has a long bias with 82.1% of the portfolio in long positions and 7.2% in short positions at May-end. The Company has had limited amounts of short exposure over the last 10-years, with a maximum short exposure of ~10% over this period. The portfolio will comprise a combination of core investments and short-term trading opportunities. The portfolio will be moderately concentrated with 20-40 core investments and up to 40 trading opportunities.

INDEPENDENT INVESTMENT RESEARCH COMMENTS

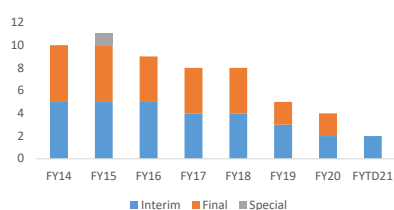
The Manager employs a disciplined investment process. The rules based charter lends itself to a repeatable investment process and provides greater confidence that alpha generated can be attributed to both the process and individuals (not just the latter). While there are no portfolio concentration limitations, a rules based entry and exit strategy should have the effect of limiting portfolio risk, restricting investments up to 5% of the portfolio at cost with the inclusion of a stop-loss. There is a strong alignment of interest with shareholders, with Karl Siegling being the largest shareholder. The portfolio (pre-tax NTA including dividends) has performed strongly over the 12-months to 31 May 2021, outperforming the benchmark index by 9.7%. The share price has far outstripped the performance of the NTA with the share price up 97.3% over the 12-month period. After trading at a discount to pre-tax NTA for the last few years, the Company is now trading at a premium. The market reacted strongly to the announcement that one of CDM's pre-IPO holdings (Deepgreen Metals) was expected to list at a significant premium to the price that the Manager acquired its interest in the company. Dividends have been on the decline in recent years but we expect dividends to stabilise with the strong short-term performance resulting in a significant uplift reported in the Profits Reserve in 1H'FY21. The Company also paid significant amounts of tax in 1H'FY21 which should bode well for franking credits.

SECTOR BREAKDOWN (NET EXPOSURE)

Sector	31 May 2020 (%)	31 May 2021 (%)
Communications	12.7%	18.0%
Financial	16.2%	12.9%
Consumer, Cyclical	8.1%	9.6%
Industrial	7.4%	9.3%
Energy	11.2%	8.6%
Basic Materials	3.6%	5.3%
Consumer, Non-cyclical	20.1%	4.2%
Technology	9.2%	3.5%
Materials	0.0%	1.9%
Capital Goods	0.0%	1.7%
Retailing	2.0%	0.0%
Consumer Services	1.0%	0.0%
Cash	8.5%	25.1%

Exposure	31 May 2021
Long exposure	82.1%
Short Exposure	7.2%
Net Exposure	74.9%
Cash	25.1%

Dividend History



Board of Directors

Karl Siegling	Managing Director & Portfolio Manager
Wayne Davies	Chief Operating Officer
James Chirnside	Independent Director
Jenelle Webster	Independent Director

PERFORMANCE ANALYTICS

Cumulative Returns	3 Month	1 year	3 year p.a	5 year p.a
	Pre-tax NTA + Dividends (%)	3.1%	39.7%	0.5%
ASX All Ords Acc Index (%)	7.9%	30.0%	10.4%	10.5%
Out/Under performance of index (%)	-4.8%	9.7%	-9.9%	-6.1%
Share Price + Dividends (%)	25.8%	97.3%	1.6%	3.2%
Tracking Error (%)	6.3%	7.3%	11.9%	9.9%

Note: All pre-tax NTA figures are after tax on realised gains and before tax on unrealised gains.

OTHER DATA

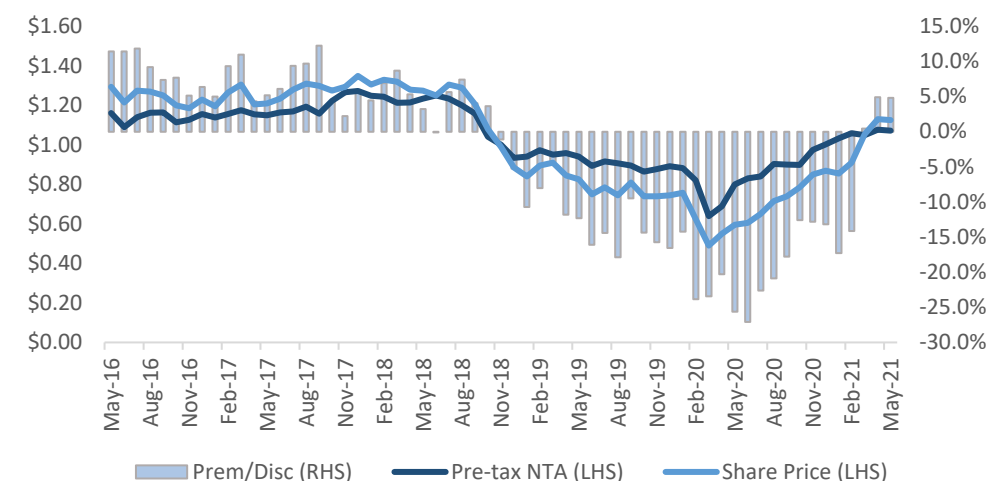
- ◆ **Dividend policy** – CDM intends to pay dividends from realised gains, dividends and interest income it receives from its investments, franked to the maximum extent possible.
- ◆ **Capital management policy** – CDM extended its on-market share buy back program in May 2021 with the Company able to buy back up to 29.67m shares over the 12-months to 8 June 2022. The Company will use share buy backs in the event the share price is trading at a discount to NTA.
- ◆ **LIC tax concessions** – No
- ◆ **DRP available** – No

CDM's Portfolio (Top 20)

Stock	Currency Exposure	Direction	Stock	Currency Exposure	Direction
Alphabet Inc	AUD	Long	Deepgreen Metals	AUD	Long
AppenLtd	AUD	Short	Johns Lyng Group	AUD	Long
ARB Corp Ltd	AUD	Long	Life360 Inc	AUD	Long
Baby Bunting Group Ltd	AUD	Long	Maas Group Holdings Ltd	AUD	Long
Betmakers Technology Group Ltd	AUD	Long	Money3 Corp Ltd	AUD	Long
Bluescope Steel	AUD	Long	Nitro Software Ltd	AUD	Long
Boral Ltd	AUD	Long	Resimac Group Ltd	AUD	Long
Cettire Ltd	AUD	Long	Tyro Payments Ltd	AUD	Long
Chalice Gold Mines Ltd	AUD	Long	Uniti Group Limited	AUD	Long
Credit Corp Group Ltd	AUD	Long	Upstart Holdings Inc.	AUD	Long

Source all figures: CDM/Independent Investment Research/IRESS. All data as at 31 May 2021 unless otherwise specified.

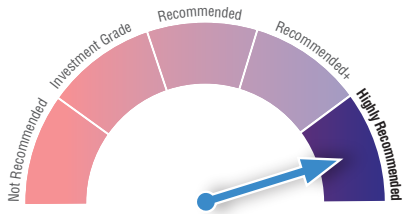
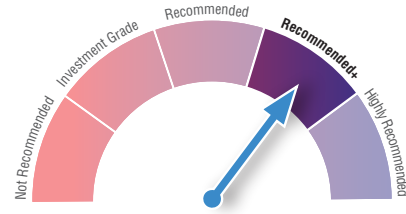
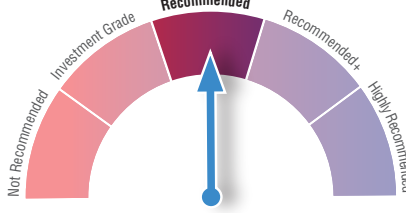
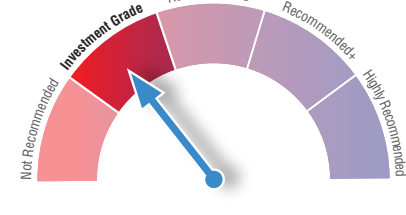
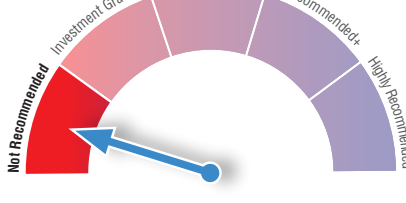
NTA & Share Price Performance



APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system

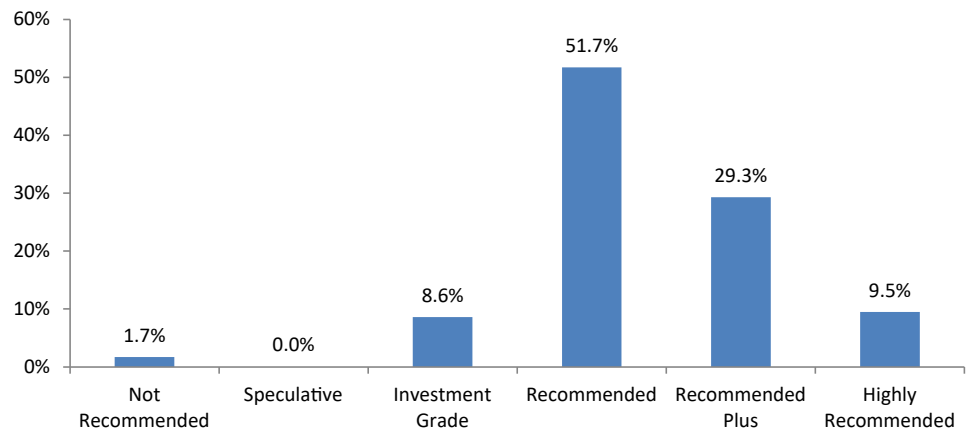
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
<p>Highly Recommended</p> 	<p>83 and above</p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
<p>Recommended +</p> 	<p>79–83</p> <p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
<p>Recommended</p> 	<p>70–79</p> <p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
<p>Investment Grade</p> 	<p>60–70</p> <p>This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.</p>
<p>Not Recommended</p> 	<p><60</p> <p>This rating indicates that IIR believes that despite the product’s merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</p>

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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