

PRODUCT WATCH

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Date: 23/07/2005
Words: 616
Source: AFR

Publication: The Financial Review
Section: Smart Money
Page: 39

Cadence Capital

What is it?

It's a listed investment company (LIC).

What's that?

You buy and sell LICs like shares, but instead of buying part of a company that manufactures something or performs a service, you are buying into a portfolio of other stocks. So it's like a managed fund, only it's listed on the stock exchange.

Weren't there dozens of these launched a year or so ago?

Yes. There was a rush from late 2003 until the middle of 2004 when issues like these dominated the markets, then tailed off as investors became saturated with them. There've been a handful since then but the problem is that most of the recent batch have performed very badly, often trading below their issue price, and at a discount to what they actually own, despite the stockmarket having enjoyed fantastic returns in the meantime.

How can something trade at a discount to what it's worth?

LICs are closed-end. They raise a certain amount then that's it: that amount will trade and no more stocks will be issued (although many floats come with options). That means that, as demand comes and goes, they can trade at a discount or premium to what they're worth depending on how keen investors are on them. Ideally, you want them to move to a premium.

What will this one invest in?

Australian companies, probably 20 to 80 at any one time, on an absolute return basis which means that rather than paying attention to a benchmark like the stockmarket, it will try to make a good return in any circumstances. To do this, it will be allowed to short-sell stocks, which means making money when they go down in value. It will also use leverage, which means it will borrow money and invest that in stocks, too. All these things have the potential to magnify results, but also to magnify losses.

Who runs it?

Cadence is run by Karl Siegling who, for the past couple of years, has been a consultant to the prolific LIC-issuer Wilson Asset Management. He previously ran a private equity fund in a subsidiary of Challenger. He manages a wholesale fund, run on similar lines to the LIC, that's been up and running since October 2003 and has comfortably beaten the ASX, returning 44.08 per cent after fees between November 2003 and April 2005 in a time in which the All Ordinaries Accumulation Index has done 27.5 per cent. Remember, however, that past returns are not a guide to future performance and be aware that returns in this fund seem heavily reliant on one individual.

What are the fees?

About 1 per cent per year plus a performance fee 20 per cent of outperformance over the All Ords Accumulation Index (or, if the All Ords goes down, 20 per cent of positive performance). As is common in these structures there's no performance fee if the portfolio's value goes down. And remember, these are calculated not on the LIC's share price, but on the value of the portfolio it holds. This is important.

What is it raising?

Up to \$25 million, with a minimum of \$15.5 million. These are small volumes and investors should not expect them to be easy to trade in and out of although they are structured as buy-and-hold investments. Investors get an option exercisable at the launch price between launch and September 30, 2006. That's nice to have but remember lots of options in the last crop of LICs were never exercised because the LIC price was below the option strike price at the time the options expired. Options are only handy if the share price goes up.