



CARMICHAEL RESEARCH

8th November, 2006

ISSUE PRICE

NTA per share as at 31st
October, 2006.

SHARES ON ISSUE

Upto 25m Fully Paid Ord.
Up to 25m Options

DIRECTORS

Karl Siegling – Chairman
Geoffrey Wilson – Non-Exec
James Chirnside – Non-Exec

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Cadence Capital Limited

INFORMATION NOTE

Cadence Capital Ltd (CCL) is seeking to issue up to 25m shares and 25m options. The issue price of the shares will be the 'NTA Before Tax' per security as at 31st October, 2006.

CCL is providing investors the opportunity to invest in an actively managed portfolio of ASX listed (or to be listed) securities and securities from other Licensed Markets. The portfolio will invest in 20 to 80 securities, providing diversification. In addition to ordinary buying and selling, the company's strategy allows it to take advantage of a falling securities through short selling and take advantage of a rising securities (undervalued) through borrowing a maximum of one dollar for every dollar of equity in a particular company. Unlike many investment funds while CCL operates as an investment company, the portfolio will actively trade to take advantage of market trends.

KEY POINTS

- **Attractive Investment Strategy:** CCL has the capability to long and short the market and take advantage of opportunities as they arise. CCL has been ranked the number 1 long/short equities fund in Australia by Eurekahedge to June 2006.
- **Strong Performance:** CCL posted 31.4% out performance last year. For the 13 months ending 31st October, 2006 the fund recorded 51.26% gross performance and a 45.01% performance, net of fees.
- **The fund has three principal investment objectives:**
 1. To manage the portfolio on an absolute return basis.
 2. To achieve a real high rate of return, comprising of both income (fully franked dividends) and capital growth.
 3. To provide investors with co-investment opportunities alongside the manager.
- **Investment Strategy:** The Manager intends to not only capture investment opportunities through undervalued stocks based on fundamental information but also underlying trends of a particular security.
- **Risk and Composition of Portfolio:** The Manager is targeting 20 to 40 core investments and from 0 to 40 trading opportunities to ensure sufficient spread of businesses as well as industry diversification.
- **Inherent Value:** The Australian stock market has risen 2% so far this month (November). Thus it is interesting to note that the pricing (NTA) of this raising was done on end October numbers.

The Offer

Invitation to subscribe for up to 25m fully paid ordinary shares at the NTA (before tax) price per share as at 31st October, 2006. Each subscribed ordinary share will come with a free attaching option at an exercise price equal to the NTA (before tax) exercisable at any time from the date of the grant of the Option until 31st March, 2008. The minimum subscription pursuant to this offer is \$5.0m and no over subscriptions will be accepted.

The terms of the offer are outlined in the Prospectus and investors wishing to acquire shares in the company must complete the application form that is in or accompanies the Prospectus.

Capital Structure

<u>Capital Structure Upon Listing</u>	<u>Full Subscription</u>
Existing Shares as at 30 June 2006	6,289,182
Options exc. By 31 st October, 2006	6,265,182
Total Shares held by existing shareholders	12,554,364
Estimated Shares issued under public offer	25,000,000
Total shares after close of Public Offer	37,554,364

More on the Investment Strategy

Short Selling

The Fund has the capacity to short sell securities regulated by the Corporations Act and the ASTC Settlement Rules. The short selling of securities involves the selling of Securities that does not belong to the seller at the time of transaction. To settle, the seller has to borrow the securities. At a later date the purchaser has to purchase the securities it short sold.

Example: *If company X was trading at \$10.00. The fund (if it believes the share-price would depreciate) would sell the stock (which it doesn't own) at \$10.00. It would then borrow the stock to fulfil the contract.*

If in the future the stock falls to \$8.00, the fund could then purchase the equivalent amount of stock that it borrowed and return it to the borrower. Thus the fund would make \$2.00 per share on this transaction.

Leveraging

The Fund has the capacity to employ in the Portfolio \$1 of debt for every \$1 equity in a company. However it is unlikely that more than 20% of the portfolio will be exposed to any one stock.

Core Investments

The Fund will make core investments based on fundamental research which includes the development of an in-house financial model and industry analysis.

Trading Opportunities

The Fund will look at technical trends for trading which include short-term and long-term pricing charts as well as liquidity.

Peer Comparison

Company Name	ASX Code	Stock Price	NTA	Premium/Discount to NTA
Souls Private Equity	SOE*	\$0.21	\$0.262	-19.8%
Wallace Absolute Rtn	WAB*	\$1.03	\$1.063	-3.1%
Brickworks Invest. Co.	BKI	\$1.42	\$1.319	+7.1%
Platinum Capital	PMC*	\$2.50	\$1.740	+30.4%
Whitefield	WHF*	\$4.20	\$4.200	-
Huntley Investment	HIC	\$0.89	\$0.860	+3.4%
WAM Capital	WAM*	\$1.77	\$1.640	+7.3%
MMC Contrarian	MMA	\$0.99	\$1.120	-11.6%

* Stocks that have gone ex-distribution in the past four weeks.

Source: IRESS and DJ Carmichael Research

Above is a peer comparison against other LIC's. A majority of them are trading at a premium to its NTA. However it is important to note that two of them that are a discount have recently gone ex-distribution.

We believe that CCL does not have a direct peer comparison. There is no other listed fund that we are aware of that is mandated to short sell **and** borrow debt to leverage against equities **as well as** take trading positions. This in itself makes CCL unique and allows it to take full advantage of market movements.

The Australian stock market has risen 2% so far this month (November). Thus interesting to note that the pricing (NTA) of this raising was done on end October numbers.

Directors

Karl Siegling - Chairman

Mr Siegling is the Managing Director of Cadence Asset Management which will be the Manager of the Fund. Mr Siegling has over 10 years investment experience having worked in Deutsche Morgan Grenfell, Goldman Sachs and eFinancial Capital Limited (a private equity PDF).

Geoffrey Wilson – Non-Executive Director

Mr Willson was responsible for the establishment of WAMI in 1997, following seven years at Prudential-Bache Securities (Australia) Pty Limited. Mr Wilson has over 26 years experience in the investment industry,

Mr Wilson is currently Chairman of Wilson Asset Management Pty Limited, WAM Capital Limited, Wilson Investment Fund Limited, Wilson Leaders Limited, Boutique Asset Management Pty Limited and the Australian Stockbrokers Foundation Limited.

James Chirnside – Non-Executive Director

Mr Chirnside is the founder, Chief Investment Office and Managing Director of Fund of Hedge Funds Manager, Asia Pacific Asset Management Pty Limited. He has over 15 years experience in alternative asset management and absolute return investment strategies.

Disclosure Disclaimer**RCAN0585**

This Research report, accurately expresses the personal view of the Author.

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