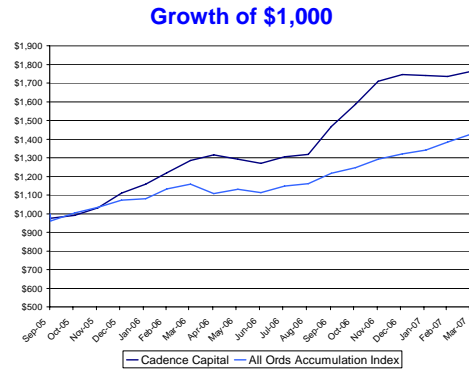


INVESTMENT UPDATE AND NTA - APRIL 2007

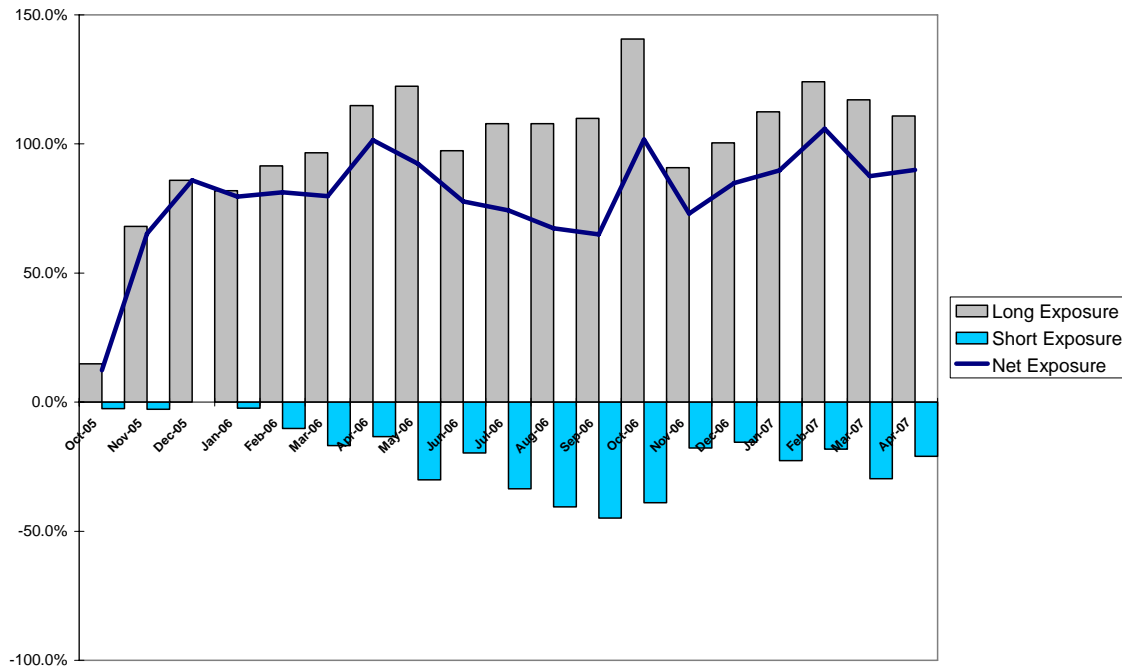
FUND PERFORMANCE*

Performance to 30th April 2007	<u>CCL</u>	<u>All Ords</u>
1 Month	1.70%	3.05%
3 Months	1.02%	8.17%
6 Months	20.20%	17.18%
1 Year	37.19%	23.12%
2 Years (% per Annum)		
3 Years (% per Annum)		
Inception to date accumulated return	81.50%	42.68%

* Before Management and Performance Fees



PORTFOLIO EXPOSURE ANALYSIS



PORTFOLIO SECTOR ANALYSIS

Sector	Long	Short	Total
Diversified Financials	30.56%		30.56%
Software & Services	17.97%	-4.41%	13.56%
Materials	13.53%	-6.80%	6.73%
Commercial Services & Supplies	11.76%		11.76%
Capital Goods	9.27%	-1.03%	8.24%
Health Care Equipment & Services	6.70%		6.70%
Insurance	4.65%	-1.02%	3.62%
Banks	3.69%		3.69%
Media	3.44%	-0.46%	2.98%
Telecommunication Services	2.49%		2.49%
Real Estate	2.44%	-0.84%	1.60%
Retailing	1.34%		1.34%
Automobile & Components	1.13%		1.13%
Food Beverage & Tobacco	1.02%	-1.35%	-0.33%
Pharmaceuticals, Biotechnology & Life Sciences	0.41%	-0.48%	-0.07%
Other	0.45%		0.45%
Energy	0.02%	-1.72%	-1.70%
Transportation		-1.08%	-1.08%
Consumer Services		-1.76%	-1.76%
Gross Exposure	110.88%	-20.97%	89.91%
Net Cash / (Debt)			10.09%

MARKET AND COMMENTARY

Cadence Capital Limited NTA estimates as at 30th April 2007:

Gross NTA	\$1.37766
Pre Tax NTA	\$1.33338
Post Tax NTA	\$1.26129

To get weekly estimates of the NTA for Cadence Capital Limited please visit www.cadencecapital.com.au

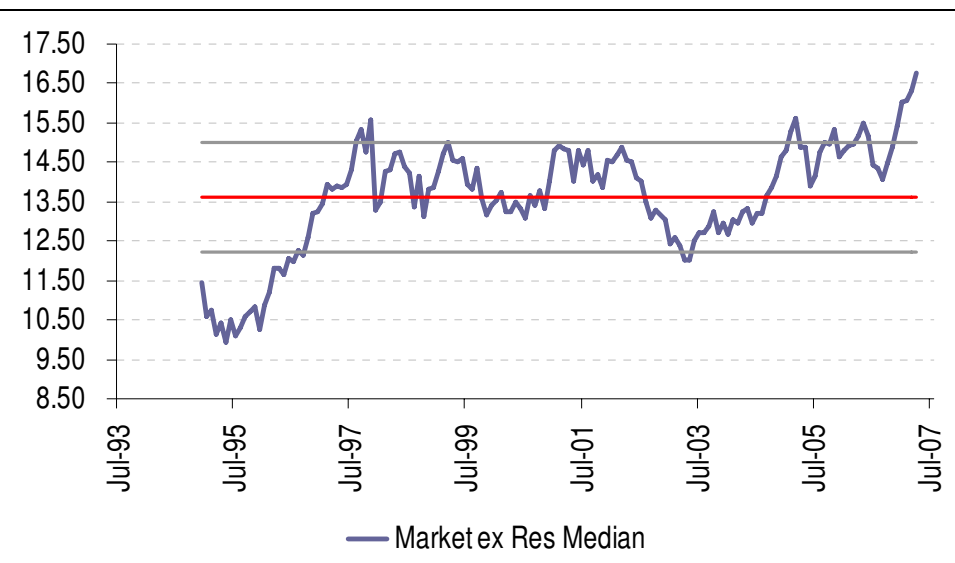
During the month of April, Cadence Capital Limited returned a gross performance of 1.70% compared to a rise in the All Ordinaries Accumulation Index of 3.05 % and a rise in the Small Ordinaries Accumulation Index of 5.05%. For the past 12 month period, Cadence Capital Limited returned a gross performance of 37.19% compared to a rise in the All Ordinaries Accumulation Index of 23.12 %. The fund finished the month 110.9 % long, 21.0 % short and with a net long exposure of 89.9 %. The net exposure for March 2007 was 87.5%.

More Expensive Than You Think

The title above is taken from an investment strategy document Credit Suisse distributed on the 8th May 2007. After reading this research we downloaded some additional research from Credit Suisse as well as some valuation charts from Goldman Sachs JB Were.

The conclusion from this research is that using the median market Price Earnings multiple, the Australian market is expensive relative to its history, the US market, Australian bonds and the Australian cash rate.

However, this conclusion prompted us to ask what the forward market Price Earnings multiples look like excluding the Resource Stocks. Below is a chart of the forward market Price Earnings Multiples excluding resources going back twelve years.



Source: Company data, Credit Suisse estimates

As can be seen the forward price earnings excluding resources is the highest it has been over the past twelve years and significantly higher than the ten times forward price earnings multiples, traded in the June / July period 1995.

To translate these numbers back into our investment philosophy, we say that to justify buying a stock listed on the Australian Stock Exchange (ASX); it should satisfy the following criteria:

1. The Earnings Per Share growth (in percentage terms) should be at least equal to the prospective Price Earnings Multiple,
2. The operating cash flow should be in excess of 12% yield to market capitalisation, and

3. The free cash flow should be in or around 10% yield to market capitalisation.

The problems with an entire market trading at such high prospective price earnings multiples are as follows:

1. It is increasingly difficult to find stocks, excluding resources, with earnings growth in excess of 16% per annum,
2. The operating cash flow yields for many ASX listed stocks are falling as the forward price earnings multiples climb, and
3. The free cash flow yields are falling as the forward price earnings multiples climb.

The market always contains investment opportunities but we can conclude that, at the moment, there are generally far fewer potential long investments meeting our fundamental investment criteria than over the past three to four years.

The above analysis has been done excluding resources. Next month we will write specifically about valuations in the resource sector which trade at significantly lower forward price earnings multiples, but we believe this is only half the story.

DISCLAIMER

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