



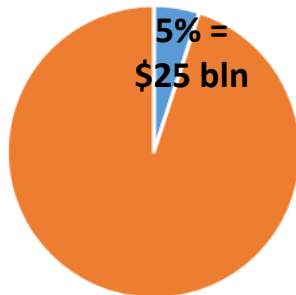
# Cadence Capital Limited

Share Investing Prospects for SMSF Investors –  
What are the Risks and Opportunities?

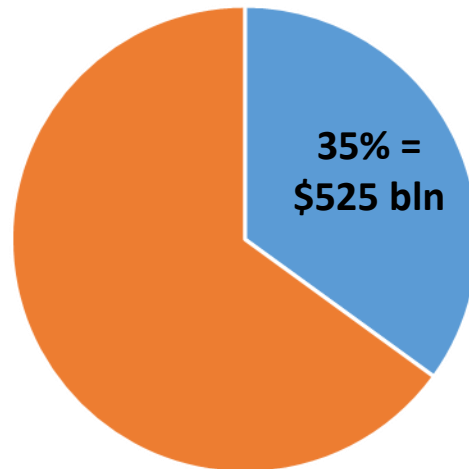


# SMSF Growth v Australian market

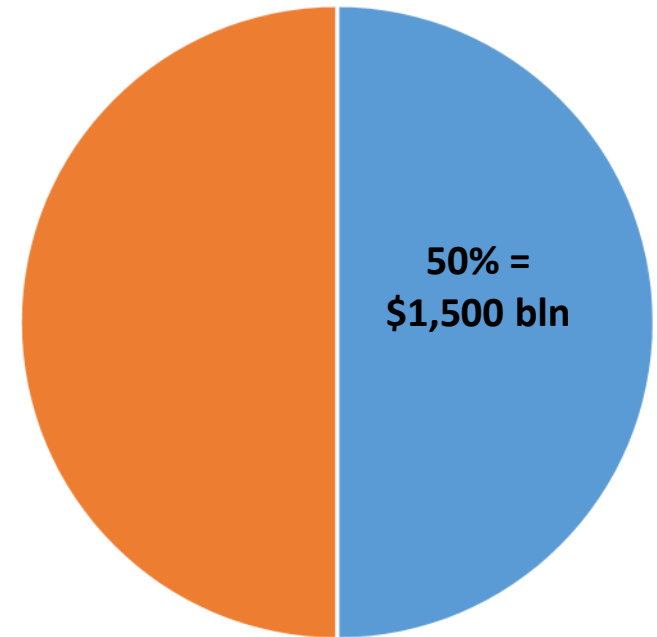
2003  
(\$500 bln)



2013  
(\$1,500 bln)



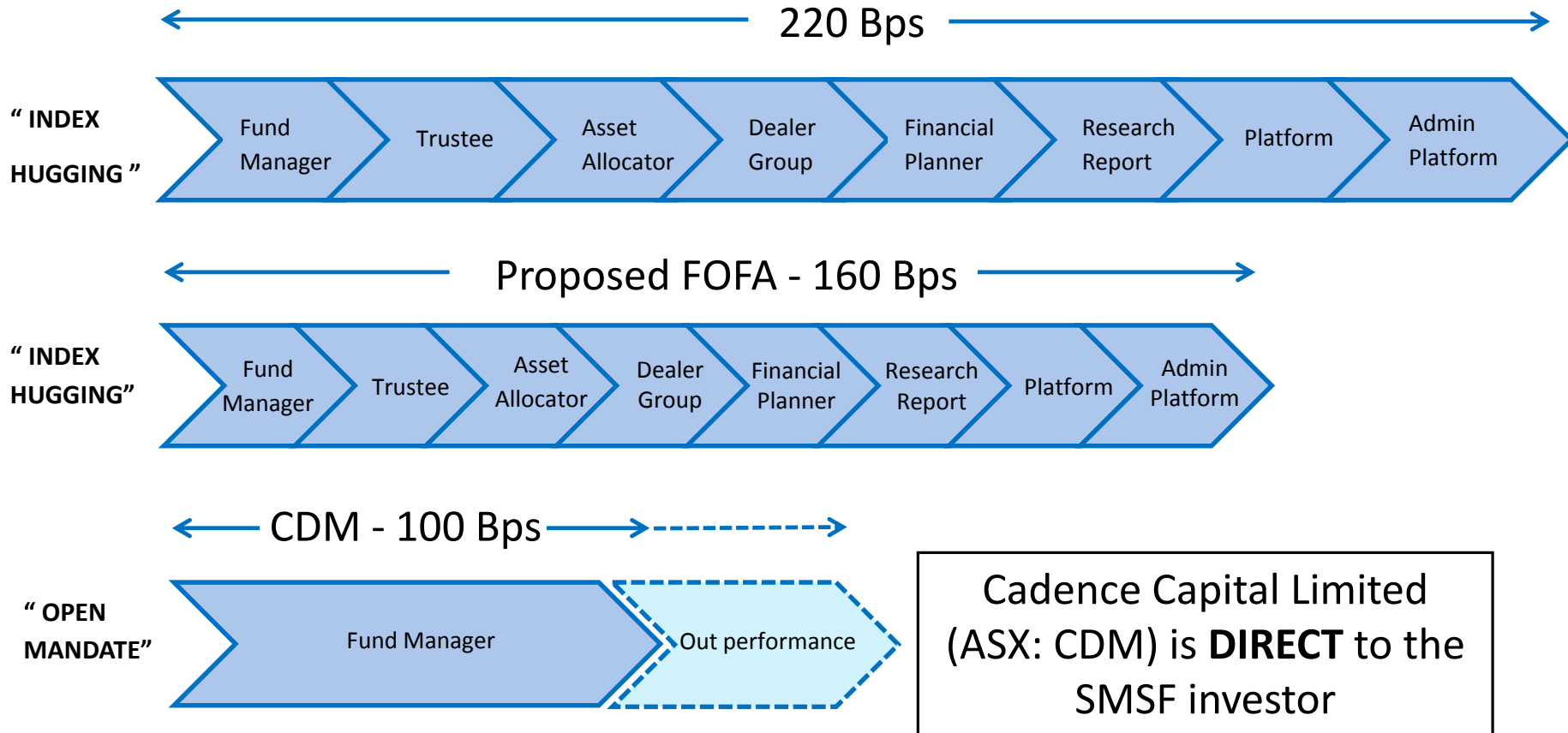
PROJECTED 2020  
(\$3,000 bln)



SMSF market has grown 20 times in 10 years ...  
projected to increase 60 times by 2020!



# The Fee Chain





# Alan Kohler: The Power of Compounding

*“The problem is not that employees aren’t contributing enough to their funds each month; the problem is that the funds aren’t doing enough with their money”.*

**Super: It’s all about the returns, stupid**

Alan Kohler, The Australian

19<sup>th</sup> September 2014

- The debate about increasing the super guarantee level to 12% is irrelevant
- The real issue is finding investments that can maximize the power of compounding
- Fees are important but investment performance is critical to long-term wealth (and retirement security)



# Alan Kohler: The Power of Compounding

Peter the Plumber  
Age 25, earns \$50,000 p.a.  
40 years until retirement  
(might still live another 40 years!)

Super contributions  
of \$334 per  
month

\$670,000  
6% p.a.

Average super fund return over the last 10 years (APRA)

\$3.2 million  
11.34% p.a.

All Ords Accum Index annual compound return over 30 years

**\$28.6 million**  
18% p.a. return



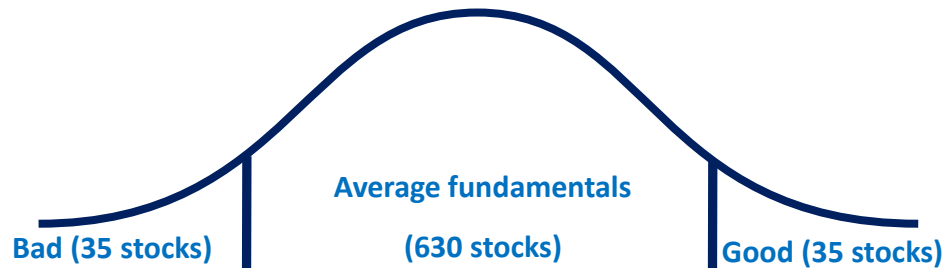
# Cadence Investment Philosophy

- We believe a combination of **Fundamental** and **Technical** Research has a greater probability of producing higher returns than either Fundamental or Technical analysis alone
- On a daily basis we visit and research companies to determine whether they are cheap or expensive
- We use a combination of Price versus Growth, Operating Cash Flow and Free Cash Flow analysis, as well as balance sheet strength to determine value
- We follow a disciplined 'Entry and Exit' strategy (Technical Research) and scale into and out of positions



# Fundamental Research

**Stock Profiles**  
2,183 ASX Listed Companies  
Around 700 made a Profit Last Year



**Short Position**  
(For current year and two years estimates)

PEG	+2
OCF yield	-ve % to 8 %
FCF yield	-ve % to 3%
Cash	No
Debt	Yes

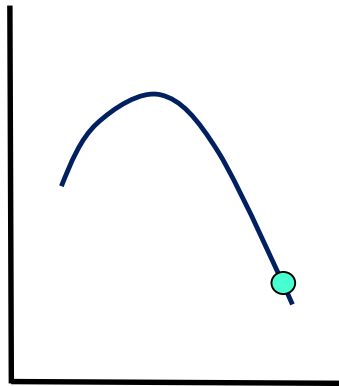
**Long Positions**  
(For current year and two years estimates)

PEG	<1
OCF yield	12-15 %
FCF yield	8% -10%
Cash	Yes
Debt	No

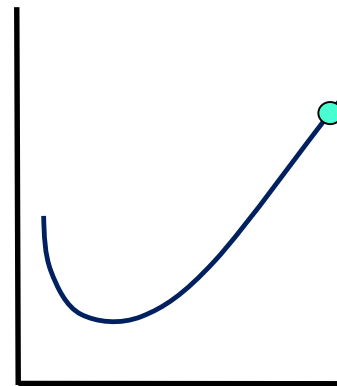
- 300 - 400 company visits per annum
- Detailed industry research
- A company's relative bargaining power
- Proprietary Models



# Technical Research



Do NOT  
buy



Do NOT  
short

- the short-term (one year) share price and share volume indicators (short term trend)
- the long-term (five year) share price and share volume indicators (long term trend)
- the average weekly volume of shares traded

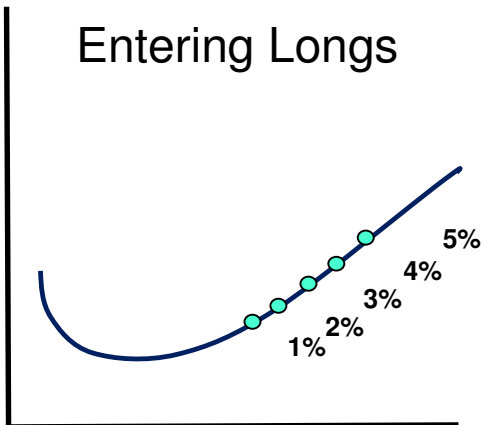






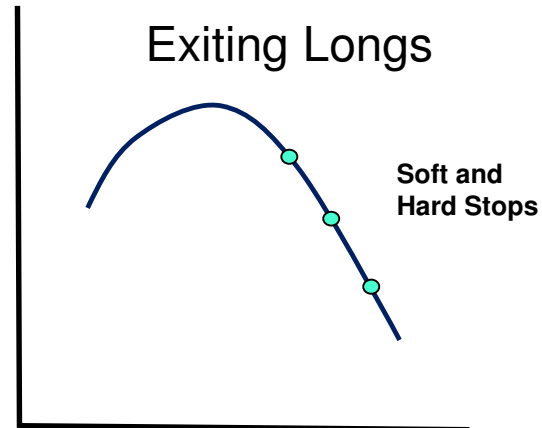
# Entry and exit of long positions

## Entering Longs



- Wait until trend has turned and then accumulate positions
- Do not average down

## Exiting Longs



- Identify a change in trend - 1, 3 and 12 month chart analysis
- Individual stock positions are monitored for a change in trend using bear market variance and liquidity measures

Cadence Dashboard summary generated and monitored



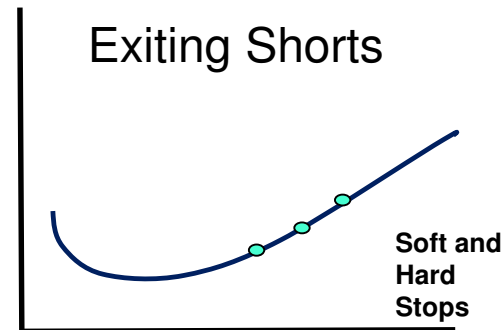
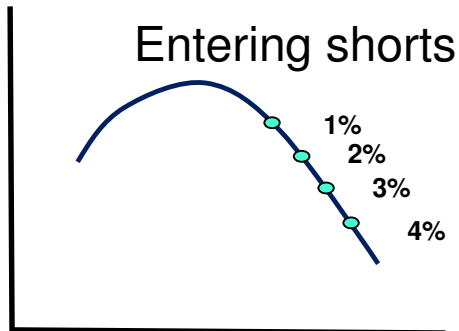
# Shorting Strategy and Process

Shorts are monitored very closely because

- Losses in short positions can be unlimited
- Markets fall 3 times as quickly as they rise

- Over 5 years short exposure has been between 0% and 15% with a maximum of 45% (*opportunistic*)
- Assess – call back, liquidity and market cycle risk

- Stock positions are monitored for a change in trend using bear market variance and liquidity measures
- Alpha generation is the *sole objective* of shorting stocks



Cadence Dashboard summary generated and monitored



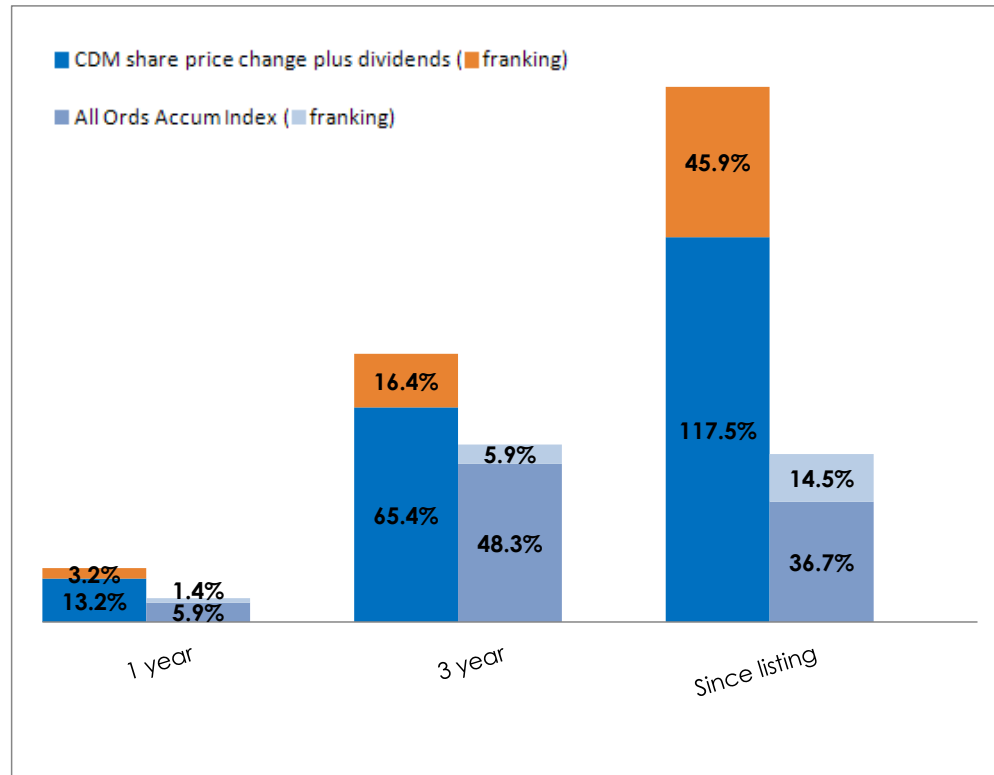
# Cadence Capital Limited – Key fund facts

- Fund Under Management (FUM) of \$280 million
- **18.43% return p.a. since inception**
- Current annualised yield of 6.8% fully franked (9.7% grossed-up)
- 65% of current investors are SMSFs
- 5,400 shareholders, 300% increase over 12 months
- Broker research by Baillieu Holst, Patersons, Evans & Partners, Morgan Stanley & Bell Potter
- Extensive track record that ranks well across performance, yield and price/NTA metrics – recently ranked **#1 Australian Equity LIC over 5 years** in ASX Funds Monthly Update (August 2014)



# Franking credits and the SMSF investor

## CDM Share Price and Option Returns plus Dividends and Franking



- Including dividends and franking benefits, CDM has a strong history of outperforming the All Ordinaries Accumulation Index
- Historic dividend yield of 6%-8% fully franked (9%-11% grossed-up)



# Keep up-to-date with Cadence

- Read our articles



- Make sure you are registered to receive our monthly newsletter, webcasts and periodic results
- To register visit **[www.cadencecapital.com.au/register-FREE-newsletter](http://www.cadencecapital.com.au/register-FREE-newsletter)**

Thank you



# Disclaimer

Information provided, including any expression of opinion, has been obtained from or is based upon sources believed to be reliable but has not in any way been independently verified and no guarantee, representation or warranty, express or implied, is made as to its accuracy, completeness or correctness. Any information and opinions contained in this report are subject to change without notice. This document is for informational purposes only and should not be construed as an offer or solicitation of an offer, to buy the Fund. Investments in Cadence Funds are to be made on the basis of the current information memorandum documents only.