



INVESTMENT UPDATE AND NTA - JANUARY 2007

FUND PERFORMANCE*

	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	YTD
Cadence Capital Limited	0.34%	1.75%	4.04%	7.64%	4.29%	5.08%	5.59%	2.36%	-1.75%	-1.78%	2.70%	1.00%	35.55%
All Ordinaries Acc Index	-3.83%	4.40%	3.04%	3.65%	0.70%	4.81%	2.40%	-4.34%	1.86%	-1.51%	3.18%	1.25%	16.19%
Small Ordinaries Acc Index	-3.74%	2.98%	1.45%	3.76%	2.13%	6.32%	1.02%	-4.02%	1.13%	-0.43%	3.72%	1.74%	16.73%
	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	YTD
Cadence Capital Limited	11.40%	8.04%	7.87%	2.10%									32.55%
All Ordinaries Acc Index	4.80%	2.48%	3.62%	2.01%									13.53%
Small Ordinaries Acc Index	6.88%	3.93%	4.09%	1.87%									17.79%
* Before Management Fees												Accumulated return	79.67%

PORTFOLIO SECTOR ANALYSIS

Sector	Long	Short	Total
Materials	32.89%	-9.29%	23.60%
Diversified Financials	17.16%		17.16%
Commercial Services & Supplies	10.81%		10.81%
Software & Services	10.45%	-4.64%	5.81%
Capital Goods	8.42%	-1.02%	7.40%
Health Care Equipment & Services	6.90%		6.90%
Insurance	5.43%	-0.75%	4.68%
Unspecified	4.50%		4.50%
Media	3.67%	-0.64%	3.03%
Banks	3.43%		3.43%
Energy	3.15%	-2.44%	0.71%
Retailing	1.63%		1.63%
Telecommunication Services	1.57%		1.57%
Food Beverage & Tobacco	1.09%	-2.14%	-1.05%
Real Estate	0.73%	-0.84%	-0.11%
Household & Personal Products	0.57%		0.57%
Consumer Durables & Apparel	0.06%		0.06%
Transportation		-0.90%	-0.90%
Gross Exposure	112.45%	-22.65%	89.80%
Net Cash / (Debt)			10.20%

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PORTFOLIO EXPOSURE ANALYSIS %

	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06
Equity Long	14.9%	68.0%	85.9%	81.9%	91.5%	96.6%	114.9%	122.4%	97.4%	107.9%	107.8%	109.9%
Equity Short	2.5%	2.7%	0.0%	2.3%	10.1%	16.8%	13.4%	30.1%	19.7%	33.6%	40.5%	44.9%
Gross Exposure	17.4%	70.8%	85.9%	84.3%	101.6%	113.4%	128.3%	152.5%	117.1%	141.4%	148.4%	154.8%
Net Exposure	12.4%	65.3%	85.9%	79.6%	81.3%	79.8%	101.5%	92.3%	77.7%	74.3%	67.3%	65.0%
	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07
Equity Long	140.6%	90.8%	100.4%	112.4%								
Equity Short	38.9%	17.7%	15.5%	22.6%								
Gross Exposure	179.5%	108.5%	115.9%	135.1%								
Net Exposure	101.7%	73.0%	84.9%	89.8%								

MARKET AND COMMENTARY

Cadence Capital Limited NTA estimates as at 31st January 2007:

Gross NTA	\$1.36381
Pre Tax NTA	\$1.30596
Post Tax NTA	\$1.23513

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

During the month of January, Cadence Capital Limited returned a gross performance of 2.10% compared to a rise in the All Ordinaries Accumulation Index of 2.01% and a rise in the Small Ordinaries Accumulation Index of 1.87%. The fund finished the month 112.45% long, 22.65% short and with a net long exposure of 89.80%. The net exposure for December 2006 was 84.86%.

Capital Management

Early into the 2007 reporting season a common capital management theme has emerged. Companies have built up large cash positions and the issue for the Directors and Management of these businesses is the deployment of these cash reserves.

Several options are available and include;

- Maintaining a large cash balance – this has the effect of reducing the return on a companies net assets,
- Increasing dividends – a progressive dividend policy is typical of a moderate economic environment. However, companies who are experiencing abnormally high cash flows can pay special dividends,

- Merging or acquiring another company to enhance business growth opportunities (“buy” growth),
- Paying down debt, or
- Implementing a share buy-back program.

On the 7th February 2007 BHP Billiton Ltd (BHP) elected for the final capital management initiative outlined above, and announced a tax effective share buy-back. The details for the buyback were:

- a capital return of A\$2.50 per share; and
- a fully franked dividend deemed equal to the buy-back price, less A\$2.50.

Generally we like share buybacks, as they reduce the number of company shares on issue and increase earnings and cash flow per share. Share buy-backs also signal management’s confidence in their stock. Management are in effect making an acquisition in a company they have very good knowledge on!

The compelling part of the BHP buy-back was the large fully franked dividend component for potential sellers of the stock. This enabled many shareholders to sell their stock tax effectively.

The table below illustrates the tax effective nature of this share buy-back to investors at various marginal tax rates.

Assuming a BHP share price of \$28.00

Investors Tax rate	Assumed Capital buyback price	Capital component	Fully Franked dividend	Franking Credits	Tax payable on dividend	Tax refund (tax owing)	Buyback proceeds
0%	\$24.08	\$2.50	\$21.58	\$9.25	0	\$9.25	\$33.33
15%	\$24.08	\$2.50	\$21.58	\$9.25	\$4.62	\$4.62	\$28.70
31.5%	\$24.08	\$2.50	\$21.58	\$9.25	\$9.71	(\$0.46)	\$23.62
41.5%	\$24.08	\$2.50	\$21.58	\$9.25	\$12.79	(\$3.55)	\$20.53
46.5%	\$24.08	\$2.50	\$21.58	\$9.25	\$14.34	(\$5.09)	\$18.99

Source Hartleys Stockbroking

This table illustrates that the fully franked dividend is more valuable to investors on low tax rates. The BHP share buy-back is most valuable to shareholders on a marginal tax rate of less than 30%. This is particularly beneficial to superannuation funds with 15% tax rates.

The terms of the BHP share buy-back also enabled BHP to buy-back shares at a discount of between 10% and 14% to the volume weighted average price over the 5 days up to and including the closing date of the buy-back. As a result, both existing shareholders, and shareholders who tendered their shares in the buyback, benefited from a very effective share buy back program.

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