CADENCE CAPITAL LIMITED

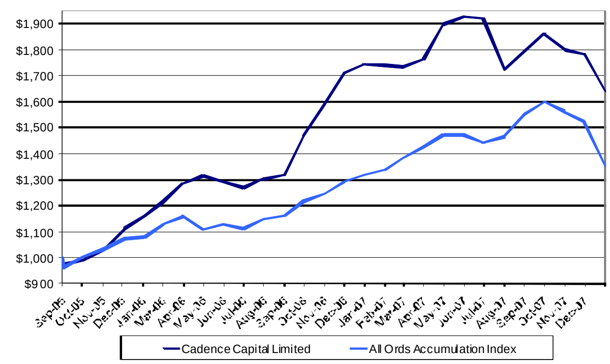
INVESTMENT UPDATE AND NTA - JANUARY 2008

FUND PERFORMANCE*

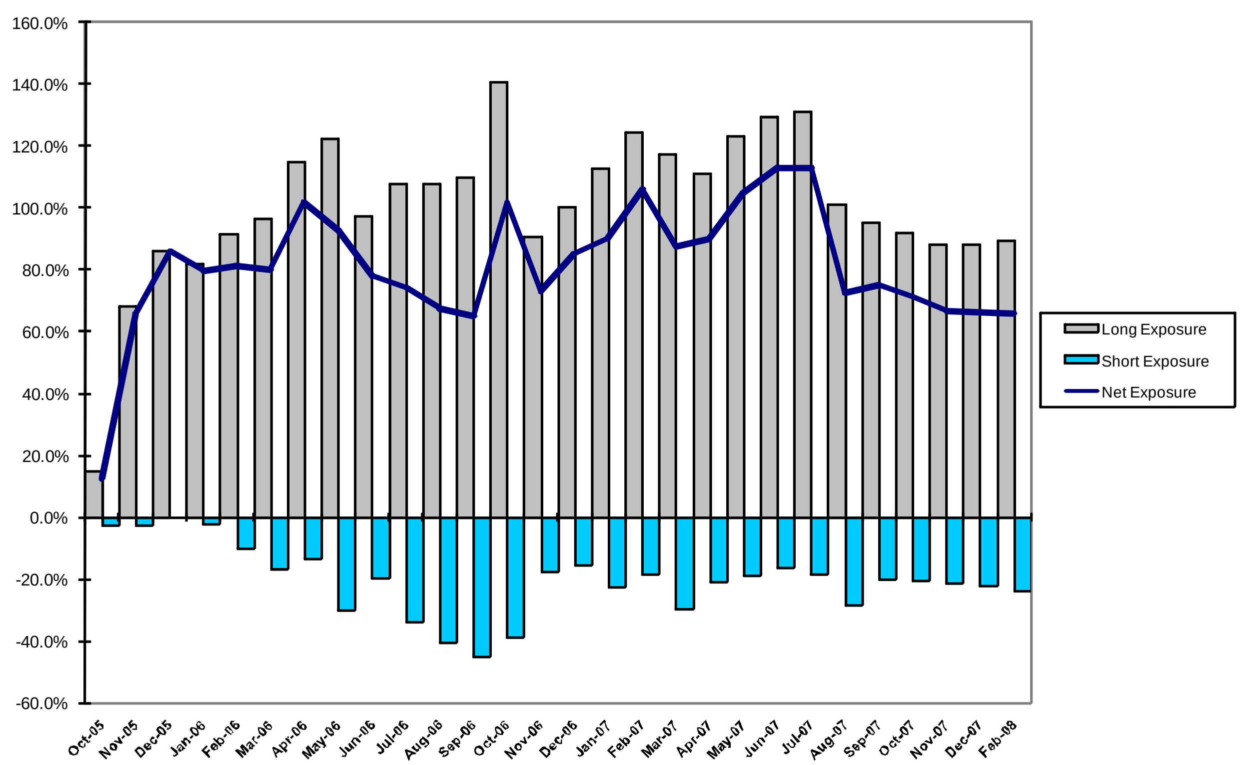
Performance to 31st January 2007	CDM	All Ords
1 Month	-7.95%	-11.25%
3 Months	-11.78%	-15.39%
6 Months	-14.56%	-6.18%
1 Year	-5.98%	2.62%
2 Years (% per Annum)	21.55%	12.35%
Annualised return since inception	25.20%	13.85%
Inception to date accumulated return	68.93%	35.36%

* Before Management and Performance Fees

Growth of $1,000



PORTFOLIO EXPOSURE ANALYSIS



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PORTFOLIO SECTOR ANALYSIS

Sector	Long	Short	Total
Software & Services	14.20%		14.20%
Materials	14.86%	-3.27%	11.59%
Diversified Financials	11.51%		11.51%
Health Care Equipment & Services	5.83%		5.83%
Capital Goods	6.58%	-0.83%	5.75%
Media	6.93%	-1.21%	5.73%
SPI Futures	4.49%	0.00%	4.49%
Commercial Services & Supplies	4.19%		4.19%
Energy	1.97%		1.97%
Retailing	2.51%	-1.07%	1.44%
Automobile & Components	1.28%		1.28%
Telecommunication Services	4.00%	-2.93%	1.07%
Unspecified	0.73%		0.73%
Insurance	3.07%	-2.54%	0.53%
Food Beverage & Tobacco	1.35%	-1.11%	0.24%
Banks	1.65%	-1.56%	0.09%
Real Estate	1.75%	-1.87%	-0.12%
Consumer Services	2.57%	-3.48%	-0.91%
Pharmaceuticals, Biotechnology & Life Sciences		-1.21%	-1.21%
Transportation		-2.70%	-2.70%
Gross Exposure	**89.48%**	**-23.78%**	**65.70%**

MARKET AND COMMENTARY

Cadence Capital Limited NTA estimates as at 31st January 2008:

Gross NTA	$1.28228
Pre Tax NTA	$1.14165
Post Tax NTA	$1.12813

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

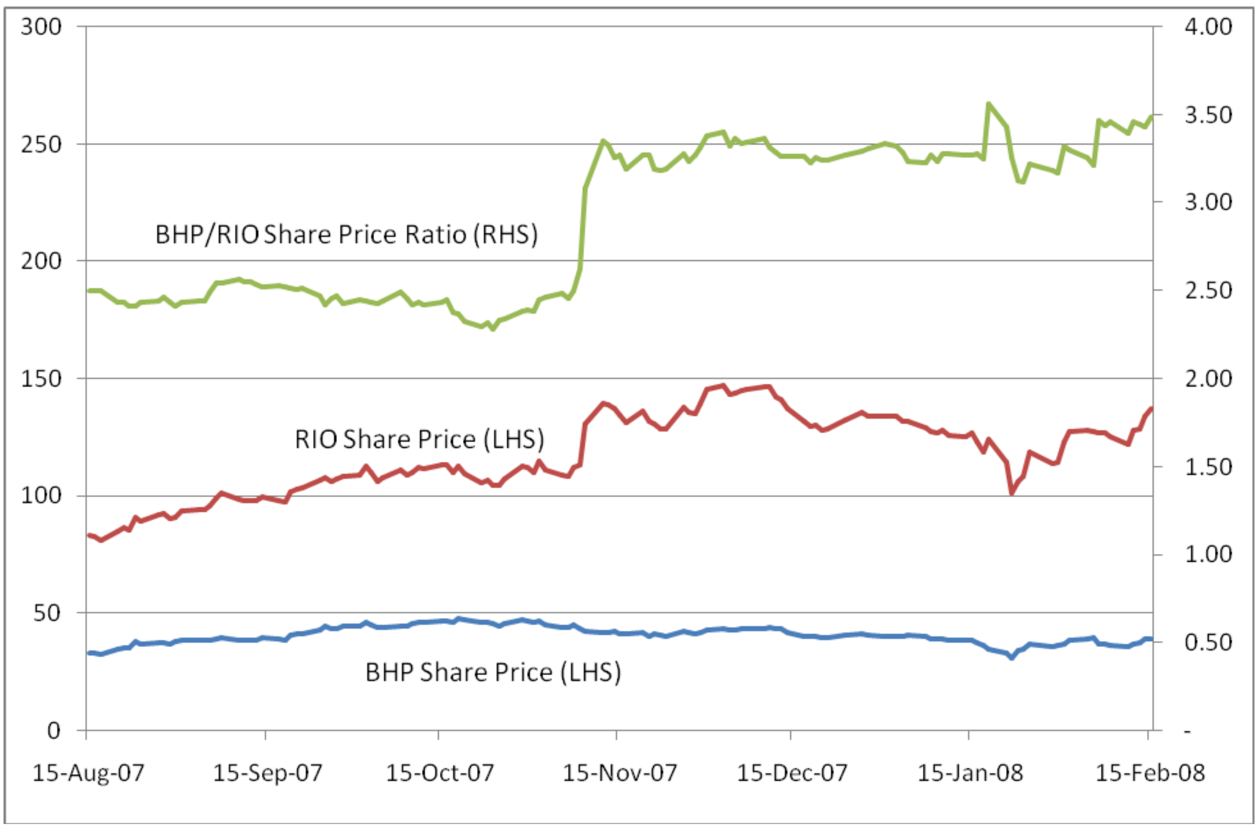
We are pleased to announce our performance for the 28 months to January 2008. During this period, Cadence Capital Limited has returned a gross performance of 68.93 % compared to a rise in the All Ordinaries Accumulation Index of 35.36%. Cadence Capital Limited has generated an annualized return before fees of 25.2% per annum since inception.
During the month of January, Cadence Capital Limited returned a negative gross performance of – 7.95 % compared to a decrease in the All Ordinaries Accumulation Index of – 11.25 % and a decrease in the Small Ordinaries Accumulation Index of - 14.37%.

The fund finished the month 89.48% long, 23.78 % short and with a net long exposure of 65.70 %. The net exposure for December 2007 was 66.11%.

The attempted takeover of Rio Tinto by BHP Billiton

On the 8th of November 2007 BHP Billiton confirmed market speculation that it had approached Rio Tinto regarding a takeover. BHP Billiton is the largest company on the Australian stock market with a market capitalization of AUD $216 billion[1], and Rio Tinto is the second largest company with a market capitalization of AUD $195 billion[2]. As would be expected the potential takeover has attracted a lot of attention from investors and the media, and we expect that it will for most of 2008, if not longer.

On the 9th of November 2007 Rio confirmed that BHP had approached it, and that BHP had offered to pay 3 BHP shares for each Rio share in a 100% scrip takeover. This was rejected by Rio on the basis that it “significantly undervalues Rio Tinto and its prospects”.



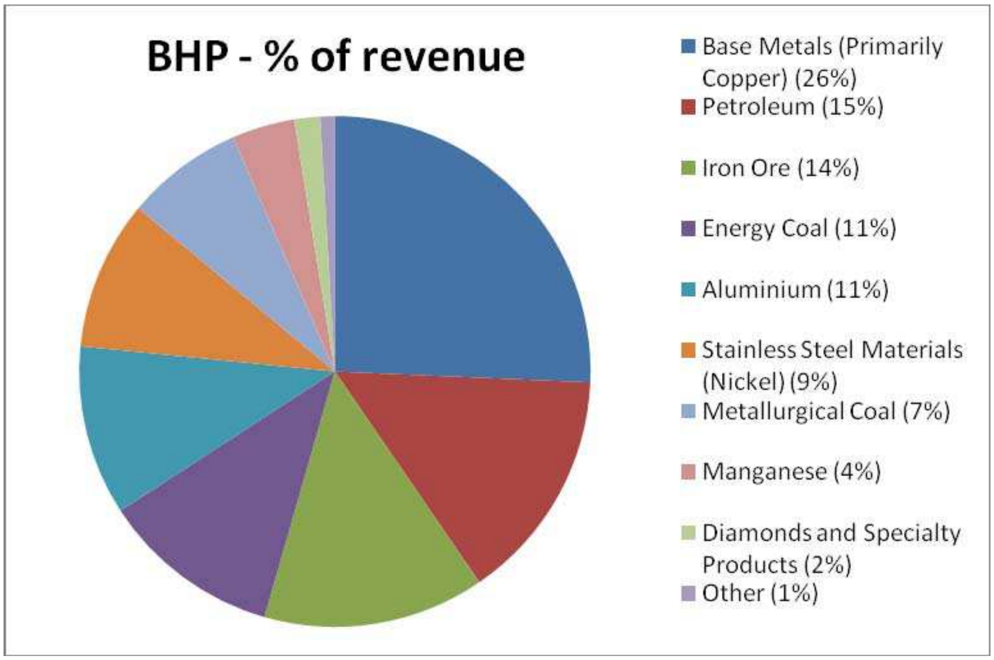
As can be seen from the chart above in the three months preceding public disclosure of the takeover approach Rio shares were worth approximately 2.5 times the value of a BHP share. As soon as the 3 for 1 approach was made public Rio shares rose to be worth 3.35 times the value of a BHP share. This suggested investors were expecting another bid from BHP with an improved scrip for scrip ratio, an additional cash payment on top of the 3 for 1 bid, or a rival takeover approach from a third party.

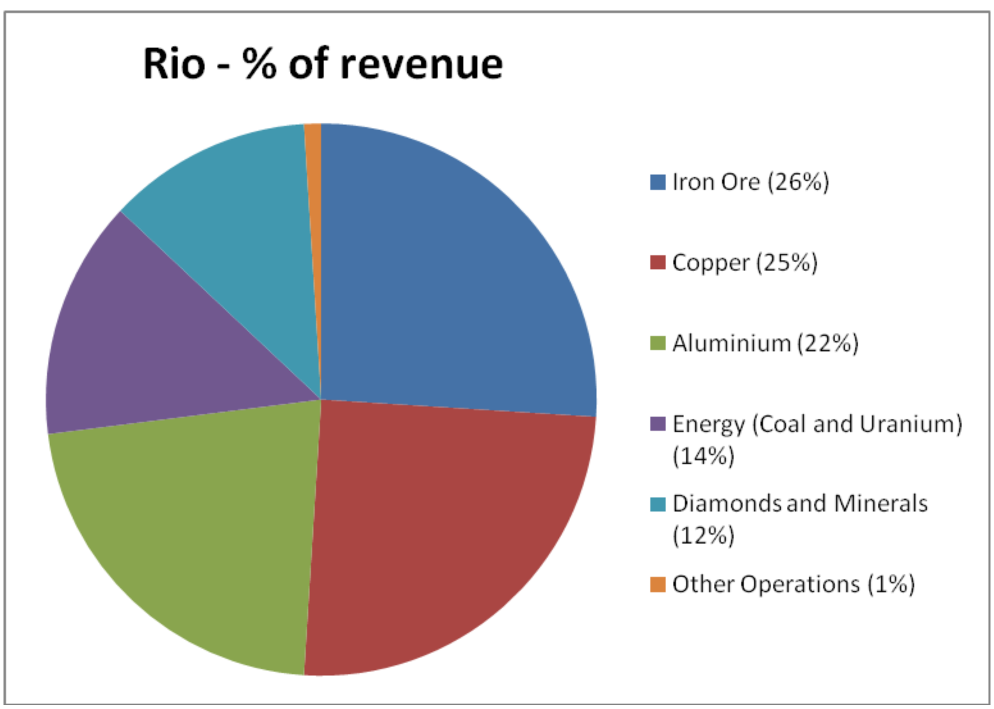
[1] Including the shares that trade on the London Stock Exchange
[2] Including the shares that trade on the London Stock Exchange

On the 6th of February 2008 BHP announced its half year results, and also an improved scrip bid of 3.4 BHP shares for each Rio share. Rio again rejected the bid as being too low, and Rio shares rose to be worth approximately 3.45 times the price of BHP shares, which is roughly where they have traded since.

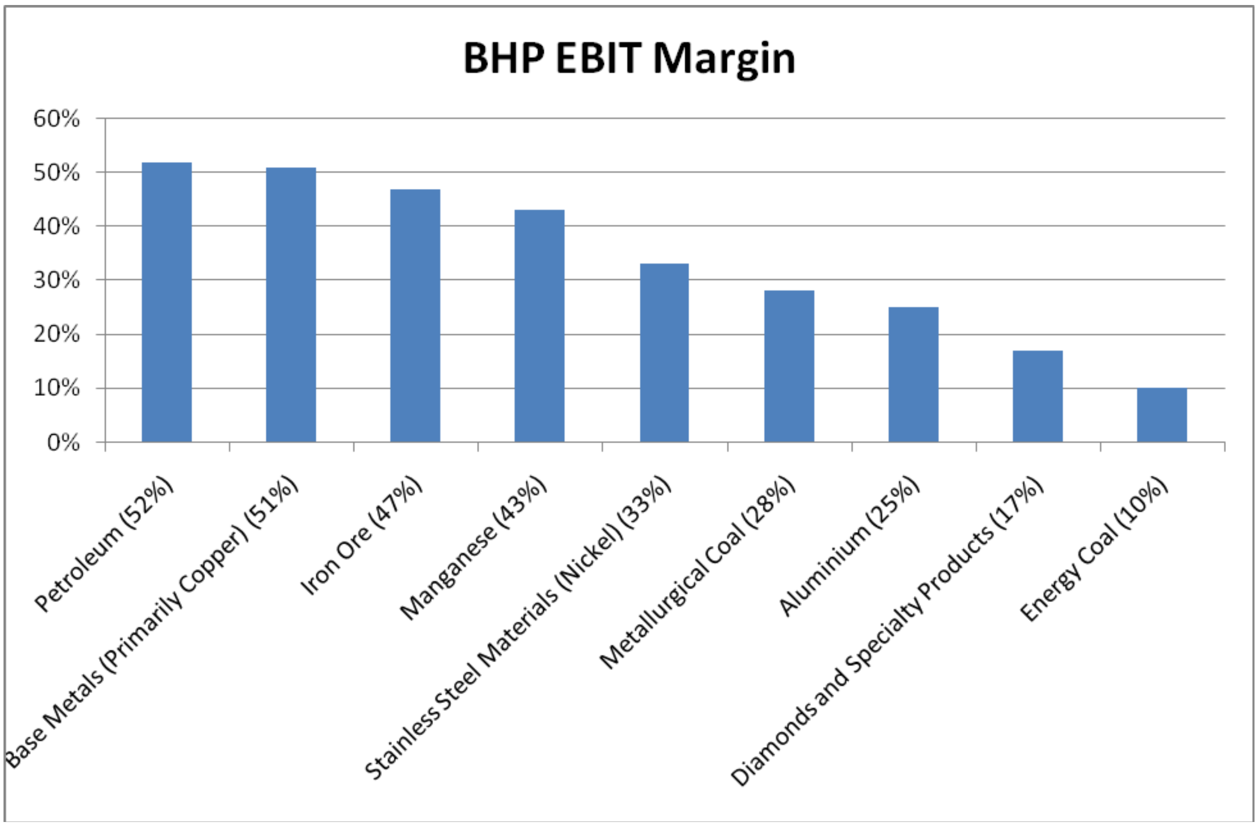
The fact that the price ratio is above 3.4 suggests that investors are again expecting an improved bid from BHP, but at this stage BHP is progressing with the 3.4 for 1 bid without Rio board approval.

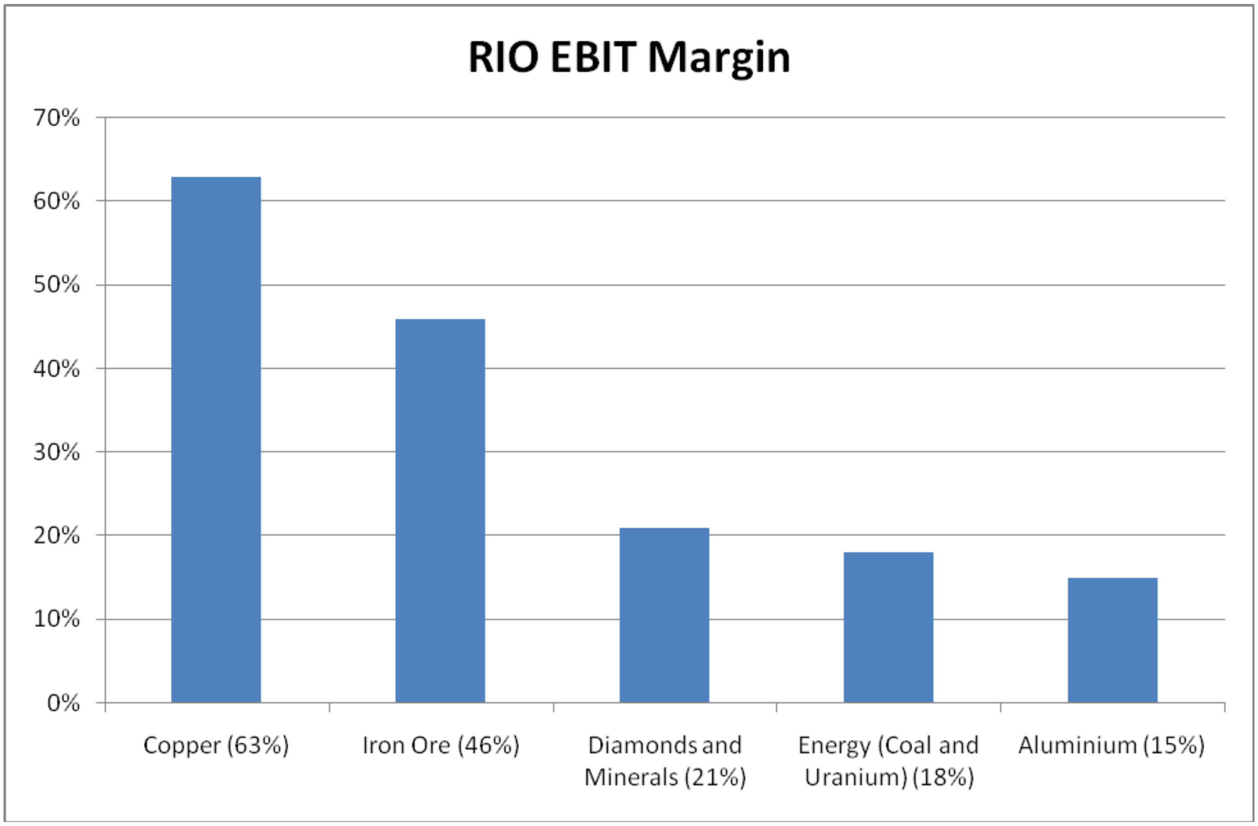
It is interesting to look at the product mix for both BHP and Rio, and how profitable these products are.





As can be seen from the two charts above, both BHP and Rio have significant iron ore, copper, aluminium and coal divisions. The main difference between the two companies is that BHP is more diversified with significant petroleum and nickel divisions, which Rio does not have. Rio is more exposed to iron ore and aluminium than BHP. Iron ore has been very topical lately with contract price negotiations currently under way for next year. Analysts are expecting a 30% to 70% price increase which would improve iron ore EBIT margins significantly. Aluminium prices have not gone up as much as most other materials, and there are some, including Rio with their recent purchase of Alcan, who believe that the outlook for aluminium is positive. Therefore it appears that Rio has slightly more exposure to materials that are expected to increase in price in the future, and BHP has more exposure to materials that have already significantly increased in price.





The above two charts show that Copper and Iron Ore are both extremely profitable for both BHP and Rio, with EBIT margins above 40%. Both BHP and Rio are extremely profitable overall with BHP on an overall EBIT margin of 38% and Rio on 36%.

If BHP succeeds in its 3.4 for 1 bid then the combined entity would have a market capitalization of AUD $408 billion based on BHP's current share price, with BHP shareholders owning 53% and Rio shareholders owning 47% of the merged company. Based on earnings in the prior twelve months BHP is on a PE of 14.6 and Rio is on a PE of 22. The combined entity would be on a PE of approximately 18.

At first glance it appears that BHP is already offering a high price for Rio, but if iron ore and aluminium prices increase significantly from here then the premium would be reduced. There are also synergy benefits from merging the two companies, and there is potential pricing power to be obtained, especially in iron ore, which is why the predominantly Chinese and Japanese steel mills do not want the takeover to proceed.

It is an intriguing saga that is going on between Australia's two largest listed companies, but it is important for investors not to get too distracted, and remember that these two companies have done remarkably well due to a commodity boom that may not continue forever. Increasing commodity prices have driven a huge increase in resource company profits in the past few years, and if prices decline at some time in the future, this will have the opposite effect.

DISCLAIMER

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