CADENCE
CAPITAL LIMITED

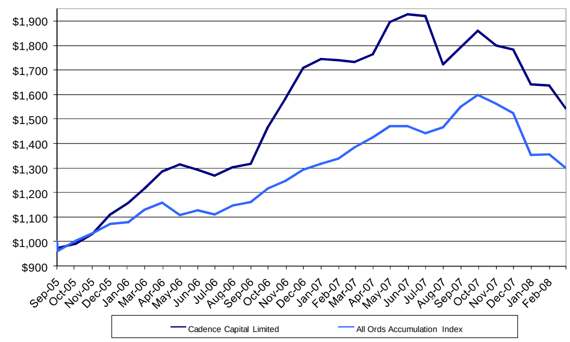
# INVESTMENT UPDATE AND NTA - MARCH 2008

## FUND PERFORMANCE*

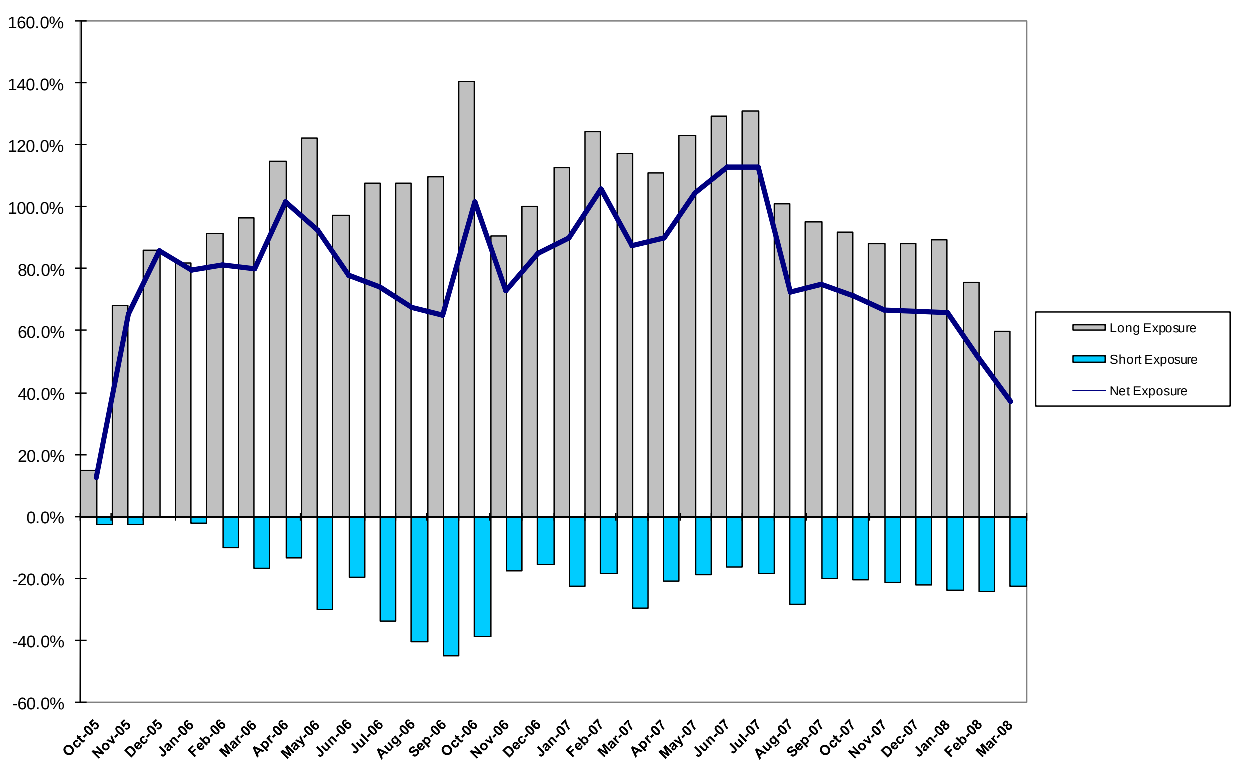
| Performance to 31st March 2008 | CDM | All Ords |
|---|---|---|
| 1 Month | -5.76% | -4.11% |
| 3 Months | -13.47% | -14.68% |
| 6 Months | -13.97% | -16.15% |
| 1 Year | -11.02% | -6.02% |
| 2 Years ( % per Annum) | 12.58% | 7.23% |
| Annualised return since inception | 20.32% | 11.11% |
| Inception to date accumulated return | 58.80% | 30.13% |

* 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 | 11.68% | | 11.68% |
| Diversified Financials | 9.28% | | 9.28% |
| Materials | 9.66% | -3.07% | 6.59% |
| Capital Goods | 5.76% | -1.02% | 4.75% |
| Media | 5.05% | -1.09% | 3.96% |
| Commercial Services & Supplies | 2.84% | | 2.84% |
| Telecommunication Services | 3.77% | -1.62% | 2.15% |
| Automobile & Components | 1.22% | | 1.22% |
| Real Estate | 1.58% | -0.39% | 1.19% |
| Consumer Services | 2.56% | -1.67% | 0.89% |
| Health Care Equipment & Services | 0.72% | | 0.72% |
| Retailing | 2.19% | -1.53% | 0.66% |
| Food Beverage & Tobacco | 1.33% | -1.10% | 0.23% |
| Banks | 1.42% | -1.78% | -0.35% |
| Pharmaceuticals, Biotechnology & Life Sciences | | -1.20% | -1.20% |
| Insurance | 0.71% | -3.77% | -3.06% |
| Transportation | | -4.41% | -4.41% |
| **Gross Exposure** | **59.77%** | **-22.65%** | **37.12%** |

## MARKET AND COMMENTARY

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

| | |
|---|---|
| Gross NTA | $1.20538 |
| Pre Tax NTA | $1.06344 |
| Post Tax NTA | $1.04758 |

***(Please note that these NTA's are pre the 2.5c dividend payable on the 9th April 2008)***
To get weekly estimates of the NTA for Cadence Capital Limited please visit www.cadencecapital.com.au

For the 30 months to 31st March 2008, Cadence Capital Limited has returned a gross performance of 58.8% compared to a rise in the All Ordinaries Accumulation Index of 30.13%. Cadence Capital Limited has generated an annualized return before fees of 20.32% per annum since inception.

During the month of March, Cadence Capital Limited returned a negative gross performance of –5.76% compared to a decrease in the All Ordinaries Accumulation Index of -4.11% and a decrease in the Small Ordinaries Accumulation Index of -4.76%.

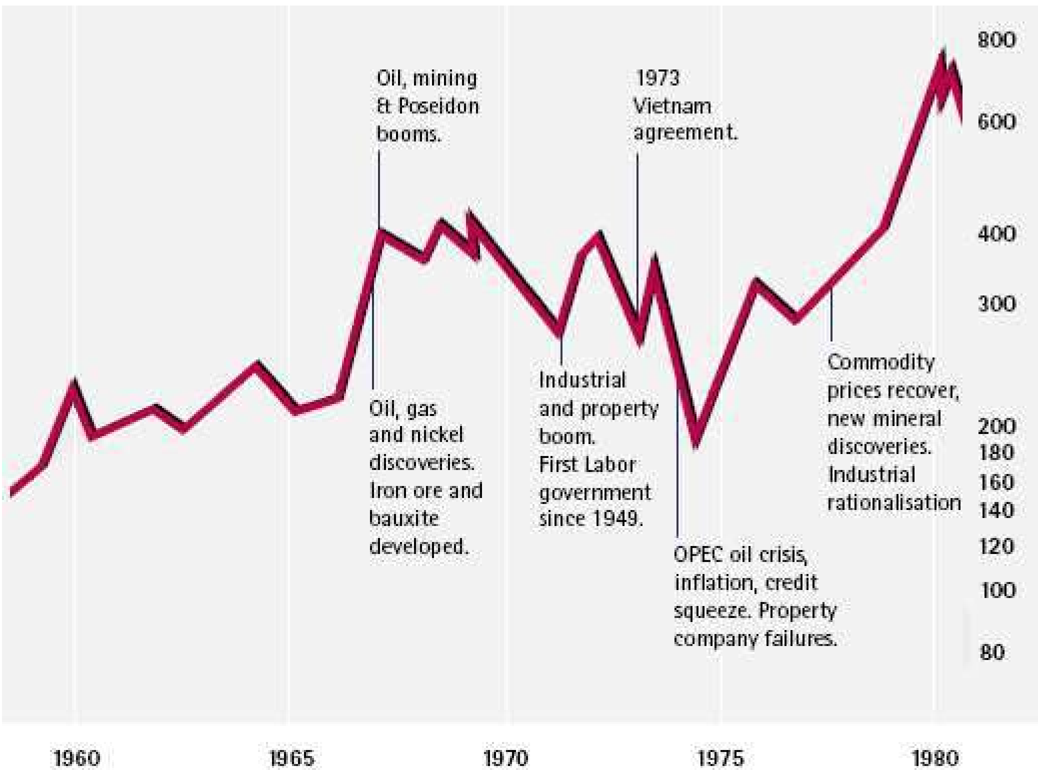
The fund finished the month 59.77% long, 22.65% short and with a net long exposure of 37.12%. The net exposure for February 2008 was 51.37%.

## Are we seeing a repeat of the late 60s and early 70s?

The Australian Securities Exchange has produced a chart which shows the All Ordinaries index from 1900 until 2006, with a summary of the major drivers of the market over the period. There are a number of similarities between what is currently happening in financial markets, and what happened in the late 60s and early 70s.

Below is an extract of the ASX chart showing the 20 years from 1960 to 1980 (see http://www.asx.com.au/investor/pdf/share_price_movements.pdf for complete chart).

As can be seen from the chart the market rallied strongly in the late 1960s and fell sharply in the early 1970s, ending with the stock market crash of 1973 and 1974 where the market fell approximately 50%.

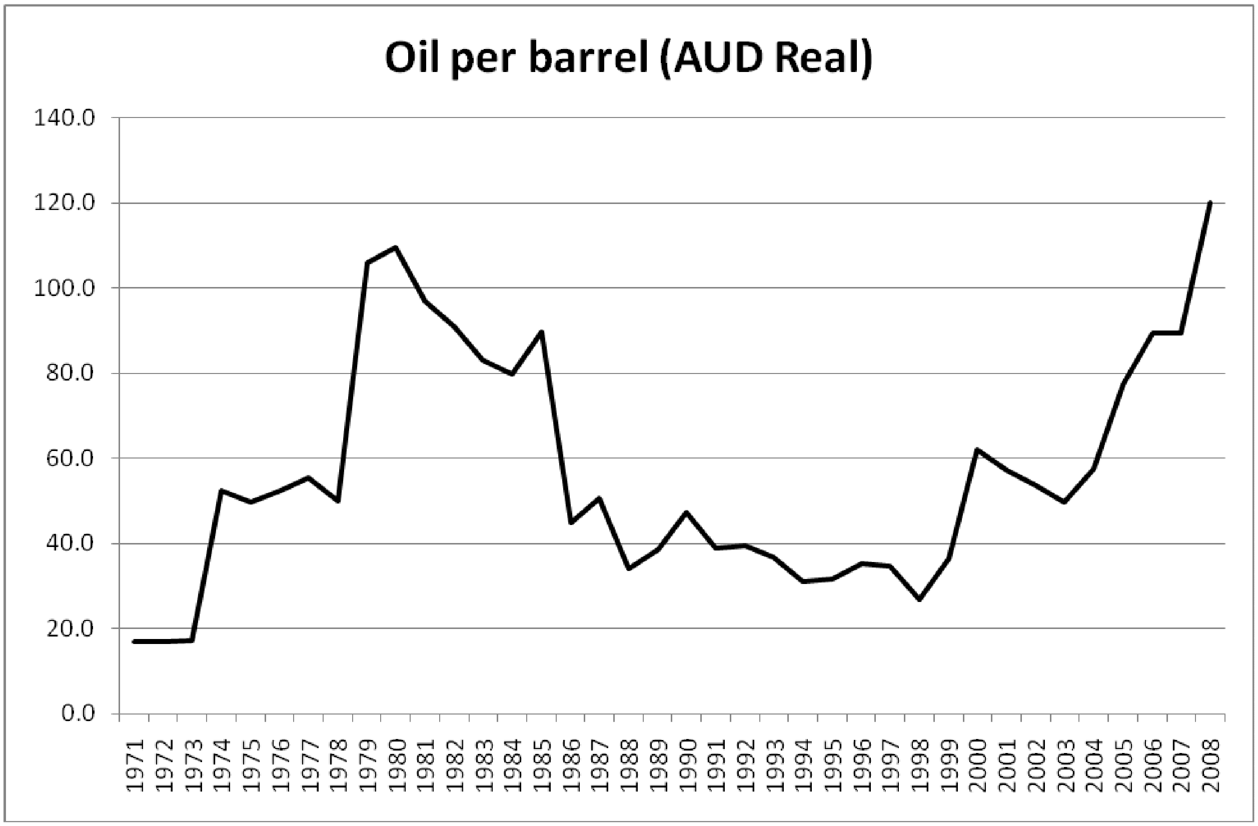



During the bull market of the 1960s there was low inflation, low unemployment and strong GDP growth. As shown on the chart above, an additional driver of the market during this time was the oil, mining and Poseidon booms.

The Poseidon boom relates to an Australian company called Poseidon NL. In 1969, near the peak of the bull market, Poseidon shares were trading at $0.80. The company then announced that it had discovered a promising site for nickel mining and the shares rose to $280 by February 1970, before falling rapidly afterwards as the mining boom ended. The Nickel price had fallen by the time nickel mining began, and Poseidon was unable to stay afloat, delisting in 1976. The price increase of Poseidon seems amazing, but the price rise of Fortescue Metals in the current mining boom has been even more impressive, rising from 1.3 cents when the company announced a merger with Andrew Forrest's Metal Group in April 2003, to a peak of $8.28 in March 2008.

After the mining boom ended in 1970 the next big move in the market was the stock market crash of 1973 and 1974. As shown on the chart above the main drivers of the market at the time were the OPEC oil crisis, high inflation, a credit squeeze and property company failures.

As shown in the chart below oil prices tripled between 1973 and 1974, bringing the price to about AUD $52 a barrel in real terms. Similar rises have occurred recently with the price more than doubling between 1998 and 2000, and almost doubling again since then, to be currently at AUD $120 a barrel.




We can therefore conclude that oil price rises are a common feature of financial markets in the early 70s and financial markets now, although in the early to mid 2000s the market continued to rise despite the increasing oil price.

A credit squeeze and property company failures are shown on the ASX chart as being significant factors in the 1973/1974 stock market crash. It has been well documented that both of these are also occurring currently. The credit squeeze has been caused by the sub-prime related write downs occurring in the US. Property company failures have occurred in Australia with Westpoint in 2005, Fincorp in 2007, and more recently the share prices of Centro, Allco, and MFS[1] are down by up to 95%. As mentioned in our newsletter last month there are 34 listed property trusts in the ASX 300 index, and all 34 of the LPTs have decreased in price over the past year.

[1] Allco and MFS are not pure property companies but they have significant property holdings.

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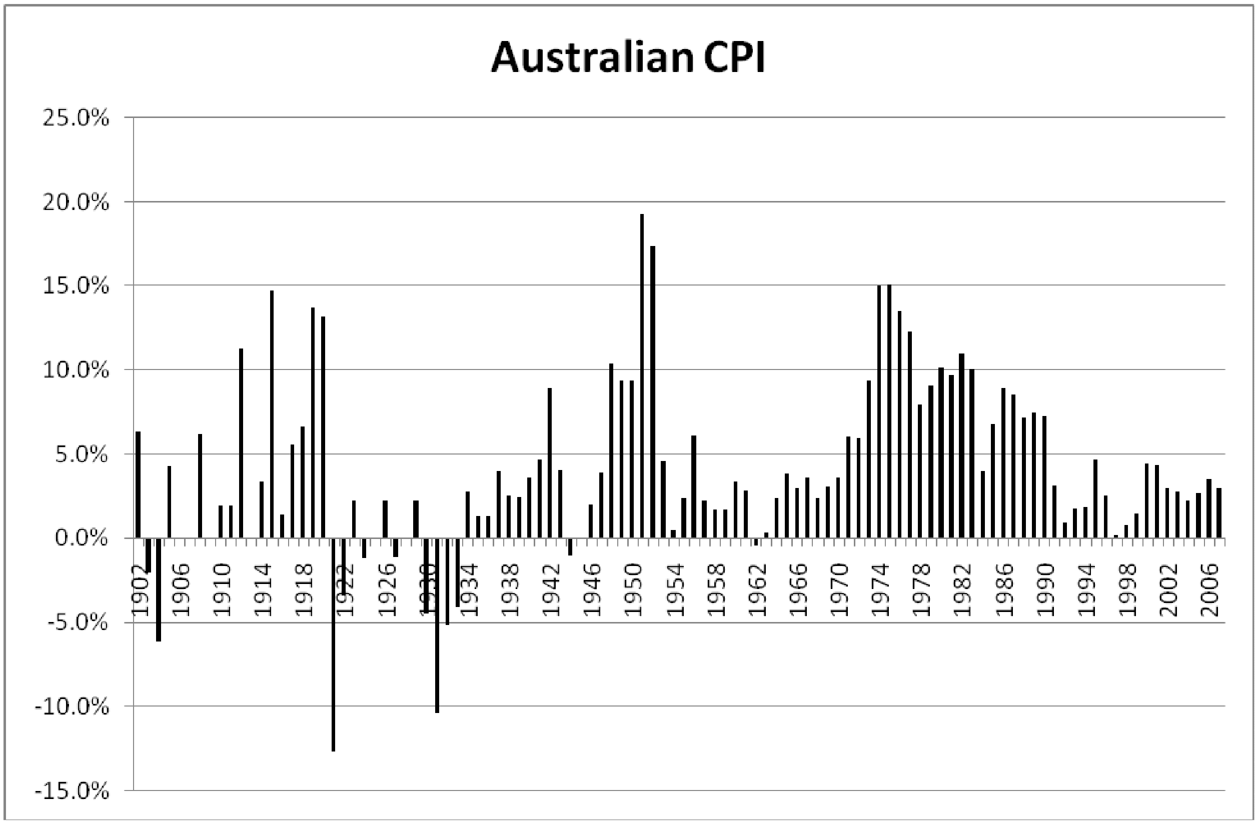
A significant difference between the situation now and in the 1970s is inflation. As shown on the chart below inflation was very high in the 1970s, with every year from 1971 to 1983 being above 5% inflation. Seven of those years were above 10% and two were above 15%.




Inflation is currently well below the levels of the 70s. Since 1991 inflation has been below 5% per year. Although inflation has been relatively well contained recently there is talk that inflationary pressures are building. The Reserve Bank of Australia raised interest rates again in March primarily due to inflationary pressures. See below for an extract of the media release that accompanied the rate rise.

> *At its meeting today, the Board decided to increase the cash rate by 25 basis points to 7.25 per cent, effective 5 March 2008.*
>
> *This adjustment was made in order to contain and reduce inflation over the medium term. Inflation was high in 2007, with an annual CPI increase of 3 per cent in the December quarter and underlying measures around 3½ per cent. Domestic demand grew at rates appreciably higher than the growth of the economy's productive capacity over the year. Labour market conditions remained strong into early 2008 and reports of high capacity usage and shortages of suitable labour persist. Inflation is likely to remain relatively high in the short term, and will probably rise further in year‑ended terms, before moderating next year in response to slower growth in demand.*

It is therefore clear that inflation is expected to increase from its recent range of 2 to 3% per year, although it is not widely believed that we will return to the 10% plus inflation rates of the 1970s.

In conclusion the factors that were present during the period are largely present at the current time. High inflation is not yet occurring but there is speculation that inflation could be moving higher. The All Ordinaries index was flat between 1965 and 1975 but in the intervening years rallied 100% only to fall 50% again. These were very volatile times.

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