



OCTOBER 2006 INVESTOR REPORT

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%	16.17%
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%	14.74%
	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	11.59%												11.59%
All Ordinaries Acc Index	4.80%												4.80%
Small Ordinaries Acc Index	6.88%												6.88%
* Before Management Fees												Accumulated return	51.26%

PORTFOLIO SECTOR ANALYSIS

Sector	Long	Short	Total
Materials	41.22%	-1.88%	39.34%
Software & Services	18.56%	-8.22%	10.33%
Commercial Services & Supplies	16.76%		16.76%
Capital Goods	13.97%	-2.31%	11.65%
Energy	7.83%	-4.03%	3.80%
Health Care Equipment & Services	7.63%		7.63%
Media	6.52%	-4.14%	2.37%
Banks	6.13%	-1.14%	4.99%
Insurance	5.78%	-1.46%	4.32%
Real Estate	5.68%	-1.66%	4.02%
Unspecified	3.29%	-2.20%	1.08%
Retailing	2.61%		2.61%
Telecommunication Services	2.56%		2.56%
Diversified Financials	2.10%	-1.84%	0.26%
Transportation		-2.05%	-2.05%
Consumer Durables & Apparel		-1.40%	-1.40%
Consumer Services		-2.43%	-2.43%
Food Beverage & Tobacco		-4.13%	-4.13%
Gross Exposure	140.61%	-38.92%	101.70%
Net Cash / (Debt)			-1.70%

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%											
Equity Short	38.9%											
Gross Exposure	179.5%											
Net Exposure	101.7%											

MARKET AND COMMENTARY

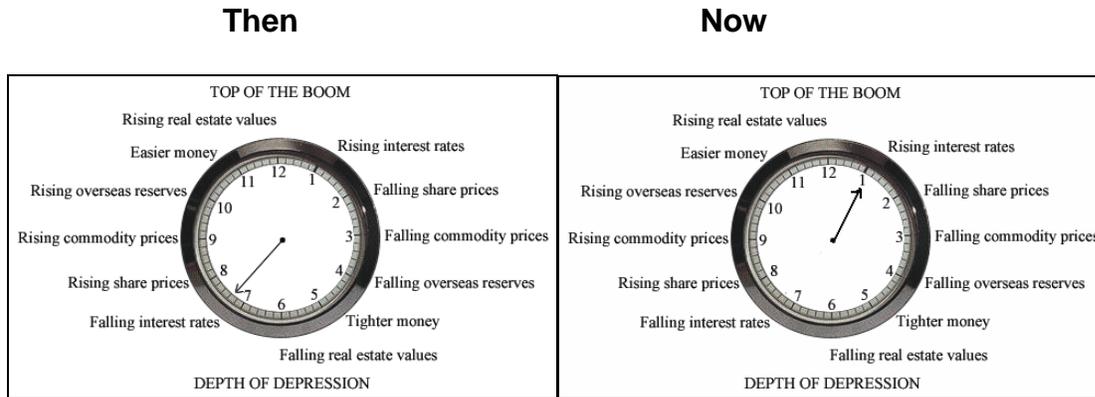
Cadence Capital Limited closed on the 31st October 2006 with a Net Tangible Asset Backing (NTA) of \$1.47304 pre fees, tax and dividends, and \$1.23233 post fees, dividends and tax (before the exercise of options). To get weekly estimates of the NTA for Cadence Capital Limited please visit www.cadencecapital.com.au

During the month of October, Cadence Capital Limited returned a gross performance of 11.59% compared to a rise in the All Ordinaries Accumulation Index of 4.80% and a rise in the Small Ordinaries Accumulation Index of 6.68%. The fund finished the month 140.61% long, 38.92% short and with a Net Long Exposure of 101.70%. The net exposure of the fund for September was 65.00%

THE ECONOMIC CLOCK

It is interesting how much information we synthesize on a daily basis, in relation to the stock market and shares in general, and yet not much of it is memorable.

On the 24th October 2006 I was reading an old economics article about the 'Economic Clock' which indicated that, according to the author, the Australian Economy was at 7 o'clock, with the economy experiencing falling interest rates and rising share prices as well as rising real estate prices.



This article got me thinking about what time the Economic Clock was at now. These were the facts I could come up with:

- Australia has had an extended period of rising share prices,
- Australia has had an extended period of rising real estate prices,
- Commodity prices have certainly been rising,
- It could be argued money is relatively 'easy' and,
- **We are now in a period of rising interest rates.**

My conclusion on the Economic Clock was that we are somewhere around 1 o'clock since interest rates are rising but we have not as yet experienced falling share prices, falling commodity prices and falling real estate prices. Of course, as they say, timing is everything but we can at least conclude that we are no longer at 7 o'clock, 9 o'clock or 11 o'clock.

As with everything in the economy, the Economic Clock illustrates how the economy moves in cycles. It also gives us an indication as to when we should err on the side of being 'risk seeking' and when we should err on the side of being 'risk averse' or 'risk avoiding'. My conclusion from examining the diagrams above is that we are now more clearly on the right hand side of the clock face than on the left.

We invest our funds using both a long and short equities mandate which means we can benefit from both rising and falling equity markets. My conclusion therefore is that more of our analysis and time over the next year will be spent looking for opportunities to divest existing holdings and in addition profit from falling share prices. This does not mean that there will be no good buying opportunities, since as we know there are always opportunities in the market, it merely suggests that there will be fewer good buying opportunities and more profits to be made selling.

DISCLAIMER

The information contained in this report has been prepared with all reasonable care by Cadence Asset Management Pty Ltd. It is provided for information purposes only and should not be construed as an offer or solicitation. It should not be relied upon as the sole basis for making an investment decision, nor should a decision be made until the risks of the investment are fully understood. Cadence Asset Management Pty Ltd assumes no responsibilities for errors, inaccuracies or omissions in this summary. The information is provided without warranty of any kind. Past performance is not indicative of future performance. Investors may not get back the full amount originally invested.

Cadence Asset Management Pty Ltd ACN 106 551 062
Level 11, 131 Macquarie Street, Sydney NSW 2000 Australia
Telephone +612 8298 2444, Facsimile +612 8298 2499
Email: info@cadencecapital.com.au