AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

Cadence Capital Limited (CDM)

Initiating Coverage

August 2015

INDEPENDENT INVESTMENT RESEARCH

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3) Our research does not provide a recommendation, in that, we do not provide a "Buy, Sell or Hold" on any stocks. This is left to the Adviser who knows their client and the individual portfolio of the client.
4) Our research process for valuation is usually more conservative than what is adopted in Broking firms in general sense. Our firm has a conservative bias on assumptions provided by management as compared to Broking firms.
5) All research mandates are settled upfront so as to remove any influence on ultimate report conclusion;
6) All staff are not allowed to trade in any stock or accept stock options before, during and after (for a period of 6 weeks) the research process.

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Contents

Cadence Capital Limited (CDM)

Rating

Investment Profile

Share Price ($) as at 17 August 2015	1.44
Market Capitalisation ($m):	345.4
Ordinary Shares on Issue (m):	239.9
Options on Issue (m)	94.0
Fully Diluted Shares on Issue	333.9
ASX Code:	CDM
12 month L/H ($)	1.34/1.535
Management Fee (%), excl GST	1.0
Performance Fee (%)	20.0
Performance Hurdle	Outperformace of ASX All Ordinaries Acc Index

*The Manager will be eligible for the performance fee only if the performance of the portfolio is positive and will be eligible for 20% of the outperformance of the benchmark index or in the event the benchmark index has decreased, 20% of the increase in the value of the portfolio.

Key Exposure

Underlying Exposure	Long/short positions in Australian and International equities.
FX Exposure	Investors will have direct FX exposure through the investment in international equities. The currency exposure may be hedged but to date the Manager has opted to leave the exposure unhedged.

Fee Commentary

When compared to its peers, the management and performance fees are in-line with the sector average, however we view a 20% performance fee to be high. We note, the performance fee is not subject to a high watermark, however can only be charged when the perofrmance is positive.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

1. OFFER OVERVIEW

PRODUCT SUMMARY

Cadence Capital Limited (ASX: CDM) is a listed investment company with a long/short Australian and international equities investment strategy. The company commenced trading in October 2005 and listed in December 2006. Cadence Asset Management has been appointed as the Investment Manager of the portfolio. There are no limitations on the level of shorting in the portfolio, however, historically the portfolio has had a long bias. The portfolio may hold cash in the event attractive opportunities cannot be identified. The portfolio has had an average cash holding of 25% since inception. The Manager uses both fundamental and technical trend analysis in making investment decisions and has a disciplined entry and exit strategy. While the ideas generation process is based on the Portfolio Managers fundamental analysis and investment skill, the investment process is largely rules-based, with investment selection, position sizing and timing all determined by fundamental and technical rules. The portfolio is managed according to an open mandate, with no stock, sector or country limitations and, as such, is very much an alpha seeking mandate. The initial investment in an individual stock however cannot exceed 1% of the portfolio at cost. The Manager can further invest in a stock in 1% increments as the stock trends up (for long positions) or down (for short positions) up to a maximum of four more times. The Manager is not a forced seller, meaning that once 5% of the portfolio at cost has been invested, the Manager can let the stock continue to move up or down until the technical indicators suggest exiting the position, unlike other funds which have maximum holding limitations and have to sell down a stock to avoid breaching the limitations. Approximately 18 months ago, the Manager began investing in international equities and such securities have become a material component of the portfolio. The currency exposure to date has been unhedged, introducing an additional performance variable in the form of currency movement. The company will seek to pay a consistent and growing semi-annual dividend, franked to the maximum extent possible.

2. INVESTMENT SUITABILITY

CDM provides investors with a high conviction mandate and one that on account of a relatively unique investment process may provide an effective source of diversification to an investors portfolio. The company does employ the use of "shorting stocks" and as such investors should be comfortable with the use of and risks associated with this. The company may hold cash if attractive opportunities cannot be identified. Large cash holdings will dilute investors exposure to the market and may result in investors underperforming in rising markets, however will provide an element of capital protection in declining markets.

3. RECOMMENDATION

Independent Investment Research (IIR) has assigned Cadence Capital Limited (ASX: CDM) a Recommended Plus rating. The Manager has a clearly defined investment philosophy and investment process. The rules based charter and processes employed lend themselves to a repeatable investment process and provides greater confidence that alpha generated can be attributed to both the process and individuals (not just the latter). While there are no portfolio concentration limitations, a rules based entry and exit strategy should have the effect of limiting portfolio risk, restricting investments up to 5% of the portfolio at cost with the inclusion of a stop-loss. There is a strong alignment of interest with shareholders, with the investment team collectively representing the largest investor in the company as well as each Portfolio Manager being held accountable, and remunerated partly on, each individual's record of generating alpha, or lack thereof. Investors should note that price momentum based strategies will typically not perform as well in volatile markets, due to a concept referred to as 'whiplash'. Historically the Manager has outperformed the Australian equities market (the ASX All Ords Accumulation Index) since inception to 30 June 2015.

4. SWOT ANALYSIS

STRENGTH

- The Manager has a clearly defined investment philosophy and a robust and disciplined investment process. The rules based charter and processes employed lend themselves to a repeatable investment process and provides greater confidence that alpha generated can be attributed to both the process and individuals.
- While the investment process has evolved over time, specifically following the GFC period, it is overall a mature and well established investment process and a process that has been validated by a solid track-record.
- There is a strong alignment of shareholder and Manager interest, with the investment team collectively representing the largest investor in the company as well as each Portfolio Manager being held accountable, and remunerated partly on, each individual's record of generating alpha, or lack thereof.
- Since listing, the company has achieved its objective of paying a steadily growing dividend and has offered investors above market yield.
- Due to the tax status of the company, the Manager is able to distribute fully franked dividends on all investments, including both domestic and abroad.
- The Manager enters positions in 1% increments in line with the trend, up to 5% of the portfolio at cost, with a stop loss of 15% of the position at cost. As such, downside risk is minimised.

WEAKNESS

- The current benchmark index used as the performance fee hurdle was appropriate when the Manager was investing in only domestic stocks, however with the inclusion of international stocks a new benchmark is more appropriate.
- The investment team is small with three Portfolio Managers, all responsible for generating their own alpha. In the event something was to happen to one of the Portfolio Managers, this will put stress on the other two members, however we note the Manager will utilise the technical signals to manage the positions. The Manager is seeking to expand the team.

OPPORTUNITIES

- The Manager's investment process is relatively unique and may, to a degree, provide an effective source of diversification to an overall investment portfolio.
- With LICs, the share price may diverge from the fund's NTA, providing both the opportunity and threat of an additional source of investment performance. Historically the company has ranged from a maximum premium/discount to pre-tax NTA of +10%/-40%. When trading at a discount, this offers prospective investors the opportunity to enter the company at less than the portfolio value, while when trading at a premium prospective investors would be acquiring the company at an amount greater than the portfolio value.

THREATS

- Approximately 38% of the portfolio at the date this report comprised international equity positions while 21% of the domestic equities investments earn the majority of income overseas. The currency exposure to date has been unhedged, introducing an additional element of performance risk.
- The investment mandate is largely unconstrained, with no formal sector, stock or country concentration limits. The portfolio may become materially concentrated, particularly by sector. We note that as at 31 July 2015, the portfolio had over 50% exposure to the Financials sector.
- Price trend following investment strategies typically underperform in volatile market environments on account of what is referred to as 'whiplash'.
- The company has 94m listed options on issue that are set to expire on 31 August 2015. If all the options are exercised, the number of shares on issue will increase by over 40% and as such will dilute existing shareholder positions for those that don't participate. However, it will provide additional capital for the Manager to grow the portfolio.

5. STRUCTURE

PRODUCT OVERVIEW

Cadence Capital Limited (ASX: CDM) is a listed investment company with a long/short (long bias) domestic and increasingly international equities investment mandate. Cadence Asset Management has been appointed as the Investment Manager for the portfolio. The Investment Manager is a boutique fund manager that was established in 2003.

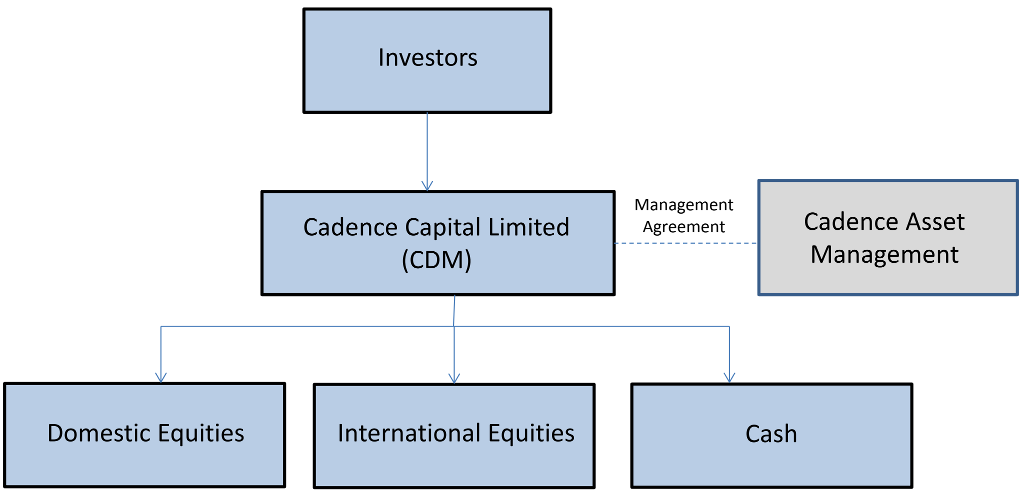
The portfolio will include a combination of long and short positions with no restrictions regarding the long/short ratio. The Manager has historically had a significant long bias with the portfolio having an average short exposure of 8% from inception to 30 June 2015.

The Manager has no investment limitations with respect to individual stock, sector or country exposure, however the investment rules preclude the Manager from investing any more than 5% of the portfolio at cost in an individual position. The Manager has no maximum stock holding limitation and therefore is not a forced seller. The Manager can let the stock price continue to move up (for long positions) or down (for short positions) until the exit signals are initiated. As such, strong performing stocks may account for a large portion of the portfolio.

The Manager will charge an annual management fee of 1%, excluding GST. Additionally, the Manager is eligible for an annual performance fee equal to 20% of the outperformance of the gross portfolio (after management fees) of the ASX All Ords Accumulation Index or 20% of the increase in the value of the portfolio in the event the ASX All Ordinaries Accumulation Index has fallen. The Manager is only eligible for the performance fee if the portfolio value increases. No fee will be incurred in the event the portfolio value declines over a financial year. The performance fee is not subject to a high watermark and will be reset on an annual basis.

The company seeks to pay a consistent and growing dividend on a semi-annual basis, franked to the maximum extent possible. The company has achieved this with the exception of FY09, in which no interim dividend was paid. From a taxation perspective, the company has elected to be a trader for tax purposes (i.e. not on capital account). The company pays Australian tax on all profits (i.e. made both on its ASX listed and its offshore listed stocks). When the company then distributes these post tax worldwide profits in the form of dividends, as tax has been paid to the Australian Tax Office on these profits, it therefore generates franking credits.

INVESTMENT STRUCTURE



Product Leverage	
Used:	The company has the ability to borrow up to 40% of the gross assets of portfolio.
Cost (incl. Fees)	The cost of borrowing to the company will depend on market conditions at the time and the origin of the loan.
Recourse	n/a
Capital Protection	n/a
Tax	
Disclaimer:	Tax consequences depend on individual circumstances. Investors must seek their own taxation advice. The following comments show Independent Investment Research's expectation of tax for ordinary Australian taxpayers, but cannot be considered tax advice.
Capital gains:	A capital gains tax (CGT) event will likely occur in the event the investor sells shares on market for a higher price than it was purchased for. Investors will likely be eligible for the CGT discount if the shares are held for more than 12 months.
Distributions:	Distributions will likely be on income account in the year earned.
Legal Structure	
Wrapper:	Listed Investment Company
Investment Manager:	Cadence Asset Management Pty Limited
Capital vs. Income	Returns will likely comprise a combination of both capital and income. Based on the share price at 30 June 2015, the company was offering a dividend yield of 7.2% based on the FY15 full year dividend, excluding the special dividend.
Investor Leverage	
Available:	No
Risks	The below is not a full list of all risks associated with the Fund but highlights what IIR considers to be the larger risks associated with the fund. A detailed risk assessment can be obtained from the Prospectus.
Currency risk:	Given the investment in international equities, the portfolio will be exposed to currency movements. It will be at the Portfolio Manager's discretion as to whether the position will be hedged. In the event the position is not hedged, the value of investments will be impacted by the increase and decrease in the value of the Australian dollar compared to the respective currencies.
Short selling risk:	The Manager will utilise short selling in the portfolio. There are additional risks associated with this practice, which includes the addition of leverage to the portfolio when short positions are open and the fact that the company is borrowing stock. In times of market turmoil, exchanges have resorted to suspending the ability of market participants to short.
Discount to NTA	The company may trade at a discount to NTA. This may result in a shareholder having to exit at a price less than the asset value.

6. MANAGEMENT & CORPORATE GOVERNANCE

BOARD OF DIRECTORS

The board consists of four members, two of which are independent, non-executive members. The two independent members are well qualified for the role, having a good mix of investment management, accounting and directorship experience.

Board		
Name	**Position**	**Experience**
Karl Siegling	CIO & Portfolio Manager	Mr. Siegling established Cadence Asset Management in 2003 and listed Cadence Capital Limited on the ASX in December 2006. Mr. Siegling has over 18 years experience in financial services having worked for international firms such as Deutsche Morgan Grenfell (now Deutsche Bank) and Goldman Sachs, along with eFinancial Capital Limited (Challenger Funds Management) and Wilson Asset Management in Australia.
Wayne Davies	COO	Mr. Davies has over 20 years experience as a COO and Chartered Accountant both in Australia and overseas. Mr. Davies has worked as an Operations Consultant (Deloittes Consulting Group) and held the position of COO at Theorema Asset Management (London) and Matthews Capital Partners (Australia) before joining the team at Cadence.
James Chirmside	Independent Director	Mr. Chirmside has 29 years investment management experience in Sydney, Hong Kong, London, and Melbourne. Mr. Chirmside ran Asia Pacific Asset Management between 2002 and 2012, an Australian and Asian equities fund manager. From 2000-2001 Mr. Chirnside worked for Challenger Financial Group in Sydney as a product development manager responsible for hedge fund investments. Mr Chirnside is also a director of WAM Capital Limited, Mercantile Investment Company Ltd, Murchison Metals Ltd and Sandon Capital Opportunities Ltd.
Ronald Hancock	Independent Director	Mr. Hancock is a fellow of the Institute of Chartered Accountants Australia with extensive experience in the financial services industry. Mr. Hancock was the Managing Director of Wide Bay Australia Limited and retired in February 2013. Mr. Hancock was a foundation Director and Manager of the Burnett Permanent Building Society formed in 1966, which subsequently merged with other Queensland societies to form Wide Bay Capricorn Building Society Ltd, subsequently Wide Bay Australia Ltd.

INVESTMENT MANAGER

Cadence Asset Management Pty Limited has been appointed as the Investment Manager of the portfolio. Cadence Asset Management is a boutique fund manager that was established in 2003 and currently has $340m FUM. The management agreement is for an initial period of 10 years, which comes up for renewal in December 2016. Shareholders will vote as to whether to renew the agreement for an additional 10 year period.

The investment team consists of three Portfolio Managers, Karl Siegling, Chris Garrard, and Simon Bonourive. Mr Siegling, as the company founder, has been acting in a portfolio management capacity for 10 years, Mr Garrard for 8 years and Mr Bonourrive, a more recent hire, for 2 years.

Investment Team

Name	Role	Tenure	Experience
Karl Siegling	PM & CEO	12 years	18 years
Chris Garrard	PM	8 years	10 years
Simon Bonourive	PM	2 years	8 years

The team is stable and the average level of tenure of 7 years. There have been no departures of Portfolio Managers since the inception of the company which reflects well upon team culture and dynamics. The largely rules-based methodology alone generates an egalitarian investment culture, with each of the Portfolio Managers having the opportunity to have significant input into the construction of the investment portfolio.

The team is small but not in our view stretched on account of what is largely a rules based investment methodology. While there may be a degree of key person risk, particularly with Mr Siegling, the largely rules based methodology again serves to mitigate this.

The team structure is unusual in that, while there are discussions about investment ideas and oversight of new investments, the three PMs operate relatively autonomously and without sector specific responsibilities. Again, while we recognise that a largely rules based investment methodology may reduce the degree of importance of both, we do believe that the process could only be improved with a higher degree of formalised internal discussion, especially in relation to generating investment ideas.

There is a strong performance culture in the team. As discussed below, the Portfolio Managers make investment decisions largely autonomously and, to some degree, in isolation to each other. As such, the quality of stock selection, or record of generating alpha, can be clearly attributed to each Portfolio Manager. This transparency implicitly creates a high degree of accountability and, hence a strong incentive to perform. Furthermore, there is a remuneration component based on each Portfolio Managers performance track-record.

Shareholder and the Manager's interests are further aligned by the fact that collectively the investment team is the single largest investor in the Fund. Following the imminent exercise of options in August 2015, the key members of the team are expected to have a $26M holding in the Company.

7. INVESTMENT PROCESS

- The Manager has a clearly defined investment philosophy and a disciplined investment process. The rules based charter and processes employed, notably the Cadence Dashboard, lends itself to a repeatable investment process and outcome.
- While the investment process has evolved over time, specifically following the GFC period, it is overall a mature and well established investment process.
- The portfolio construction process is not subject to formal constraints, other than those pertaining to gearing. However, a disciplined and rules based entry and exit strategy should have the effect of limiting portfolio risk, restricting initial investments to 1% of the portfolio at cost, with a maximum investment of 5% of the portfolio at cost and a hard stop loss of 15% on invested capital.

INVESTMENT OBJECTIVE

The company provides access to a long/short equities fund, with a long bias, that invests in globally listed equities. The fund has an open mandate; it is alpha seeking with no tracking error restriction, it has no specific stock, sector or country limits, and it is unconstrained in its cash portfolio holding. Short positions with the exception to the lead up and during the GFC, have rarely exceeded 5%. The Manager began investing in international equities approximately 18-months ago with such investments representing around 30% of the portfolio at 31 July 2015. The currency exposure is currently unhedged and as such the portfolio is exposed to currency movements.

The company's objective is to generate a total return in excess of the benchmark (ASX All Ords Accumulation Index) through a combination of long-term capital appreciation and a consistent and growing distribution stream.

INVESTMENT PROCESS

- The Manager uses both fundamental and technical analysis in making investment decisions. It is the Manager's belief that the use of both fundamental and technical analysis has a greater probability of producing higher returns than either fundamental or technical analysis alone.
- Investments are classified as either trading stock or research driven core investments. The Manager will target 20 to 40 research driven core investments and anything from 0 to 40 trading opportunities in the portfolio at any point in time.
- Gross exposure of the portfolio will generally be between 70% and 140%. Net exposure will generally be between 50% and 100%. The maximum leverage the Manager will employ in the portfolio is 40%. Since the company's inception, gearing has not exceeded 33% of the portfolio.

Idea Generation

- Ideas are generated from a number of sources including, the financial press, exchange announcements, company visits (proactive and reactive), speaking to brokers, company results, broker research, in-house research, macro views on specific sectors, amongst others. Where there is interest in a potential position these are then discussed by the investment team. Once an investment opportunity is identified it will undergo further analysis. A potential core investment requires both fundamental and technical analysis. A trading opportunity requires only technical analysis.
- Idea details are recorded and tracked in what is referred to as the Cadence Dashboard. This also provides an audit trail of all past ideas which can be followed up at points in time in the future when, for example, a stocks technical characteristics complement the fundamental characteristics.

Fundamental Analysis

- For core investments, fundamental analysis is undertaken. This may include discussions with management, industry research, and the generation of an in-house financial model for the potential investment. Following further investigation into a stock idea, a stock analysis sheet is completed for each potential core position - this sheet summarizes all the relevant fundamental and technical information. The analyst will then decide on whether the stock displays the characteristics of an ideal Cadence long position or short position. Most stocks analysed fall in the middle ground in that they do not display all the characteristics for either a long or a short position.
- The Manager looks to accumulate historical information and estimates the next two years: EPS growth; P/E multiples; PEG multiples; operating cash flow and free cash flow yields per share; enterprise valuations; balance sheet strength, particularly debt and cash levels. Specifically the Manager is looking for stocks that meet the below tabled indicators.

Indicator	Long Position	Short Position
PEG	<1	2+
OCF Yield	12% - 15%	Negative - 8%
FCF Yield	8% - 10%	Negative - 3%
Cash	Yes	No
Debt	No	Yes

Technical Analysis

- The technical analysis component consists of the short term (3 month), medium term (1 year) and long term (5 year) share price and average weekly shares traded indicators.
- Essentially, a Portfolio Manager is prevented from making a new investment, or increasing any existing position in any stock that has a falling short-term price trend, although investments may be made where the short-term trend is increasing yet the medium and long term trend is still in the negative.

Portfolio Construction

- The Manager applies a disciplined entry and exit strategy to manage its portfolio holdings. Positions are entered following the trend. Positions are not entered against the trend.
- Ideas or positions have an initial 1% position in the portfolio at cost, with the positions added to on a 1% basis up to 5% at cost as the stock price trend continues either up or down. The Manager follows the trend with respect to adding to a position. The net effect is that winning positions should account for an increasing proportion of the portfolio over time. The Manager does not add to losing positions or cut winning positions to maintain weightings in the portfolio. The process of entering and exiting individual stock positions defines the equity and cash exposure.
- Typically positions are added and divested on when there are material movements in stocks. The Manager flags moves of 7.5% in price as a material move in a stock price, however there is some discretion with respect to what the Portfolio Managers consider a material move.
- When divesting positions the positions are exited at a third at a time. An initial sell signal is received when the stock value falls 7.5%. At this stage, the Portfolio Manager assesses the fundamentals and trend of the stock to determine whether to initiate the sale process.
- The Manager will hold cash where attractive investment opportunities cannot be identified. Since inception, the portfolio has had an average cash position of 25%.

8. PORTFOLIO

The portfolio as at 31 July 2015 is presented below. Key attributes to note include:

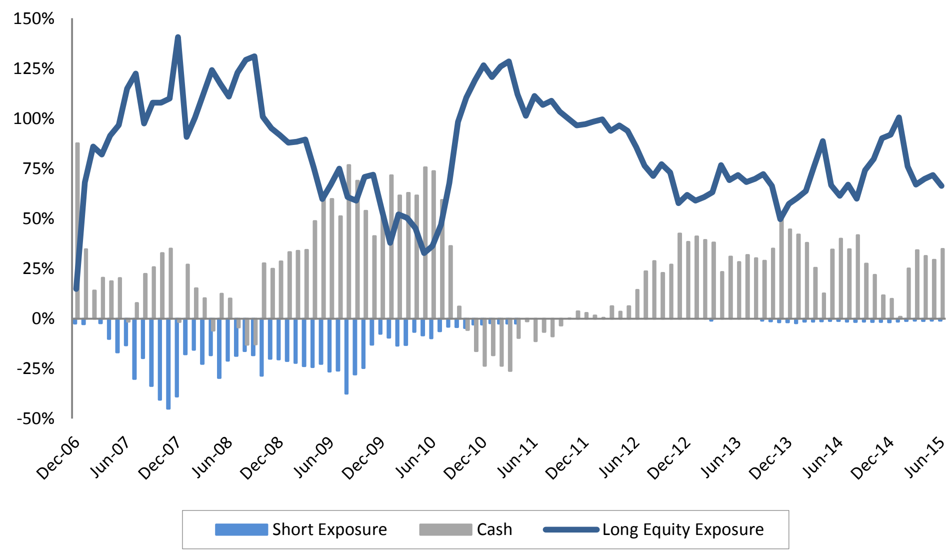
- Given the unconstrained nature of the portfolio construction process, the portfolio may become relatively concentrated by sector exposure. For example, we note that positions in the Financials sector represented collectively over 50% of the portfolio at 31 July 2015.
- The portfolio may also be concentrated to individual stocks at times. This will be a result of stocks outperforming. The maximum amount invested in any position is 5% of the portfolio at cost. As stock prices continue to move in a positive direction they will account for a larger portion of the portfolio. At present, MQG accounts for 12.9% of the portfolio as a result of its strong performance in recent years.
- International equity investments have become a material component of the portfolio since the Manager began adding such investments approximately 18-months ago. International equities represented 30% out of the 89% that the top 20 holdings at 31 July 2015. There is a material degree of FX risk inherent in the portfolio.

Portfolio by Sector Exposure at 31 July 2015			
Sector	**Long**	**Short**	**Net**
Diversified Financials	22.35%		22.35%
Consumer, Non-cyclical	21.26%		21.26%
Banks	13.32%		13.32%
Financial	17.67%		17.67%
Consumer, Cyclical	8.36%		8.36%
Software & Services	6.11%		6.11%
Consumer Services	3.71%		3.71%
Telecommunication Services	3.14%		3.14%
Basic Materials	1.13%	0.97%	0.16%
Technology	1.65%	1.03%	0.62%
Energy	0.0%	0.51%	-0.51%
Communications	0.96%		0.96%
Materials	0.09%	2.47%	-2.37%
Exposure	**99.75%**	**4.97%**	**94.78%**
Cash			5.22%

Top 20 Positions 31 July 2015				
Company	**Code**	**Direction**	**Currency**	**Holding**
Macquarie Group Limited	MQG	Long	AUD	12.9%
Luxottica Group SPA	LUX IM	Long	EUR	8.4%
Henderson Group Plc	HGG	Long	AUD	8.0%
Gilead Sciences Inc	GILD US	Long	USD	6.3%
Melbourne IT Ltd	MLB	Long	AUD	6.1%
Mastercard Inc	MA US	Long	USD	5.9%
National Australia Bank Ltd	NAB	Long	AUD	4.2%
Retail Food Group	RFG	Long	AUD	3.7%
Bank of Queensland Ltd	BOQ	Long	AUD	3.5%
Visa Inc.	V US	Long	USD	3.4%
Australia & New Zealand Banking Group	ANZ	Long	AUD	3.4%
Mallinckrodt Plc.	MNK US	Long	USD	3.4%
Ilnet Limited	IIN	Long	AUD	3.1%
Allergan Plc.	AGN US	Long	USD	2.7%
American International Group	AIG US	Long	USD	2.7%
Westpac Banking Corp.	WBC	Long	AUD	2.7%
Rio Tinto Ltd	RIO	Short	AUD	2.5%
Commonwealth Bank of Australia	CBA	Long	AUD	2.2%
Citigroup Inc.	C US	Long	USD	2.1%
Amgen Inc.	AMGN US	Long	USD	1.6%
Top Portfolio Holdings Gross Exposure				**88.8%**
Cash Holding				5.2%

- Cash on hand represented 5% of the portfolio while short positions where relatively small at 5%. Historically, the company's long equities and cash position have varied materially. There have been very prolonged periods of relatively low net equity exposure and relatively high cash balances, as evident in the chart below.

Portfolio Exposure



9. PERFORMANCE ANALYTICS

SUMMARY OF ANALYTICAL RESULTS

The historic performance of the company is summarised below. Key attributes to note include:

- CDM's portfolio (pre-tax NTA plus dividends) has outperformed the benchmark index, the ASX All Ordinaries Accumulation Index, since listing in December 2006 to 30 June 2015, albeit with a higher volatility which is expected given the concentration of the portfolio. On a rolling annual basis, the portfolio has significantly outperformed the benchmark generating an average rolling annual return of 10.9% versus 4.8% for the benchmark. This highlights that the Manager has been able to outperform on a consistent basis.
- In 2015, international investments delivered four times the returns of domestic investments. Currency contributed 1.3% to overall fund performance. This may allay any potential concerns that the investment methodology may be less effective in international equities markets.
- The company has achieved its objective of paying a steadily increasing dividend since FY09. In times of strong performance the company has also paid special dividends to shareholders. Based on the 30 June 2015 share price, the company was offering a dividend yield of 7.2% based on the FY15 full year dividend. This does not include the 1 cent special dividend being paid.
- The company may trade at a discount or premium to pre-tax NTA. The company traded at large discounts during its first few years of listing, however since 2009, the discount has narrowed with the company trading at a premium in 2012.
- There are three LICs listed on the ASX with a long/short strategy that are comparable to CDM. Since listing in December 2006, CDM's portfolio (pre-tax NTA plus dividends) has been the best performing to 30 June 2015. We note CDM's portfolio underperformed its peers during 2008 to mid-2011.

HISTORICAL PERFORMANCE

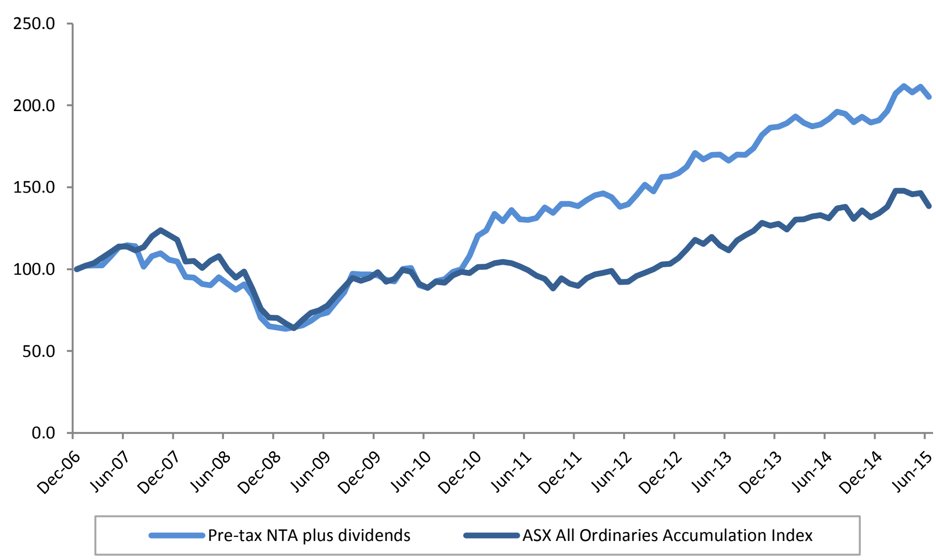
- CDM's portfolio (pre-tax NTA plus dividends) has outperformed the benchmark index since listing in December 2006 to 30 June 2015 on both a point to point basis and a rolling annual basis. We prefer to use rolling returns, as it provides a better indication as to the consistency of a managers performance.
- Over the the three-years to 30 June 2015, the portfolio has underperformed the benchmark marginally. We note that over this period, there was significant issue of shares, with shares on issue increasing from 37.9m at 30 June 2012 to 224m at 30 June 2015 (a 491% increase in shares on issue). The performance was impacted by the dilution from the additional shares.
- As can be seen in the graphic below, the portfolio blossomed in 2010 on the back of some successful investments, in particular the company's investment in Rams Homeloans Group (RHG). We note that the investment in RHG became a concentrated holding in the portfolio, however the initial investment did not breach the 5% investment rule. The concentration was a result of the strong performance of the investment.
- The portfolio has outperformed the market in 55% of the months since listing to 30 June 2015.
- We note the performance figures do not take into account the potential dilution of the options which mature on 31 August 2015.

Historical Performance (30 June 2015)

	CDM Pre-tax NTA (plus dividends)	CDM Share Price (including dividends)	All Ords Accum Index
1-year	7.1%	1.0%	5.7%
3-year	13.7%	16.1%	14.5%
5-year	18.3%	24.4%	9.4%
Since Inception*	8.7%	10.2%	3.9%
Average Rolling Annual Return	10.9%	15.9%	4.8%
Standard Deviation	15.4%	21.1%	14.8%
Biggest monthly loss	16.0%	16.2%	13.9%
Biggest monthly gain	13.2%	26.3%	8.1%

*We have used the listing date in December 2006 as the inception date.

Portfolio Performance vs Benchmark Index (30 December 2006 to 30 June 2015)



DIVIDENDS

- CDM is committed to providing investors with a rising stream of fully franked dividends, provided there are sufficient profit reserves and franking credits, and it is within prudent business practices. It has met this objective since FY09, as shown in the below table.
- Dividends are paid semi-annually and a dividend reinvestment plan (DRP) is available to shareholders. CDM is a trader for tax purposes, paying Australian income tax on any profits made (including on overseas investments), meaning the company accrues franking credits on all profits.

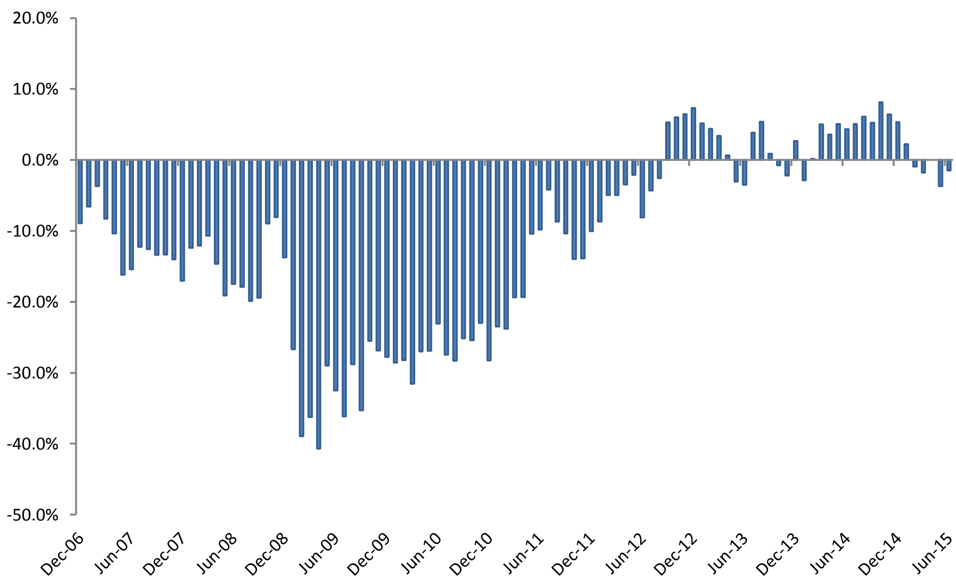
Historical Dividend Payments (30 June 2015)

	Interim	Final	Special	Total
2007	2.0c	2.0c	2.0c	6.0c
2008	2.5c	-	-	2.5c
2009	-	2.0c	-	2.0c
2010	2.0c	2.0c	-	4.0c
2011	3.0c	3.0c	3.0c	9.0c
2012	4.0c	4.0c	4.5c	12.5c
2013	5.0c	5.0c	1.0c	11.0c
2014	5.0c	5.0c	-	10.0c
2015	5.0c	5.0c	1.0c	11.0c

PREMIUM/DISCOUNT TO NTA

- Following the global financial crisis, the discount to pre-tax NTA widened significantly to a peak of 40.7% in April 2009. As illustrated in the below table, the discount to pre-tax NTA steadily narrowed since 2010, moving to a premium during 2012. Since this time the company has traded between a premium and discount. We attribute the company to trading at levels around the pre-tax NTA to (a) steadily growing dividend payment; (b) above market yield; (c) portfolio performance; and (d) increased liquidity through the growth of the company.
- Increased liquidity has been and will continue to be an important factor in the premium/discount at which the company trades. The company has made a conscious effort to increase the shares on issue and improve the liquidity of the company. Over the past four financial years the average daily volume of CDM shares traded has increased from 22,012 to 285,978.

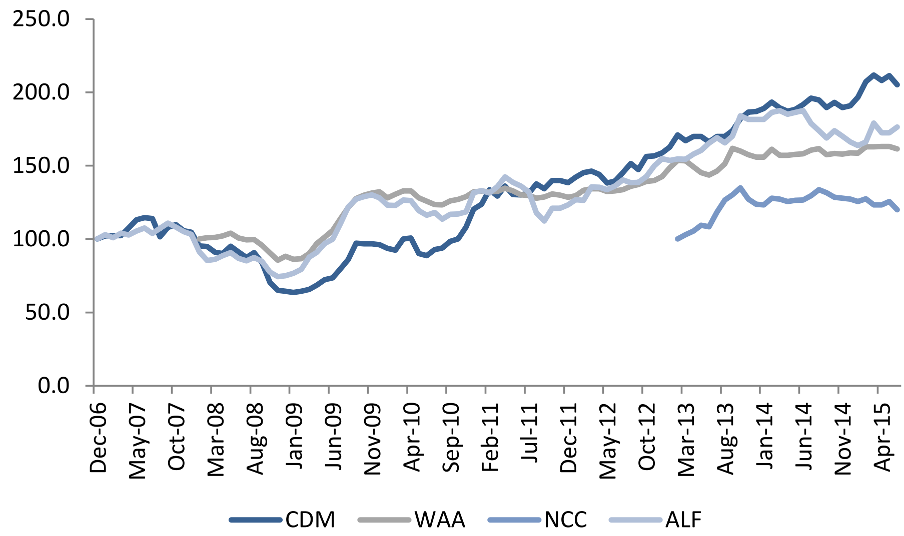
Premium/Discount to pre-tax NTA



PEER COMPARISON

- CDM is comparable to three other LICs listed on the ASX - ALF, NCC and WAA. We have provided a comparison of the performance of their respective portfolios (pre-tax NTA plus dividends) below.
- We have compared the portfolio performance of the peer group from the listing of CDM (December 2006). ALF has been trading before CDM listed, however WAA and NCC were not listed until after CDM.
- Since 31 December 2006 to 30 June 2015, CDM has had the best performing portfolio as shown in the below graphic, although there have been periods where the portfolio has underperformed its peers.

Peer Group Portfolio Returns



Source: ASX/IRESS/Independent Investment Research

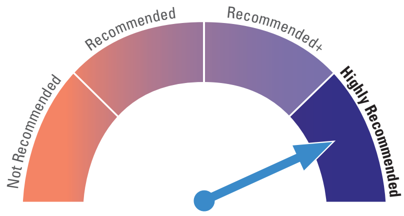
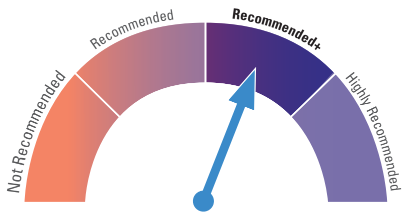
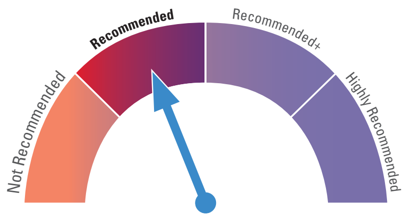
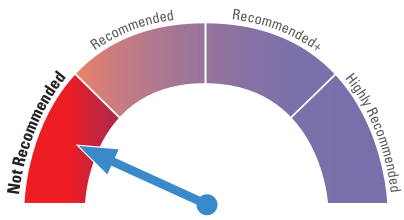
- From a yield perspective, CDM offered the second highest dividend yield as at 17 August 2015. We note however, that ALF's FY15 dividend yield will likely be below that of FY14 given the reduced interim dividend payment and WAA has also paid declining dividends with no FY15 interim dividend declared. This compares to NCC and CDM who have not cut FY15 dividends. The ability to maintain and/or increase dividend payments has a significant impact on the discount/premium company's trade at.

Dividend Yield at 17 August 2015	
Company	**Historical Dividend (%)**
ALF	8.33
CDM	**6.92**
NCC	6.25
WAA	4.90

APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd "IIR" rating system.

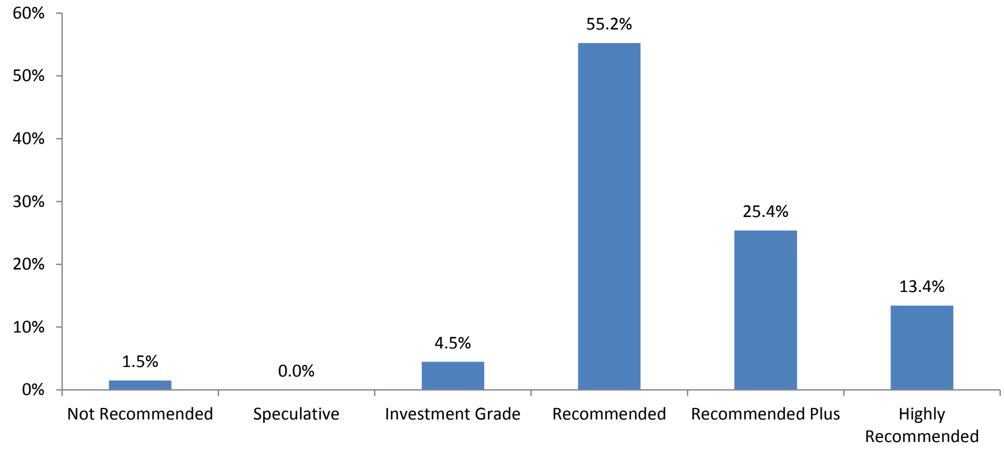
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
Highly Recommended	**83 and above**
	This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.
Recommended +	**79–82**
	This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.
Recommended	**60–78**
	This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.
Not Recommended	**<60**
	This rating indicates that IIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria. The product provides some unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off and should generate risk adjusted returns in line with stated investment objectives. However, concerns over one or more features mean that it may not be suitable for most investors.

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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