

Cadence Capital Limited (CDM)

Listed Managed Investments

June 2016 Quarterly Review

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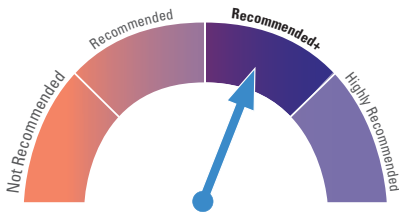
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Rating



LMI Type

Listed investment company

Investment Area

Australia & International

Investment Assets

Listed companies and other

Investment Sectors

Diversified

Key Investment Information

Price (\$) as at 19 August 2016	1.265
Market cap (\$M)	341.9
Shares on issue (M)	270.3
Shares traded (\$M p.a.)	116.8
12-month L/H (\$)	1.115/1.60
Listing date	December 2006

Fees

Management Fee (% p.a.)	1.00
Performance incentives (%)	20.0
Performance Hurdle*	ASX All Ords 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.

Pre-tax NTA Performance Analytics (including dividends)

	All Ords Acc	
	1 Yr	3 Yr (p.a.)
Excess Per. (%)	-17.18	-6.70
TE (%)	10.05	8.73

Benchmark returns are purely pre-tax, whereas LIC (pre-tax NTA) returns incorporate realised capital gains tax and therefore understate portfolio performance to a degree.

Dividend Yield

	%
FY14	6.73ff
FY15	7.25ff
FY16	9.05ff

COMPANY OVERVIEW

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.

INVESTMENT OBJECTIVE

The company seeks to outperform the ASX All Ordinaries Accumulation Index and seeks to pay a consistent and growing semi-annual dividend, franked to the maximum extent possible.

STYLE AND PROCESS

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.

PORTFOLIO CHARACTERISTICS

The Manager invests in a portfolio of domestic and international listed companies. At 30 June, the portfolio had a net exposure of 80%, with the invested portfolio largely in long positions with shorts amounting to 6% of the portfolio. Cash decreased from a high 36% of the portfolio to 20% at the end of the June quarter. Macquarie Group Ltd (ASX: MQG) continued to be the largest investment at 13.3% of the portfolio. We note that a maximum of 5% of the portfolio at cost can be invested in an individual stock and therefore a holding of greater than this can be attributed to growth in the stock value. The major changes to the top ten over the past quarter have been the addition of Select Harvest, Softbank Group Corp and Asciano and the removal of Luxottica, ANZ and a Woodside petroleum short position.

INDEPENDENT INVESTMENT RESEARCH COMMENTS

The Manager employs a disciplined investment process. The rules based charter lends itself 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. The portfolio (pre-tax NTA plus dividends) underperformed the market over the June quarter, with the portfolio value falling 2.2% compared to the ASX All Ordinaries Accumulation Index rise of 4.00%. Over the 12 months to 30 June 2016 the portfolio underperformed the market by 17.2%. The Manager's investment style is likely to underperform in highly volatile, non-trending markets. Despite the short-term underperformance, the portfolio has outperformed the market since listing, with the portfolio generating an average rolling annual return of 9.4% compared to the market average rolling annual return of 4.1%. The premium to pre-tax NTA fell over the June quarter from 23.7% to 11.5%, still above the three-year average premium of 4.4%. Unless performance starts to improve, there is potential for the premium to fall further.

SECTOR BREAKDOWN (NET EXPOSURE)

Sector	31 Mar (%)	30 Jun (%)
Diversified Financials	22.2	21.1
Financials	5.3	6.9
Consumer, Non Cyclical	7.2	13.3
Banks	6.5	4.9
Software & Services	7.9	8.0
Communications	8.4	12.8
Consumer, Cyclical	3.8	3.4
Consumer Services	3.6	4.1
Industrial	1.3	7.5
Basic Materials	0.3	-0.0
Technology	1.2	1.6
Energy	-1.5	-2.0
Materials	-1.5	-1.6
Cash	35.9	20.2

Exposure	30 Jun (%)
Long exposure	85.9
Short Exposure	6.0
Cash	20.2

BOARD OF DIRECTORS

Karl Siegling	Managing Director & Portfolio Manager
Wayne Davies	Chief Operating Officer
James Chirnside	Independent Director
Ronald Hancock	Independent Director

OTHER DATA

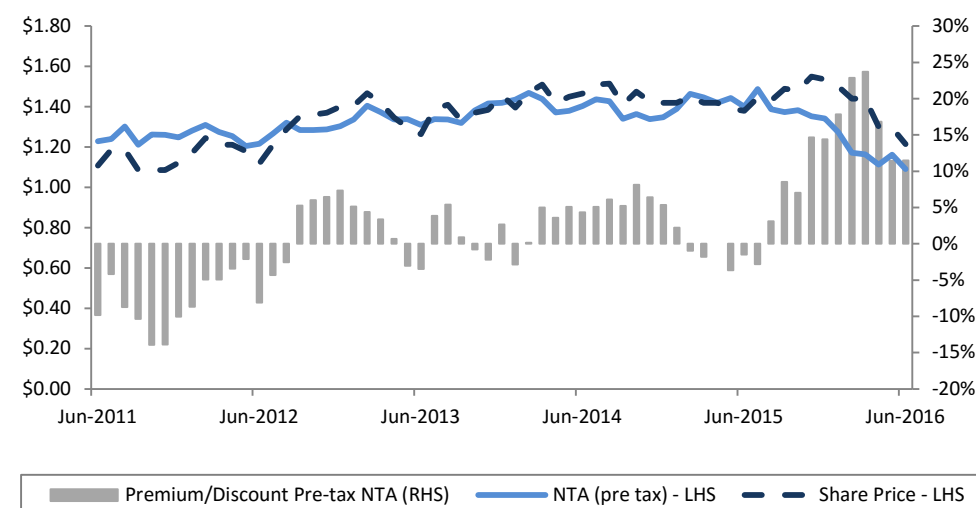
- ◆ **Options** – none on issue.
- ◆ **Dividend policy** – CDM will seek to a consistent and growing dividend.
- ◆ **Capital management policy** – na
- ◆ **LIC tax concessions** – No
- ◆ **DRP available** – Yes, at a 3% discount.

CDM's Portfolio (Top 10) Weighting

Stock	Portfolio (%)	Currency Exposure	Direction
Macquarie Group Ltd	13.3	AUD	Long
Melbourne IT Ltd	8.0	AUD	Long
Asciano Ltd	6.5	AUD	Long
Henderson Group Plc	5.5	AUD	Long
Alphabet Inc	4.1	AUD	Long
Retail Food Group	4.0	AUD	Long
Mastercard Inc	3.9	AUD	Long
Facebook Inc	3.6	AUD	Long
Softbank Group Corp	3.3	AUD	Long
Select Harvest Ltd	3.0	AUD	Long
	55.4		

Source all figures: CDM/Independent Investment Research/IRESS.
All data as at 30 June 2016 unless otherwise specified

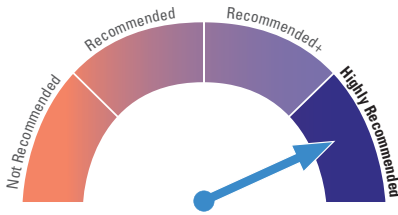

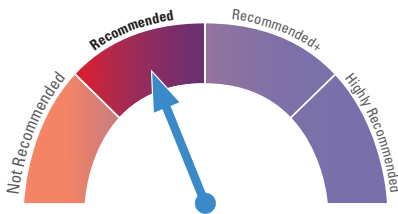
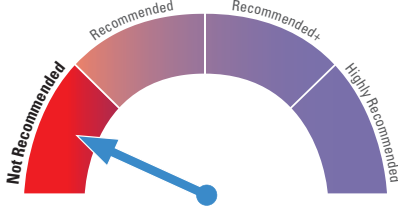
NTA & Share Price Performance



APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system.

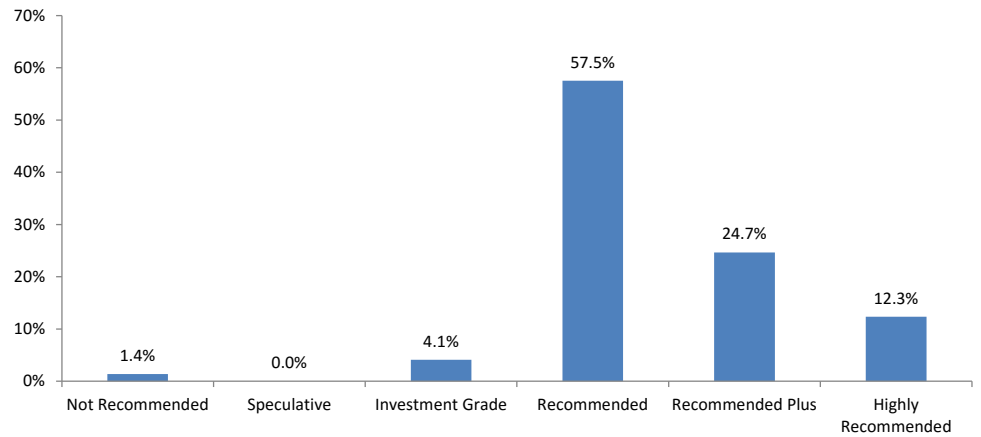
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction;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

LMI Ratings	SCORE
<p>Highly Recommended</p> 	<p>83 and above</p> <p>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.</p>
<p>Recommended +</p> 	<p>79–82</p> <p>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.</p>
<p>Recommended</p> 	<p>60–78</p> <p>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.</p>
<p>Not Recommended</p> 	<p><60</p> <p>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.</p>

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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