

Cadence Capital Limited (CDM)

Listed Managed Investments

December 2016 Quarterly Review

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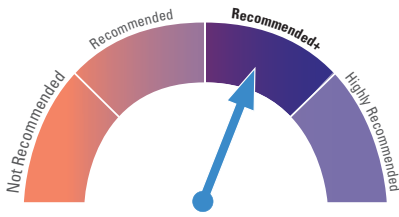
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Rating



LMI Type

Listed investment company

Investment Area

Australia & International

Investment Assets

Listed companies and other

Investment Sectors

Diversified

Key Investment Information

Price (\$) as at 10 February 2017	1.215
Market cap (\$M)	330.5
Shares on issue (M)	272.0
Shares traded (\$M p.a.)	90.3
12-month L/H (\$)	1.14/1.495
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. (%)	-18.40	-6.01
TE (%)	10.07	8.50

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 31 December, the portfolio had a net exposure of 78.7%, with the invested portfolio largely in long positions with shorts amounting to just 2.4% of the portfolio. Cash fell from 30% to 21% of the portfolio. Macquarie Group Ltd (MQG) continued to be the largest investment at 9.6% 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.

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 ASX All Ordinaries Accumulation Index by 1.5% over the September quarter and for the 12-months to 31 December 2016, underperformed the market by 18.4%. The Manager's investment style is likely to underperform in highly volatile, non-trending markets, which have been a feature of the past year, although volatility has reduced in recent months. Despite the short-term underperformance, the portfolio has outperformed since listing, generating an average rolling annual return of 8.3% p.a. versus a market return of 4.0% p.a. CDM paid a final dividend of 4 cents per share, taking the FY2016 dividend to 9 cents per share, fully franked. With profit reserves well below the FY2016 dividend payout, we think CDM will have trouble maintaining its dividend at the same level in FY2017, unless performance improves significantly. The premium to pre-tax NTA continued to fall over the quarter to 6.4%. Unless performance improves, there is potential for the premium to fall further.

SECTOR BREAKDOWN (NET EXPOSURE)

Sector	30 Sep (%)	31 Dec (%)
Diversified Financials	16.7	17.5
Financials	7.3	8.1
Consumer, Non Cyclical	6.5	6.7
Banks	5.0	8.7
Software & Services	8.5	8.8
Communications	10.1	10.0
Consumer, Cyclical	2.3	1.8
Consumer Services	6.0	5.7
Industrial	1.7	1.4
Basic Materials	3.7	3.9
Technology	4.2	3.9
Property	0.5	0.0
Energy	-1.6	1.1
Materials	-1.1	0.1
Cash	30.4	21.3

Exposure	30 Dec (%)
Long exposure	81.0
Short Exposure	2.4
Cash	21.3

BOARD OF DIRECTORS

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

OTHER DATA

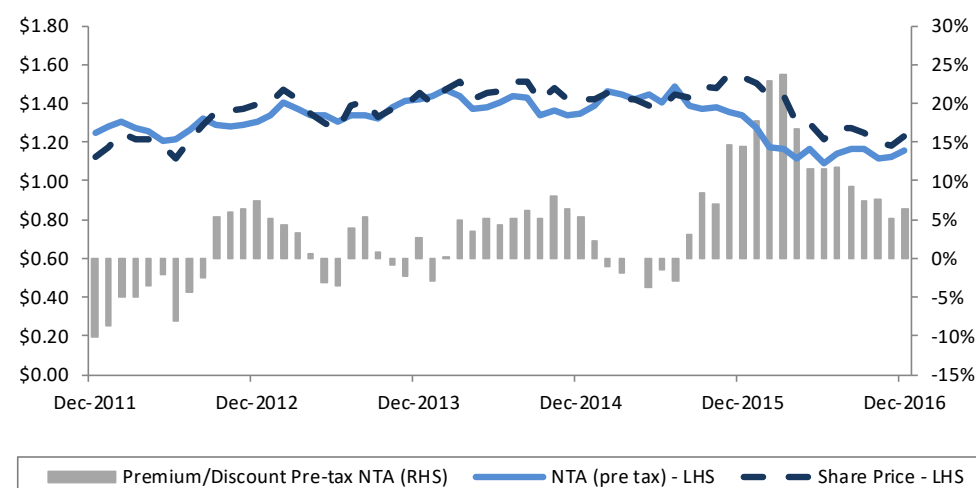
- ◆ **Options** – none on issue.
- ◆ **Dividend policy** – CDM will seek to pay a consistent and growing dividend.
- ◆ **Capital management policy** – na
- ◆ **LIC tax concessions** – No
- ◆ **DRP available** – Yes, at a 3% discount.

CDM's Portfolio (Top 10) Weighting

Stock	Portfolio (%)	Currency Exposure	Direction
Macquarie Group Ltd	9.6	Australia	Long
Melbourne IT Ltd	8.8	Australia	Long
Retail Food Group	5.7	Australia	Long
Henderson Group Plc	5.6	Australia	Long
Softbank Group Corp	3.9	International	Long
Independence Group NL	3.7	Australia	Long
Samsung Electronics Co Ltd	3.7	International	Long
Australian & New Zealand Banking Group	3.4	Australia	Long
Facebook Inc	3.1	International	Long
Alphabet Inc	3.0	International	Long
50.5			

Source all figures: CDM/Independent Investment Research/IRESS.
All data as at 31 December 2016 unless otherwise specified

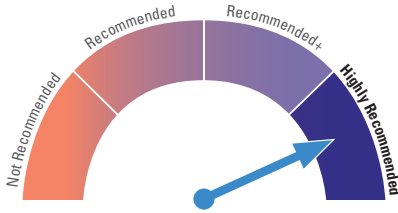


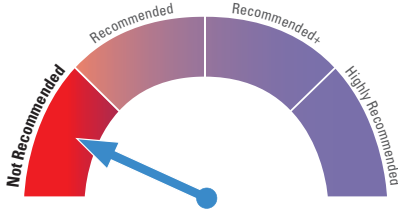
NTA & Share Price Performance



APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system.

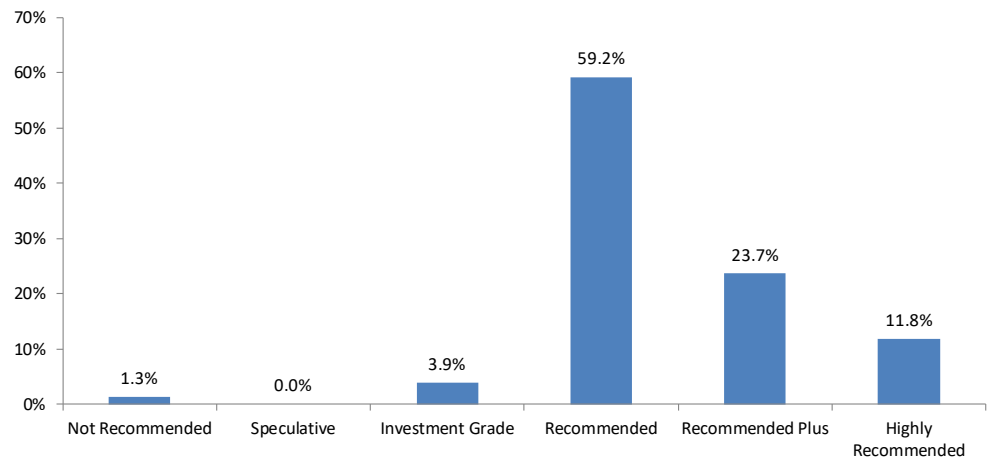
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction;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