

# Cadence Capital Limited (CDM)

Listed Managed Investments

September 2018 Quarterly Review

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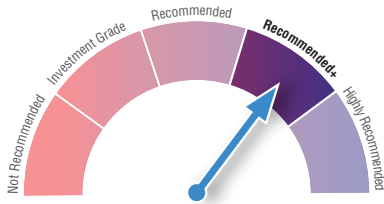
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## Rating



## LMI Type

Listed investment company

## Investment Area

Australia & International

## Investment Assets

Listed companies and other

## Investment Sectors

Diversified

## Key Investment Information

Price (\$) as at 29 November 2018	1.00
Market cap (\$M)	320.3
Shares on issue (M)	320.3
Options on issue (M)	0.0
Shares traded (\$M p.a)	86.9
12-month L/H (\$)	0.93/1.375
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.

## Premium/Discount to Pre-tax NTA

As at 30 September 2018	4.1%
3 year average	8.8%

## Dividend Yield

	%
FY16	9.05ff
FY17	6.48ff
FY18	6.40ff

## 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

CDM invests in a portfolio of domestic and international listed companies, with the portfolio predominantly invested in domestic shares. The portfolio has a long bias with 86.2% of the portfolio in long positions and only 2.3% in short positions at September-end. ARQ Group Limited (ASX: ARQ), previously Melbourne IT (ASX:MLB), remains the largest investment at 12.5% of the portfolio, however this weighting has decreased over the quarter due to a significant decline in the share price. 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 Karl Siegling being the largest shareholder. The the pre-tax NTA (plus dividends) underperformed the benchmark index (ASX All Ordinaries Accumulation Index) over the September quarter, declining 4.2.%. This was primarily due to the weakness in ARQ. The share price of the second largest holding, EHL also declined, contributing to the underperformance. Over the medium-term, the pre-tax NTA performance has been weak compared to the broader market, however over the longer-term, the pre-tax NTA continues to generate alpha over the market. Over the ten years to 30 September 2018, the pre-tax NTA (plus dividends) has generated a return of 10.1%p.a compared to the broader market return of 7.7%p.a. The portfolio will experience periods of underperformance given the concentrated nature of the portfolio. During the September quarter, Ronald Ernest retired from the Board and Jenelle Webster was appointed as a Non-Executive Director. Ms. Webster has over 20 years experience in financial accounting and reporting in both the public and private sectors.

## SECTOR BREAKDOWN (NET EXPOSURE)

Sector	30 Jun (%)	30 Sep (%)
Diversified Financials	6.3	6.7
Financials	14.0	13.7
Consumer, Non Cyclical	18.5	18.5
Communications	3.8	2.9
Consumer, Cyclical	1.0	5.7
Industrial	5.5	6.7
Basic Materials	5.4	5.4
Technology	18.9	12.8
Health Care	0.0	0.5
Energy	5.8	9.6
Materials	1.0	1.4
Telecommunication Services	3.8	0.0
Cash	19.8	16.1

Exposure	30 Sep (%)
Long exposure	86.2
Short Exposure	2.3
Net Exposure	83.9
Cash	16.1

### Board of Directors

Karl Siegling	Managing Director & Portfolio Manager
Wayne Davies	Chief Operating Officer
James Chirnside	Independent Director
Ronald Hancock	Independent Director (retired effective 27 September)
Jenelle Webster	Non-Executive Director

Note: IIR classifies Directors that are employed by the appointed Investment Manager as Executive Directors.

## PERFORMANCE ANALYTICS

Performance	Sep Quarter	1 year	3 year p.a	5 year p.a
Pre-tax NTA + Dividends (%)	-4.2	6.9	2.9	4.7
Peer Group Median (pre-tax NTA plus dividends, %)*	1.6	8.5	9.2	3.3
ASX All Ords Acc Index (%)	1.9	14.7	12.4	8.4
Out/Under performance of index (%)	-6.1	-7.8	-9.5	-3.7
Share Price + Dividends (%)	-0.4	-1.2	0.8	4.9
Tracking Error (%)	9.2	6.4	7.6	7.6

\*Australian/International shares blended as classified in IIR monthly LIC report.

Note: All pre-tax NTA figures are after tax on realised gains and before tax on unrealised gains.

## OTHER DATA

- ◆ **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.

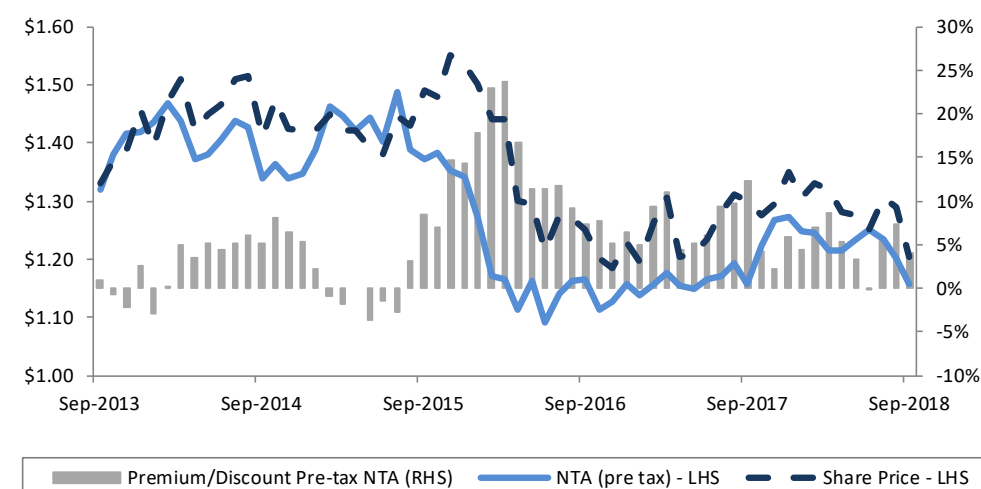
### CDM's Portfolio (Top 10) Weighting

Stock	Portfolio (%)	Currency Exposure	Direction
ARQ Group Ltd	12.5	AUD	Long
Emeco Holdings Ltd	6.8	AUD	Long
Macquarie Group Ltd	6.7	AUD	Long
Noni B Ltd	6.0	AUD	Long
Money3 Corporation Ltd	4.9	AUD	Long
Santos Ltd	3.7	AUD	Long
Teva Pharmaceutical-SP	3.2	AUD	Long
Navigator Global Investments Ltd	3.0	AUD	Long
Shine Corporation	2.7	AUD	Long
Macmahon Holdings Ltd	2.4	AUD	Long
	<b>51.9</b>		

Source all figures: CDM/Independent Investment Research/IRESS.

All data as at 30 September 2018 unless otherwise specified.

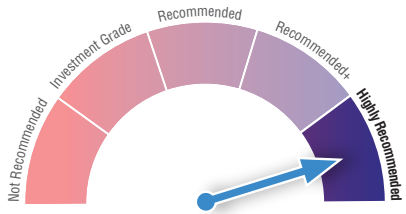
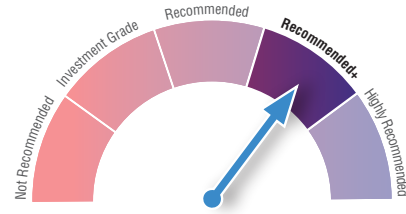
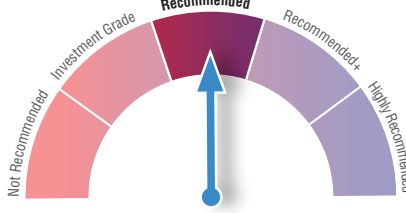
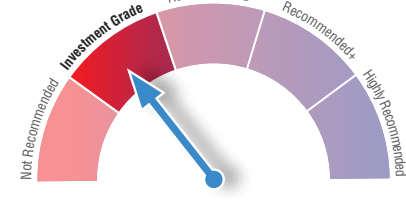
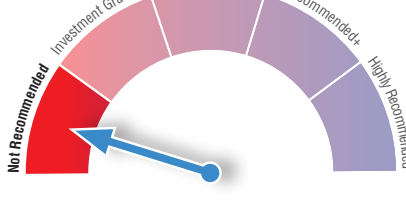
### NTA & Share Price Performance



## 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.

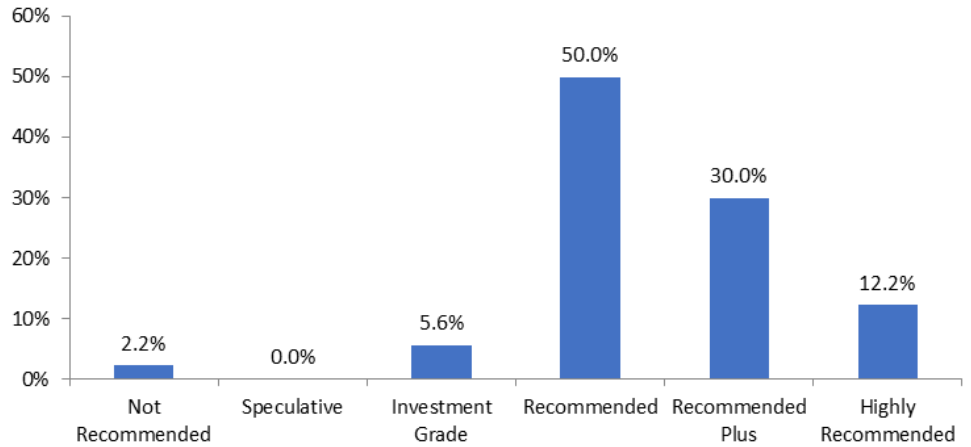
LMI Ratings	SCORE
<p><b>Highly Recommended</b></p> 	<p><b>83 and above</b></p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high 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><b>Recommended +</b></p> 	<p><b>79–83</b></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><b>Recommended</b></p> 	<p><b>70–79</b></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><b>Investment Grade</b></p> 	<p><b>60–70</b></p> <p>This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.</p>
<p><b>Not Recommended</b></p> 	<p><b>&lt;60</b></p> <p>This rating indicates that IIR believes that despite the product’s merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</p>

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## 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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