Cadence Capital Limited

AGM and Investor Briefing

22 November 2018

2018 Results at a Glance

- Record Profit before tax of $54.0 million, up 15%.
- Record Profit after tax of $41.2 million, up 11.4%.
- EPS of 13.5 cents.
- Fund gross performance of 18.2% outperforming the All Ordinaries Accumulation Index by 4.5%.
- This performance was achieved whilst holding on average 20% cash over the year. (less than market risk).
- 4.0 cents fully franked final dividend.
- Annualised dividend yield of 6.4% fully franked (9.1% grossed-up) based on the share price on the date at year-end.

Portfolio Performance

- Stocks that performed well last financial year :
  - ARQ Group (previously MLB)
  - Emeco Holdings
  - Facebook
  - Independence Group
  - Macquarie Group
  - McPherson's
  - Money3
  - Navigator Global Investments
  - Noni B
  - Shine Corporate

- Stocks that under performed last financial year:
  - Retail Food Group
  - Fortescue Metals Group
  - Eclipx Group
  - Fleetwood Corp
  - BW Offshore
  - HT&E
  - Jervois Mining
  - Tesla (short position)
  - Softbank
  - Domino's Pizza (short position)

YTD Performance

Gross Performance* to 19th November 2018	CDM	All Ords Accum	Outperformance
Month to Date	-0.3%	-1.6%	+1.3%
YTD	-12.1%	-6.3%	-5.8%
1 Year	-4.9%	1.3%	-6.2%
3 Years (per annum)	1.0%	7.4%	-6.4%
5 Years (per annum)	4.8%	5.7%	-0.9%
8 Years (per annum)	14.0%	7.0%	+7.0%
10 Years (per annum)	15.2%	8.4%	+6.8%
Since Inception (13.1 years) (per annum)	13.9%	6.2%	+7.7%
Since Inception (13.1 years) (total return)	450.6%	120.4%	+330.2%

* Gross Performance: before Management and Performance Fees

- Stocks that have under performed this financial year:
  - ARQ Group (previously Melbourne IT)
  - Emeco Holdings
  - Janus Henderson Group
  - Longtable Group
  - Lynas Corporation
  - Money3 Corporation
  - Shine Corporate
  - Teva Pharmaceutical

- Stocks that have performed well this financial year:
  - Noni B
  - Credit Corp Group
  - Aurelia Metals
  - BW Offshore
  - Softbank Group
  - Mayne Pharma Group
  - Macmahon Holdings

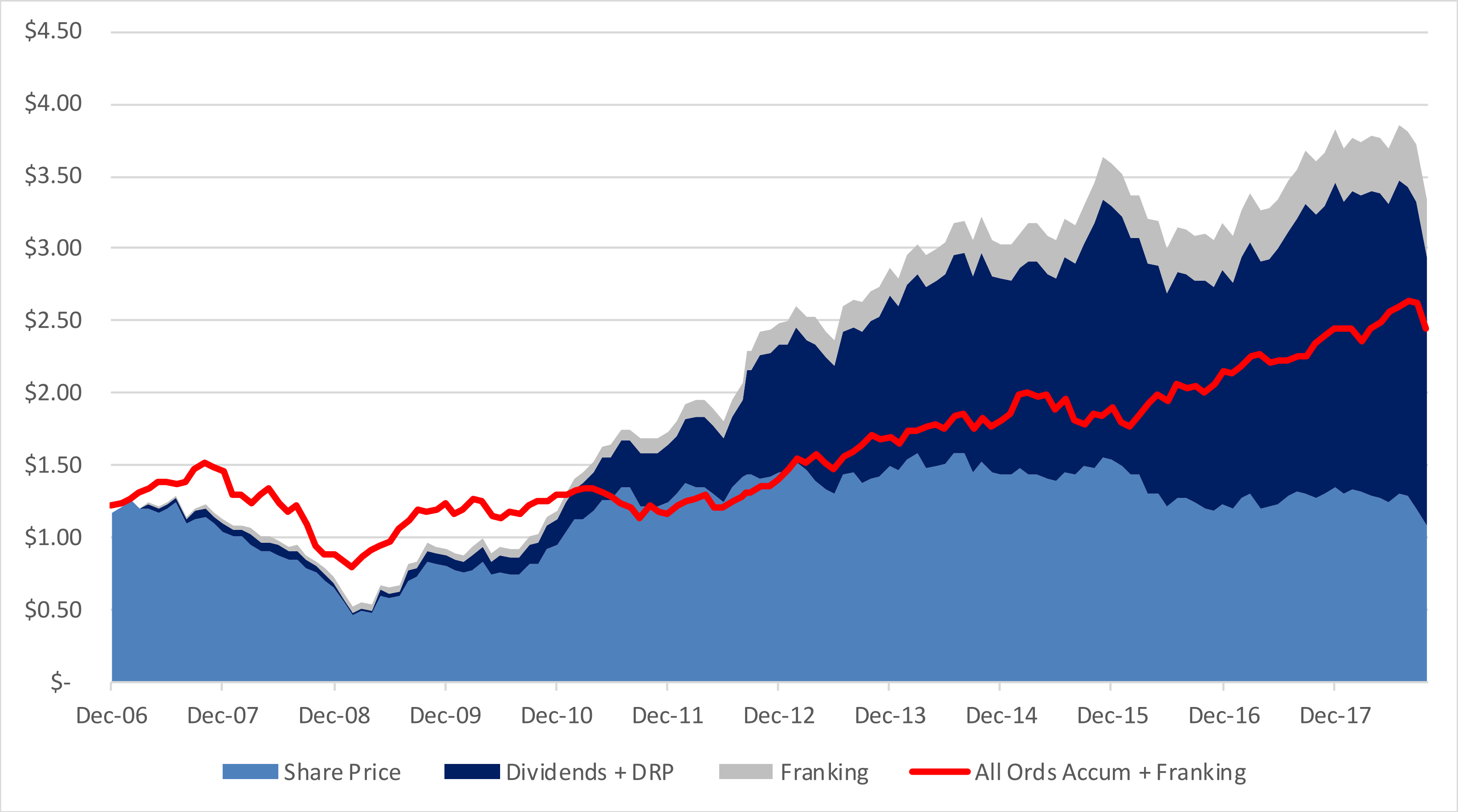
CDM Dividend Information

Calendar Year	Interim	Final	Special	Total	Gross (Inc. Franking)
2007	2.0c	2.0c	2.0c	6.0c	8.6c
2008	2.5c	2.2c*	-	4.7c	5.8c
2009	-	2.0c	-	2.0c	2.9c
2010	2.0c	2.0c	-	4.0c	5.7c
2011	3.0c	3.0c	3.0c	9.0c	12.9c
2012	4.0c	4.0c	4.5c	12.5c	17.8c
2013	5.0c	5.0c	1.0c	11.0c	15.7c
2014	5.0c	5.0c	-	10.0c	14.3c
2015	5.0c	5.0c	1.0c	11.0c	15.7c
2016	5.0c	4.0c	-	9.0c	12.9c
2017	4.0c	4.0c	-	8.0c	11.4c
2018	4.0c	4.0c	-	8.0c	11.4c
TOTAL	**41.5c**	**42.2c**	**11.5c**	**95.2c**	**135.1c**

* Off market Equal access buy back

- Since listing CDM has paid out $1.35 cents in Dividends and Franking (more than the current share price)
- CDM gives investors fully-franked yield with overseas stock exposure

CDM Total Shareholder Return
(Including Franking and Dividend Reinvestment)



Top 20 Holdings

Top 20 Holdings				
Code	**Position**	**Direction**	**Currency**	**Holding**
ARQ	ARQ Group Ltd	Long	AUD	12.8%
MQG	Macquarie Group Ltd	Long	AUD	6.4%
EHL	Emeco Holdings Ltd	Long	AUD	6.2%
NBL	Noni B Ltd	Long	AUD	5.9%
MNY	Money3 Corporation Ltd	Long	AUD	4.3%
STO	Santos Ltd	Long	AUD	3.8%
TEVA US	Teva Pharmaceutical-SP	Long	AUD	3.4%
SHJ	Shine Corporate Ltd	Long	AUD	2.8%
HVN	Harvey Norman Holdings Ltd	Long	AUD	2.6%
NGI	Navigator Global Investments Ltd	Long	AUD	2.5%
MYX	Mayne Pharma Group Ltd	Long	AUD	2.5%
MAH	Macmahon Holdings Ltd	Long	AUD	2.5%
HOM	Homeloans Ltd	Long	AUD	2.2%
CNI	Centuria Capital Ltd	Long	AUD	2.0%
HLO	Helloworld Travel Ltd	Long	AUD	2.0%
ASL	Ausdrill Ltd	Long	AUD	1.9%
MIN	Mineral Resources Ltd	Short	AUD	(1.5%)
SMR	Stanmore Coal Ltd	Long	AUD	1.5%
JHG	Janus Henderson Group Plc	Long	AUD	1.4%
TSLA US	Tesla Inc	Short	AUD	(1.3%)
Top Portfolio Holdings Net Exposure				**63.9%**

ARQ Group (ASX: ARQ)

Stock Profile

Long Position	
EPS Growth	19%
PE	14x
PEG	0.7
OCF yield	12.3%
FCF yield	8.0%
Cash	$24M
Debt	$84M
Market Cap	$260M

Fundamental Analysis

- ARQ (previously Melbourne IT)
- Whilst the half year result was close to our numbers, earnings guidance was below market expectations, leading to a negative share price reaction
- The company continues to exhibit solid earnings growth
- The stock now has a $320m EV with normalised EBITDA of around $40m putting the company on approximately 8.0x times EV/EBITDA
- We believe this is a very low multiple for the earnings stream ARQ delivers
- Long term trend remains intact

ARQ Group– Long Position

* Chart adjusted for 54 cents capital return and 25 cents special dividend

Macquarie Group Ltd (ASX:MQG)

Stock Profile

Long Position	
EPS Growth	15%
PE	14x
PEG	0.9
OCF yield	7.1%
FCF yield	6.7%
Cash	n/a
Debt	n/a
Market Cap	$40.0B

Fundamental Analysis

- MQG continued to perform well for the fund through 2018, with management again delivering earnings ahead of market expectations
- The recent appointment of the head of Macquarie Asset Management as group MD illustrates the transformation in the business from deal-driven to annuity-style over the past ten years
- The company remains well placed to benefit from an uptick in global infrastructure spending
- With the stock rerating materially since our initial entry at $24, our fundamental thesis has largely played out

Macquarie Group Ltd – Long Position

Teva Pharmaceutical Industries (NYSE:TEVA)

Stock Profile

Long Position	
EPS Growth	8%
PE	8x
PEG	1.0
OCF yield	12.0%
FCF yield	9.2%
Cash	$927M
Debt	$26B
Market Cap	$24B

Fundamental Analysis

- A 'turnaround story' with the disastrous Allergen Generics acquisition causing stock to collapse as well as the changing generics landscape
- We initiated with a small initial position and added to our position as the $3B cost saving story gets underway, reducing headcount by 30% (15,000 employees) and closing down 75% of operating facilities
- Management are well incentivized to execute on the strategy

Teva Pharmaceutical Industries (NYSE:TEVA)

Emeco Holdings Ltd (ASX:EHL)

Stock Profile

Long Position

EPS Growth	**15%**
PE	**12x**
PEG	**0.8**
OCF yield	**6.4%**
FCF yield	**5.7%**
Cash	**$84M**
Debt	**$455M**
Market Cap	**$953M**

Fundamental Analysis

- Emeco is an equipment rental provider to the resource and infrastructure industries.
- Management has transformed this financially imperilled company into a thriving, robust earnings and free cashflow generator.
- We are expecting EPS growth in excess of 15% over the next 2 years, trading on a PE of 12.
- The turnaround at EHL is now largely complete, and we expect substantial price appreciation over the next 12-18 months as the market continues to re-rate the stock as earnings are delivered.

Emeco Holdings Ltd – Long Position

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Noni B Ltd (ASX:NBL)

Stock Profile

Long Position

EPS Growth	48%
PE	9x
PEG	0.2
OCF yield	12.2%
FCF yield	6.4%
Cash	$28M
Debt	$22M
Market Cap	$266M

Fundamental Analysis

- Noni B is now the premier retailer for womens fashion in the over 40 category.
- NBL recently acquired the assets of Specialty Fashion, including Millers, Rivers etc. for $31m funded via an equity issue at $2.50.
- If management can execute successfully on the turnaround at Millers, we can see EPS of 36cps emerging over the next 2 years, up from 21cps on 2018, trading on a PE of just 9.
- NBL has no debt and generates good cashflow, with perhaps the best retail management in this space.

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Noni B Ltd– Long Position

Money3 Corporation Ltd (ASX:MNY)

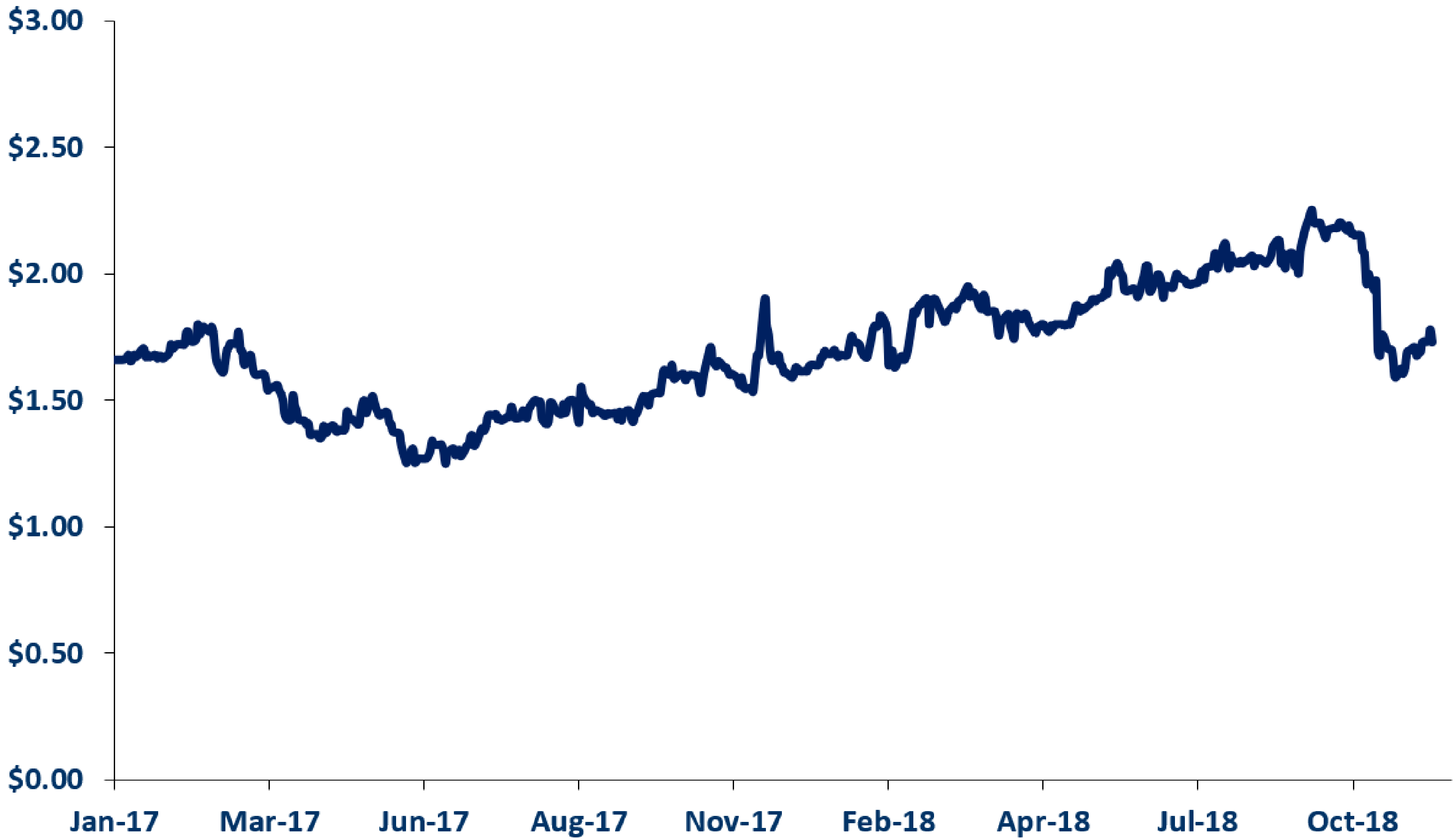
Stock Profile

Long Position	
EPS Growth	13%
PE	8.3x
PEG	0.6
OCF yield	6.4%
FCF yield	5.7%
Cash	$47M
Debt	$51M
Market Cap	$302M

Fundamental Analysis

- Money3 is currently transforming itself from a general purpose lender to those who can't access typical banking facilities, into a singular and dedicated lender to the auto industry.
- MNY was recently caught up in the senate enquiry into payday lending, that saw the share price fall from $2.25 to $1.70. MNY is committed to exiting this business by 30 June 2019.
- MNY has the potential to grow EPS in excess of 15% pa for the next 3-5 years as it expands it auto loan book and renegotiates its wholesale funding deals.
- On a single digit PE with a strong balance sheet and excellent management we anticipate share price growth for many years to come.

Money3 Corporation Ltd– Long Position



Mayne Pharma Group Ltd (ASX:MYX)

Stock Profile

Long Position	
EPS Growth	20%
PE	18x
PEG	0.9
OCF yield	9.0%
FCF yield	5.6%
Cash	$87M
Debt	$374M
Market Cap	$1,702M

Fundamental Analysis

- MYX is a pharmaceutical company which generates over 90% of its sales in the US
- The business was impacted by significant price deflation in the US generics industry across 2016 - 2018
- Conditions in generics are stabilising, and the company's investment into its higher-margin specialty drugs division has started to pay off
- Several of the large US pharma players are now restructuring their drug portfolios, given poor shareholder returns and high debt levels. MYX is well placed to acquire complementary products
- Initiated a position in January 2018

Mayne Pharma Group Ltd– Long Position

G8 Education Ltd (ASX:GEM)

Stock Profile

Long Position

EPS Growth	**16%**
PE	**14x**
PEG	**0.9**
OCF yield	**8.7%**
FCF yield	**1.4%**
Cash	**$25M**
Debt	**$410M**
Market Cap	**$1,275M**

Fundamental Analysis

- G8 Education is the largest childcare centre operator in Australia, with approximately 8% market share
- Oversupply of childcare centres and affordability issues have seen significant occupancy declines across the portfolio and the wider industry in recent years
- The introduction of a new increased childcare subsidy (CCS) from 1 July 2018 has improved affordability and resulted in better occupancy outcomes across the industry in recent months
- Supply growth is slowing on the back of tightening from the banks and difficulty finding tenants
- We expect the industry to recover over the next 12-24 months, driving improved profitability for GEM and increased likelihood of earnings upgrades
- Initiated position earlier this month

G8 Education Ltd - Long Position

CDM shareholders Priority Offer in CDO

- **Cadence Opportunities Fund (CDO),** is an **active trading** version of the Cadence Capital process.
- Long biased, long-short Listed Investment Company (LIC) investing domestically and internationally using of our proprietary **Fundamental** and **Technical** Research.
- **Using shorter duration trends** produces alpha opportunities.
- Cadence Capital Limited (ASX Code: CDM) shareholders and newsletter recipients will have a **priority allocation** in the Cadence Opportunities Fund (up to 40% of the offer).
- Cadence Opportunities Fund to raise up to $100M with ability to take over subscriptions of a further $100M.
- Karl Siegling subscribing for $2M in the Offer. In total Board and Management investing $2.28M.
- Closing date of Priority offer is **30th October 2018.**

Outlook

- Volatility has returned to global share markets in recent months, with October recording the worst monthly return in the US since 2012.
- Market participants are grappling with the prospect of increasing US interest rates, and US/China trade tensions, against the relatively healthy economic backdrop in the US.
- Mid and small capitalisation companies have significantly underperformed their larger cap peers both domestically and abroad. This marks a change from previous corrections in recent years.
- Valuations remain relatively high across many sectors of the market, however we are starting to see pockets of value emerge.
- We will continue to implement our process to generate strong risk-adjusted returns through cycles.

Disclaimer

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