

## **Cadence Capital Limited (ASX Code: CDM) September 2020 Quarterly Webcast**

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In this webcast, Karl Siegling firstly provides an update on the Company's performance, upcoming dividend payment and CDM's discount to NTA. Jackson Aldridge and Charlie Gray then discuss the portfolio's construction and some of the Company's current investment themes. Karl Siegling finishes with an update on the outlook for 2021.



## September 2020 Quarterly Webcast



Karl Siegling  
Portfolio Manager



Charlie Gray  
Portfolio Manager



Jackson Aldridge  
Portfolio Manager



## Fund update

- Financial year to date the fund has returned 13.2% compared with the All Ordinaries Accumulation Index which is up 1.1%
- This strong performance has been delivered across both new and existing positions, and both domestically and internationally
- Global markets have recovered from the crash experienced in March despite high levels of unemployment, GDP contraction and COVID second and third wave fears
- CDM scaled out of its positions as the market fell, with the Fund less than 35% invested in late March 2020
- CDM re-deployed its cash and scaled back into new and existing positions as the markets recovered into June and July
- Over the past two months net exposure has dropped slightly as the fund has scaled out of some positions while adding to others that continue to trend
- The liquidity and concentration of the portfolio has improved significantly over the past 18 months



## YTD Performance

Gross Performance* to 30th September 2020	CDM	All Ords Accum	Outperformance
1 Month	-0.3%	-3.4%	+3.1%
YTD	13.2%	1.1%	+12.1%
1 Year	7.2%	-8.8%	+16.0%
3 Years (per annum)	-0.9%	5.4%	-6.3%
5 Years (per annum)	1.1%	7.7%	-6.6%
8 Years (per annum)	5.2%	8.3%	-3.1%
10 Years (per annum)	11.0%	7.0%	+4.0%
Since Inception (15.0 years) (per annum)	11.8%	6.2%	+5.6%
Since Inception (15.0 years) (total return)	435.3%	144.9%	+290.4%

\* Gross Performance: before Management and Performance Fees

- Stocks that have performed well over the past quarter have been Resimac Group Ltd, Pointsbet Holdings Ltd, ARB Corp Ltd, Money3 Corp Ltd, AP Eagers Ltd, Pinterest Inc, Nvidia Corp, Redbubble Ltd, Webcentral Group Ltd and Reece Ltd.
- Stocks that have underperformed over the past quarter have been EML Payments Ltd, Wisetech Global Ltd, and Jumbo Interactive Ltd.

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## Final Dividend

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
2019	3.0c	2.0c	-	5.0c	7.1c
2020	2.0c	2.0c	-	4.0c	5.7c
<b>TOTAL</b>	<b>46.5c</b>	<b>46.2c</b>	<b>11.5c</b>	<b>104.2c</b>	<b>147.9c</b>

\* Off market Equal access buy back

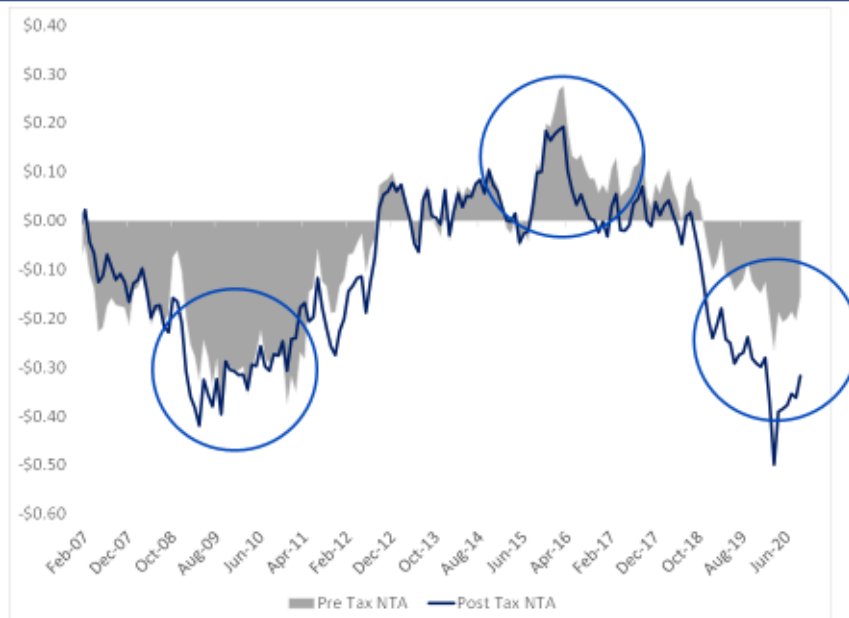
- 2.0 cps fully franked final dividend declared bringing the 2020 total dividend up to 4.0 cps
- Annualised dividend yield of 5.7% fully franked (8.1% grossed-up) based on the share price of \$0.705 as at date of announcement of the dividend.
- Ex date 19<sup>th</sup> Oct 20, Payment date 30<sup>th</sup> Oct 20
- No DRP as the shares are currently trading at a large discount to the underlying NTA per share

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## CDM Discount and Premium to NTA



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## Pre and Post Tax NTA

Net Tangible Assets as at 30th September 2020	Amount (\$)
Pre Tax NTA*	\$0.895
Post Tax NTA*	\$1.057
Share price (ASX Code: CDM)	\$0.740

\*Before the 2.0 c fully franked Final dividend being paid on 30th October 2020

- CDM's Post-Tax NTA is larger than its Pre-Tax NTA by 16 cents – representing a 16cps tax asset.
- This tax asset is due to both realised and unrealised tax losses. The Company can use these tax losses, as it so chooses, against future tax profits. Simply put the Company can earn approximately 53 cents in the future without paying tax.
- Potential investors in CDM can buy into a portfolio at around a 20% discount, with the added benefit that as the Company earns future profits, these profits will be tax free
- More recently the discount to NTA has started to close.

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## Portfolio Composition – 30 September

Market Capitalisation	Long	Short	Net
> AUD 1 Billion	46.1%	-0.8%	45.3%
AUD 500 Mill - AUD 1 Billion	20.2%		20.2%
AUD 250 Mill - AUD 500 Mill	4.3%		4.3%
AUD 100 Mill - AUD 250 Mill	2.7%		2.7%
0 - AUD 100 Mill *	5.5%		5.5%
	<b>78.8%</b>	<b>-0.8%</b>	<b>78.0%</b>

<b>Net Cash Holdings and Tax Asset</b>	<b>22.0%</b>
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\* Includes a pre-IPO investment in the Materials sector

- The liquidity of the portfolio has significantly improved with approximately 80% of the portfolio able to be liquidated within 1 week and 86% within a month.
- Concentration risk has significantly improved since 2018.

	2018	Now
Top 5 Positions	38.7%	19.6%
Top 10 Positions	53.2%	34.6%
Top 20 Positions	73.4%	57.0%

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## Top 20 Holdings – 30 September 2020

Code	Position*	Currency Exposure
9988 HK	Alibaba Group Holding Ltd	AUD
APE	AP Eagers Ltd	AUD
ARB	ARB Corp Ltd	AUD
CAR	Carsales.com Ltd	AUD
CCX	City Chic Collective Ltd	AUD
CGC	Costa Group Holdings Ltd	AUD
CCP	Credit Corp Group Ltd	AUD
**	Deegreen Metals	AUD
LYC	Lynas Corp Ltd	AUD
MQG	Macquarie Group Ltd	AUD
MNY	Money3 Corp Ltd	AUD
NVDA US	NVIDIA Corp	AUD
PINS US	Pinterest Inc	AUD
PBH	Pointsbet Holdings Ltd	AUD
QCOM US	Qualcomm Inc	AUD
RBL	Redbubble Ltd	AUD
REH	Reece Ltd	AUD
RMC	Resimac Group Ltd	AUD
SHI	Shine Corporate Ltd	AUD
UWL	Uniti Group Limited	AUD

\* In Alphabetical Order

\*\* A Pre-IPO investment in the Materials sector

A more  
diversified and  
more liquid  
portfolio

- We have been adding to both new and existing positions that have been performing well

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## Current Investment Themes

### The move to digital

- Structural trends related to digital transformation have been accelerated by COVID-19 due to working from home and social distancing restrictions
  - Established leaders such as Amazon, Apple, Google, and Alibaba were the initial beneficiaries of this demand given their dominant market positions
- Digital e-commerce platforms that were earlier stage in their commercialization have seen a more significant step-change in revenues and profitability
  - Redbubble – pre-covid revenue growth 26% and accelerated to 132% in July
  - Pinterest – pre-covid revenue growth 23% and accelerated to 50% in July, even as digital ad sales declined for traditional online platforms i.e. Facebook
- Businesses which provide the necessary infrastructure that support the online world have also seen significant uplifts in demand
  - Nvidia has seen a strong uplift across its business, particularly in its market leading data-centre products
  - Qualcomm & Xilinx have experienced strong early demand for their 5G technology as the 5G cycle starts to ramp-up

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## Current Investment Themes

### Auto industry recovery

- The auto recovery theme continues to play out, driven by boosted consumer discretionary cashflow and increased demand for personal over public transport and domestic touring
  - The redirection of spend from international travel and dining out has been a more significant driver than expected
  - Early super withdrawals, tax breaks, and other government stimulus programs also continue to play a part
- ARB Corporation is experiencing significant pent-up demand for its aftermarket accessories with a record order book that will take some time to work through. The International business is growing more quickly than domestic, showing similarities in consumer behaviour globally despite differing government support measures
- AP Eagers is seeing strong demand for new cars but limited stock availability across its network, leading to strong gross profit outcomes as the need to discount to clear stock has reduced
- Carsales is seeing strong buyer enquiry through its websites, with used car pricing now at all-time highs. Limited availability of stock is also playing a part, with listing volumes down y-on-y

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## Current Investment Themes

### Diversified Financials competing with the large banks

- The financial sector experienced one of the largest percentage declines in March as investors used the GFC experience as a measure of likely future performance
- Government support measures have had a significant positive impact on customer arrears and bad debts, as have people's ability to adapt to a changing environment
- Most lenders remain cautious in writing new business and have increased lending standards overall, but are becoming more aggressive in lending into less exposed segments
- Where the traditional 'Big 4' banks have curtailed lending, smaller more nimble players continue to take advantage of this e.g. RMC, MNY, AFG, CCP
- The housing market has generally remained resilient with the measures outlined in the federal budget likely to support the recovery in construction and development over the next 12 - 24 months
- Those businesses that adapt the best to changing circumstances are likely to see the greatest success

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## Current Investment Themes

### Oil Price Recovery

- This thematic did not play out as expected
- More than 50 US oil and gas companies filed for bankruptcy between April and June 2020
- In April, the demand for oil was 29 million barrels lower than a year earlier, this is a significant change in demand
- On April 12, OPEC agreed to a 9.7-million-barrel supply cut
- We scaled out of the following positions as the oil price continued to weigh heavily on the businesses – our final one third of each of these positions has been sold: WPL @\$20.98, STO @\$5.15, OSH @\$3.00
- It is likely that this theme will be revisited as and when planes, trains and automobiles once again become fully operational at levels seen before the COVID 19 pandemic
- The timing as always is unknown but is closer than it was six months ago

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## Outlook

- After a strong recovery from March, the market has become more volatile and range bound since June. US elections will likely create added volatility
- This has coincided with sentiment recovering from the deep fear of the lows in March, to shades of euphoria in recent months
- Investors continue to grapple with ongoing risks related to the pandemic and elevated valuations on one hand, and unprecedented support from governments and central banks and emerging signs of economic recovery on the other
- There is a significant market share opportunity in each sector as the recovery progresses. The gains will go to the best capitalised businesses that have adapted to the new environment
- Smaller, private businesses without access to capital markets or businesses which have not adjusted with the times are likely to cede share
- The 2020 Federal Budget is a significant positive for the Australian economy and will support the recovery over the next 12-24 months
- The fund's improved liquidity and diversification profile means it is well positioned to adjust to any changes in trends and scale in and out as required

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