

Cadence Capital Limited (ASX Code: CDM) Half Year Results Webcast

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In this webcast, Karl Siegling gives an update on the company's performance and the portfolio's composition. Jackson Aldridge and Charlie Gray then discuss the portfolio's top 20 holdings and the company's current investment themes. Karl Siegling then gives an update on DeepGreen Metals and finishes with the outlook for 2021.



Cadence Capital Limited



Half Year Results

- Record Profit before tax of \$68.7m
- Record Profit after tax of \$48.5m
- Fund gross performance of 27.7%, outperforming All Ordinaries Accumulation Index by 12.0%
- 2.0c fully franked Interim Dividend payable on the 13th May 2021
- Annualised Yield of 4.5% fully franked (6.5% gross including franking)
- Top contributors to performance were Resimac, Pinterest, Lynas, Money3, AP Eagers, Pointsbet, Credit Corp, ARB Corp, Redbubble, Qualcomm and Reece.
- The largest detractors from performance were short positions in Wisetech Global and Jumbo Interactive





YTD Performance

Gross Performance* to 31st January 2021	CDM	All Ords Accum	Outperformance
1 Month	3.5%	0.3%	+3.2%
YTD	32.2%	16.0%	+16.2%
1 Year	24.1%	-0.7%	+24.8%
3 Years (per annum)	1.4%	7.7%	-6.3%
5 Years (per annum)	4.5%	10.5%	-6.0%
8 Years (per annum)	6.3%	8.6%	-2.3%
10 Years (per annum)	9.7%	7.9%	+1.8%
Since Inception (15.3 years) (per annum)	12.7%	7.0%	+5.7%
Since Inception (15.3 years) (total return)	525.4%	181.1%	+344.3%

* Gross Performance before Management and Performance Fees

- Continued strong outperformance into January and February 2021
- The strong performance has been delivered across both new and existing positions, overseas and local positions, while the fund has been on average 80% invested over the past 7 months



Pre and Post Tax NTA

Net Tangible Assets Per Share as at 19th February 2021	Amount (\$)
Pre Tax NTA	\$1.08
Post Tax NTA	\$1.18
CDM Share Price as at 19th February 2021	\$0.93

- The CDM share price is up more than 160% since the March lows of 35 cents where the company's shares were trading below cash backing
- Share price discount to NTA has been improving from the nearly 40% discount reached at the panic lows in March 2020
- The Company has continued to implement its on-market share buy-back which increases the NTA per share for all existing CDM shareholders
- The Company has now bought back 23 million shares for total consideration of \$17m or \$0.74 per share
- Board and management, the largest shareholders, continue to add to their position in CDM
- The Company's tax asset per share is currently around 10 cents, from around 18 cents per share at FY20 year end. The Company can utilize this tax shield as and when it so chooses to



Portfolio Composition – 31 January 2021

Market Capitalisation	Long	Short	Net
> AUD 1Billion	48.4%		48.4%
AUD 500 Mill - AUD 1Billion	18.5%		18.5%
AUD 250 Mill - AUD 500 Mill	3.0%		3.0%
AUD 100 Mill - AUD 250 Mill	2.9%		2.9%
0 - AUD 100Mill *	3.4%		3.4%
	76.3%	0.0%	76.3%

Net Cash Holdings and Tax Asset 23.7%

* Includes a pre-IPO investment in the Materials sector

- Continued improvement in the liquidity and reduction of concentration risk of the portfolio
- Currently, more than 78% of the portfolio is able to be liquidated within one week, and over 87% of the portfolio within a month.
- The company currently holds around 55 positions with the largest position around 7% of the fund.
- Approximately 63% of the funds' positions are invested in Companies with a greater than one billion dollar market capitalization.

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Top 20 Holdings – 31 January 2021

Code	Position*	Currency Exposure
GOOGLUS	Alphabet Inc	AUD
APE	AP Eagers Ltd	AUD
ARB	ARB Corp Ltd	AUD
CAR	Carsales.com Ltd	AUD
CHN	Chalice Gold Mines Ltd	AUD
CGC	Costa Group Holdings Ltd	AUD
CCP	Credit Corp Group Ltd	AUD
**	Deeppgreen Metals	AUD
FSLY US	Fastly Inc	AUD
JLG	Johns Lyng Group	AUD
LYC	Lynas Corp Ltd	AUD
MNY	Money3 Corp Ltd	AUD
NTO	Nitro Software Ltd	AUD
PINS US	Pinterest Inc	AUD
PBH	Pointsbet Holdings Ltd	AUD
QCOM US	Qualcomm Inc	AUD
RBL	Redbubble Ltd	AUD
RMC	Resimac Group Ltd	AUD
SHJ	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

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Current Investment Themes

Digitization journey continues

- E-commerce business performance has started to diverge
 - Pinterest – has continued to accelerate with 76% revenue growth in the Dec quarter. It has a unique value proposition as a social commerce platform where users are buyers rather than browsers and ARPU remains extremely low vs. competitors
- Many technologies are helping consumers and businesses in the reopening phase
 - Google – Advertising spend bounced back stronger than expected in the Dec quarter with YouTube connected TV a standout. Google Cloud was also split out for the first time, showing near 50% growth in revenues year over year.
 - Pointsbet & Draftkings – Legalisation of sports betting in the US is gaining momentum as sports resume, consumers are cashed up, and many states look for additional sources of income. Our belief is the TAM is 2-3x of analyst expectations.
 - Redfin - Strongest US housing market post GFC has seen a significant uplift in transaction volumes. US listing process and costs are extremely dated, ripe for disruption from platforms such as Redfin and Zillow. For example, brokers have typically charged 6% listing fees.

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Current Investment Themes

Consumer spending boom

- The consumer spending boom has continued into 2021
- Australian households and businesses had an additional \$200bn in savings as at the end of November. Consumer confidence has recovered. AUD has strengthened.
- Shipping delays ongoing but likely to normalise. International border restrictions ongoing but light at end of the tunnel with successful vaccine rollout.
- ARB Corp – sales have continued to accelerate into 2021 with a catch-up in the domestic business complementing the high growth experienced globally. Order book continues to hit new highs, 2 or 3x normal levels. The new product pipeline and ongoing restrictions on international travel are supporting the demand profile.
- Baby Bunting - sales accelerated in January and February. The business is well positioned to benefit from a potential post-Covid baby boom. Ultrasounds are up 10% in the December quarter, and feedback suggests pre-natal products in pharmacies are up double-digit %.
- Sonos – has had two significant upgrades in the past few months. Covid has been a blessing in disguise for Sonos as it has forced the company to develop its direct-to-consumer channel, which now at nearly one third of sales has significantly improved group margins.

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Current Investment Themes

Housing recovery

- Historic lows in mortgage rates and significant fiscal stimulus is leading to a pickup in leading indicators for the property and construction industries
 - Building approvals were up 50% y-on-y in December, boosted by Homebuilder
- Across the financial sector more broadly bad debt performance has been much better than expected, leading to the reversal of the provisions many lenders recorded earlier in 2020.
- Refinance activity has also been very high. AFG reported home finance lodgements up 30% year on year in the December quarter.
- Resimac upgraded earnings in November and will benefit from continued growth in the home loan book and the positive impact of the RBA's policies on its net interest margin.
- Lifestyle Communities has seen sales rates accelerate in 2021 as restrictions have eased in Melbourne, with the company well positioned to deliver as it continued to build up inventory through Covid.
- Maas Group. Recent IPO with founder CEO driving the strategy. Significant opportunity to capitalise on regional NSW property demand and infrastructure spend.
- M&A activity has picked up recently, specifically for infrastructure assets such as BIN

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DeepGreen Metals Update

- On 4th March DeepGreen Metals announced its intention to list through a merger with Sustainable Opportunities Acquisition Corporation (NYSE Code: SOAC)
- The combined company will be renamed The Metals Company and is intended to begin trading under the NYSE code TMC
- CDM invested in Deepgreen several years ago as it was to list on the Canadian Stock exchange at that time
- CDM's DeepGreen Metals investment, is approximately 2.8% of the portfolio, and is valued at the weighted average cost of the most recent purchases made in FY2020
- The proposed listing is at a valuation substantially higher than our current valuation
- The transaction reflects a pro forma equity value for The Metals Company (TMC) of approximately US\$2.9 billion and enterprise value of US\$2.4 billion
- The recent raising of US\$ 330 million was done at a price of US\$10 per share. Our investment is currently valued at US\$1.38 per share.
- Upon listing this would equate to a substantial uplift in Pre and post tax NTA for CDM shares. This transaction is subject to shareholder and court approvals.
- ***Once the TMC shares are listed and trading freely we will value this investment at market price.***

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Outlook

- The ASX is approaching all time highs after a strong finish to 2020
- Synchronised global monetary and fiscal stimulus and a stronger than expected earnings recovery is a powerful combination that is continuing to drive up markets and encourage risk-taking
- Signs of market euphoria – emergence of retail traders in stocks such as Gamestop, crypto currency, concept stocks
- The main risk for financial markets is major global central banks reducing stimulus programs or raising interest rates
- Inflation expectations have increased in recent months, with commodity prices rallying and US bond yields recovering - an important trend to watch
- The Australian reopening experience could provide important lessons for the rest of the developed world
- We are finding a higher number of new investment opportunities offshore

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