

## **Cadence Capital Limited (ASX Code: CDM) March 2021 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 Company's current investment themes and positioning. Karl Siegling finishes with an update on Deepgreen Metals and the outlook for 2021.



# Cadence Capital Limited

## Quarterly Update March 2021



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## YTD Performance

| Gross Performance* to 31st March 2021       | CDM    | All Ords Accum | Outperformance |
|---|--------|----------------|----------------|
| 1 Month                                     | -1.4%  | 1.8%           | -3.2%          |
| YTD   | 33.8%  | 19.9%          | +13.9%         |
| 1 Year                                      | 60.3%  | 41.1%          | +19.2%         |
| 3 Years (per annum)                         | 2.3%   | 10.1%          | -7.8%          |
| 5 Years (per annum)                         | 6.6%   | 10.6%          | -4.0%          |
| 8 Years (per annum)                         | 6.1%   | 8.7%           | -2.6%          |
| 10 Years (per annum)                        | 9.3%   | 8.0%           | +1.3%          |
| Since Inception (15.5 years) (per annum)    | 12.6%  | 7.1%           | +5.5%          |
| Since Inception (15.5 years) (total return) | 533.2% | 190.3%         | +342.9%        |

\* Gross Performance: before Management and Performance Fees

- Continued strong outperformance into third quarter. YTD up 33.8% outperforming the index by 13.9%
- The YTD returns have been driven by investments across varying sectors, market capitalisations and geographies. For the year, the fund has been on average 77% invested.
- Biggest contributors to performance in the March Quarter were Bed, Bath & Beyond, Lynas Corp, Uniti Group, Cettire, Sonos and Chalice Gold Mines. Biggest detractors from performance were Nitro and Redfin.



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## Interim 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                  |
| 2021          | 2.0c         | -            | -            | 2.0c          | 2.9c                  |
| <b>TOTAL</b>  | <b>48.5c</b> | <b>46.2c</b> | <b>11.5c</b> | <b>106.2c</b> | <b>150.8c</b>         |

\* Off market Equal access buy back

- 2.0 cents fully franked interim dividend is payable on 13<sup>th</sup> May 2021.
- The Ex-Date for the dividend was the 29th April 2021.
- No dividend reinvestment program (DRP) for this dividend

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## Estimated Pre and Post Tax NTA

| Net Tangible Assets Per Share as at 30th April 2021 | Amount (\$) |
|---|-------------|
| Pre Tax NTA <sup>1*</sup>                           | \$1.08      |
| Post Tax NTA <sup>1*</sup>                          | \$1.18      |
| CDM Share Price as at 30th April 2021               | \$1.13      |

<sup>1</sup> After accruing for the 2.0c fully franked interim dividend payable on 13th May 2021

\* NTA's do not include the accretion of the DeepGreen Metals transaction announced on 5th March 2021

- 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 company's largest shareholders, continue to add to their position in CDM
- The Company's tax asset per share is currently around 10 cents, down from around 18 cents per share at FY20 year end

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## Portfolio Composition – 31 March 2021

| Market Capitalisation        | Long         | Short        | Net          |
|------------------------------|--------------|--------------|--------------|
| > AUD 1 Billion              | 45.8%        | -2.6%        | 43.2%        |
| AUD 500 Mill - AUD 1 Billion | 20.1%        |              | 20.1%        |
| AUD 250 Mill - AUD 500 Mill  | 1.0%         |              | 1.0%         |
| AUD 100 Mill - AUD 250 Mill  | 3.2%         |              | 3.2%         |
| 0 - AUD 100 Mill *           | 3.5%         |              | 3.5%         |
|                              | <b>73.6%</b> | <b>-2.6%</b> | <b>71.0%</b> |

|  |              |
|--|--------------|
| <b>Net Cash Holdings and Tax Asset</b> | <b>29.0%</b> |
|--|--------------|

\* Includes the pre-IPO investment in DeepGreen Metals

- Improvement in the liquidity and reduction of concentration risk of the portfolio
- Currently, more than 81% of the portfolio is able to be liquidated within one week, and over 92% of the portfolio within a month.
- The company currently holds around 50 positions over 0.5% with the largest position around 6% of the fund.
- Approximately 62% of CDM's invested portfolio is invested in Companies with a greater than one billion dollar market capitalization.

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## Top 20 Holdings – 31 March 2021

| Code     | Position*                      | Currency Exposure |
|----------|--------------------------------|-------------------|
| GOOGLUS  | Alphabet Inc                   | AUD               |
| ARB      | ARB Corp Ltd                   | AUD               |
| BBN      | Baby Bunting Group Ltd         | AUD               |
| BBBY US  | Bed Bath & Beyond Inc          | AUD               |
| BET      | Betmakers Technology Group Ltd | AUD               |
| CHN      | Chalice Gold Mines Ltd         | AUD               |
| CGC      | Costa Group Holdings Ltd       | AUD               |
| CCP      | Credit Corp Group Ltd          | AUD               |
| **       | Deepgreen Metals               | AUD               |
| DKNG US  | Draftkings Inc                 | AUD               |
| EML      | EML Payments Ltd               | AUD               |
| JLG      | Johns Lyng Group               | AUD               |
| LYC      | Lynas Corp Ltd                 | AUD               |
| MNY      | Money3 Corp Ltd                | AUD               |
| PIN S US | Pinterest Inc                  | AUD               |
| RMC      | Resimac Group Ltd              | AUD               |
| SONO US  | Sonos Inc                      | AUD               |
| TYR      | Tyro Payments Ltd              | AUD               |
| UWL      | Uniti Group Limited            | AUD               |
| WHC      | Whitehaven Coal Ltd            | 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

### Small cap specifics

- Uniti Wireless (UWL) – contracted fibre builds expected to double earnings over the next few years.
- Nitro Software (NTO) – SaaS transition is over halfway, with 61% of total revenue subscription based, growing at 66% y/y. 90% gross margins, with good cash flow and \$54m cash on balance sheet for M+A
- Life 360 (360) – Safety and location sharing app with over 26 million MAU, with currently 900k paying users. 80% gross margins, and screens attractively to listed comps.
- Cettire (CTT) – Online luxury retailer with 90% of sales internationally. High growth, disruptive business with 319% customer growth and 479% revenue growth y/y. Founder with skin in the game and early stages of tech improvements to drive higher efficiencies in the business and conversion ratio 1% vs. global comp ~4%

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## Current Investment Themes

### The two sides of the great reopening – consumer facing

- Consumers and businesses have built up significant savings and the pent-up demand is being released into the economy as covid restrictions are removed
- Google (GOOGL US) – Benefiting from a strong cyclical recovery in the ads business while executing on the significant long-term opportunity in Youtube and Google Cloud. Trading on less than 25x PE ex-cash
- Crocs (CROX US) – Global niche footwear brand enjoying a resurgence in popularity. Despite the recent rally the stock trades cheaply at 17x PE while generating over 50% EPS growth
- Atomos (AMS) – The sales opportunity has improved significantly from prior to Covid for this camera technology business yet the share price is still 50% down. Sales are already back to pre-covid highs with only a few cylinders firing

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## Current Investment Themes

### The two sides of the great reopening – supply chain facing

- Supply chains have not been able to keep up with the significant boost in demand experienced across many sectors
- This combined with constrained supply in many commodities and inputs is leading to substantial increases in prices
- Bluescope (BSL) - Hot rolled coil price has doubled in the last four months with nearly all customer verticals experiencing strong demand. Order books at records for remainder of 2021.
- Freeport McMoran (FCX US) - One of the few copper miners of scale globally with significant production growth across high-quality long-term assets.
- Other stocks within portfolio: BLD, MGH, LIC, BIN

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## DeepGreen Metals Investment Update

- On 4<sup>th</sup> 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'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. Currently NTA announcements do not include the accretion of this corporate action***

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## Outlook

- Major global stock market indices have continued to grind higher despite some tests in recent months
- Some of these include potential US tax hikes, the increase in long term US bond yields, signs of meaningful inflation in input costs, the bust of a highly leveraged US hedge fund, and resurgence of Covid in India and other developing countries
- On the other hand, monetary policy from major central banks remains highly accommodative, and economic data is showing significant strength, particularly in the US and Australia
- This has led to significant rotation occurring within the financial markets. Last year's top performers, the 'Covid winners', in many cases have been sold off while 'Covid recovery' trades have performed
- We continue to focus on potential investments on a case-by-case basis, and are finding opportunities across a broad range of sectors
- We are starting to gain more traction with short positions
- Cash levels have increased in the fund as there are fewer stocks that are trending

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