Cadence Capital Limited (ASX Code: CDM)
December 2021 Half Year Webcast (Audiocast)

In this half year audiocast, Karl Siegling firstly provides an update on the Company's half year results, fully franked interim dividend and the portfolio's composition. Charlie Gray and Jackson Aldridge then discuss some of the Company's investment themes and positions held. Karl Siegling finishes with an update on the outlook for 2022.

You can listen to the audiocast at https://www.cadencecapital.com.au/ccl-dec-2021-webcast/

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Cadence Capital Limited

December 2021 Half Year Webcast (Audiocast)



Karl Siegling
Portfolio Manager

Charlie Gray
Portfolio Manager

Jackson Aldridge
Portfolio Manager

Half Year Performance

Gross Performance* to 31st December 2021	CDM	All Ords Accum	Outperformance
1 Month	-2.7%	2.7%	-5.4%
YTD	10.2%	4.6%	+5.6%
1 Year	23.7%	17.7%	+6.0%
3 Years (per annum)	14.2%	14.8%	-0.6%
5 Years (per annum)	8.5%	10.4%	-1.9%
8 Years (per annum)	6.5%	9.0%	-2.5%
10 Years (per annum)	9.0%	11.0%	-2.0%
Since Inception (16.3 years) (per annum)	13.2%	7.6%	+5.4%
Since Inception (16.3 years) (total return)	647.0%	229.9%	+417.1%

* Gross Performance before Management and Performance Fees

- Half Year gross performance of +10.2%, outperforming All Ords.Accum. Index by 5.6%
- Past two years fund is up 46.8% outperforming All Ords Accum. Index by 24.8%
- Top contributors to performance were TMC The Metals Group, Upstart, DigitalOcean, Johns Lyng, Life360, Uniti Group, Asana and Whitehaven Coal
- The largest detractors from performance were Resimac, Bed Bath and Beyond and Nitro Software
- One third of TMC has already been sold realising approximately 7x the cost of the original investment. This one third sale alone has realised a profit on the entire investment

For more information contact Cadence Capital Limited on 02 8298 2444 or email info@cadencecapital.com.au

Half Year 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	3.0c	-	5.0c	7.1c
2022	4.0c	-	-	4.0c	5.7c
TOTAL	52.5c	49.2c	11.5c	113.2c	160.7c

*Off market Equal access buy back

Half Year Dividend

- 4.0c fully franked Interim Dividend- 100% increase on previous half year dividend
- Annualised Yield of 8.2% fully franked (11.7% gross including franking) based on share price on date of the announcement of $0.98
- Importantly this equated to a 7% dividend yield based on the pretax NTA of $1.14, as CDM shares are trading at a discount to NTA
- The Company is well positioned to pay an increased dividend. After paying this dividend the Company still has 30 cents per share of profits reserves to pay future dividends
- The Ex-Date is the 31st March 2022 and payment date is the 14th April 2022
- Dividend Reinvestment Program (DRP) will be operational for the half year dividend. There will be no DRP discount applied
- The Company is able to reissue shares that it purchased in the on-market buy-back at an average price of $0.768 per share. The profits from the on-market buy-back benefit all existing shareholders.

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Pre and Post Tax NTA

Net Tangible Assets Per Share as at 25 February 2022	Amount ($)
Pre Tax NTA*	$1.08
Post Tax NTA*	$1.19
CDM Share Price as at 25 February 2022*	$1.00

*Before the 4.0c fully franked interim dividend going Ex 31 March 2022

- Share price discount to NTA has been improving from the nearly 40% discount reached at the panic lows in March 2020
- CDM trading at 7% discount to Pre Tax NTA and 16% discount to Post Tax NTA
- Opportunity to purchase CDM shares at a discount and receive a high fully franked yield
- Board and management, the largest shareholders, continue to add to their positions in CDM

Portfolio Composition 31 December 2021

Market Capitalisation	Long	Short	Net
> AUD 1 Billion	56.5%	-1.1%	55.4%
AUD 500 Mill - AUD 1 Billion	13.7%		13.7%
AUD 250 Mill - AUD 500 Mill	2.0%		2.0%
AUD 100 Mill - AUD 250 Mill	0.4%		0.4%
0 - AUD 100 Mill *	0.4%		0.4%
	73.0%	**-1.1%**	**71.9%**
Net Cash Holdings and Tax Asset			**28.1%**

- CDM has a very liquid and diversified portfolio
- Currently, more than 92% of the portfolio is able to be liquidated within one week, and over 97% of the portfolio within a month.
- The company currently holds around 50 positions with the largest position 7% of the fund.
- Approximately 77% of the funds gross exposure is in Companies with a greater than one billion dollar market capitalisation.

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Top 20 Holdings – 31 December 2021

Code	Position*	Direction	Currency Exposure
GOOGL US	Alphabet Inc	Long	AUD
ALQ	ALS Limited	Long	AUD
BHP	BHP Group Ltd	Long	AUD
CAR	Carsales.com Ltd	Long	AUD
CIA	Champion Iron Ltd	Long	AUD
CCP	Credit Corp Group Ltd	Long	AUD
FMG	Fortescue Metals Group Ltd	Long	AUD
JLG	Johns Lyng Group	Long	AUD
LRCX US	Lam Research Corp	Long	AUD
MGH	Maas Group Holdings Ltd	Long	AUD
MIN	Mineral Resources Ltd	Long	AUD
MNY	Money3 Corp Ltd	Long	AUD
NHC	New Hope Corp Ltd	Long	AUD
OZL	OZ Minerals Ltd	Long	AUD
QCOM US	Qualcomm Inc	Long	AUD
RMC	Resimac Group Ltd	Long	AUD
TMC US	TMC The Metals Company Inc	Long	AUD
TUA	Tuas Limited	Long	AUD
UWL	Uniti Group Limited	Long	AUD
WHC	Whitehaven Coal Ltd	Long	AUD

*In Alphabetical Order

A diversified and very liquid portfolio

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Top 20 Holdings – 28 February 2022

Code	Position*	Direction	Currency Exposure
BHP	BHP Group Ltd	Long	AUD
CF US	CF Industries	Long	AUD
CIA	Champion Iron Ltd	Long	AUD
CCP	Credit Corp Group Ltd	Long	AUD
DVN US	Devon Energy	Long	AUD
ILU	Iluka Resources	Long	AUD
MGH	Maas Group Holdings Ltd	Long	AUD
MU US	Micron Technology	Long	AUD
MNY	Money3 Corp Ltd	Long	AUD
MOS US	Mosaic	Long	AUD
NHC	New Hope Corp	Long	AUD
RTX US	Raytheon Technologies	Long	AUD
RMC	Resimac Group Ltd	Long	AUD
SLB US	Schlumberger Ltd	Long	AUD
S32	South32	Long	AUD
TMC US	TMC The Metals Company Inc	Long	AUD
TUA	Tuas Limited	Long	AUD
UWL	Uniti Group Limited	Long	AUD
WHC	Whitehaven Coal Ltd	Long	AUD
WPL	Woodside Petroleum Ltd	Long	AUD

*In Alphabetical Order

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Current Investment Themes

Interest Rates

- Bond yields have increased significantly in recent months reflecting central bank commentary and ongoing elevated inflation data
- This is potentially a reversal in a very long-term trend that has benefitted asset prices and affordability

Investing for higher inflation and interest rates

- Should we be entering a period of higher inflation and interest rates, the assets that perform best will be different from those that have performed well in recent years
  - Companies that benefit from inflation and increasing prices (Resources and Energy)
  - Businesses with pricing power and high margins on reasonable valuations
  - Shorting will play a more important role
  - Price Earnings (PE) compression an increasing feature
  - The portfolio has seen significant turnover and repositioning activity over the last three months as we have seen these themes manifest in changes to price trends

Current Investment Themes

Commodity bull market - Oil & Gas

- Demand is recovering as world economies reopen
- Supply has been disrupted by the recent tragic events in Ukraine, aggravating an already tight demand/supply situation
- Not seeing much increase from OPEC & US Shale the two major swing producers
  - OPEC has had issues in recent months producing even at reduced quota levels
  - US Shale is singing from capex discipline songbook after downcycle - rig count down 40% on pre-covid levels, with well inventories down 50% on mid 2020
- Sanctions on Russian Oil & possible Iran deal wildcards
- Our view is elevated oil prices for much of 2022, will take time to change attitude to capex and bring any material projects on globally. Demand destruction is a risk.
- WPL our core O&G holding; globally strategic LNG asset, with BHP acquisition a game changer. Stock still trading 10x PE, 50% below previous bull cycles
- Other holdings: DVN US, SLB US, HAL US, WLL US, KAR

Current Investment Themes

Commodity bull market – Thermal Coal

- A deeply unloved and out of favour sector that has come back into the spotlight with the current global energy crisis
- Decade of underinvestment and neglect has led to limited ability to respond to demand and disruptions to the global supply chain
- At current spot prices these companies are paying back their market capitalisations within six to twelve months
- Scope for significant capital returns on the back of these super profits
- While prices likely to moderate, believe market underestimating how long it will take for supply to respond in material way– financing, environmental, social restrictions
- WHC & NHC have been core positions in the portfolio for some time

Current Investment Themes

Commodity bull market – The rest

- Supply disruptions and very low inventories a common theme amonga number of other key commodities: Aluminium, copper, zinc, nickel, coking coal
- At the same time demand increasing, leading to significant supply/demand imbalances
- S32, the spin-off from BHP in 2015, has made good progress in restructuring its portfolio to be 'future-facing' and is amongst the cheapest major miners globally trading at 7x PE. We believe it should re-rate closer to 'future-facing' mining peers over time
- Also in the portfolio are BHP, CIA, TECK US, CRN, ILU
- Fertiliser input prices are surging after a long bear market– supply disruptions, export restrictions, energy cost escalation meeting strong demand given high crop prices and generally favourable growing conditions globally
- In the portfolio are global leaders MOS US and CF US who are strategically positioned in the US with low-cost gas supply. These stocks are showing strong technical action and continue to trade cheaply at 7x PE, less than half the multiples reached in prior cycles, with ongoing capital management likely

Current Investment Themes

Travel/Leisure:

- Vaccines and "herd immunity" have helped the panic and spread of COVID subside – resulting in borders opening globally
- Much like retail spend in 2020/2021 – there could be a post covid surge in leisure and travel spend
- Travel/Leisure businesses have had to adjust their business models/cost bases just to survive – as volume returns, these businesses should experience higher margins than pre covid.
  - FLT – restructuring their retail leisure store network by closing stores, shifting traffic to online, etc - management is targeting to nearly double PBT/TTV Margin
- A number of undercapitalized/unlisted travel businesses are suffering
  - WEB - #1 B2B player WebBeds experiencing financial hardship, with potential to cede significant amounts of market share

Current Investment Themes

Shorts:

- Multiple expansion and then multiple compression:
  - As interest rates fell to record low levels in 2020 – a number of stocks/sectors experienced extreme <u>multiple expansion</u> – NET US traded on 100x revenue!
  - However, as the US 10 year yield has recovered and inflation has remained elevated, these same stocks have experienced <u>margin compression</u> – NET US is trading on 45x revenue still
- One off COVID beneficiaries:
  - Some companies experienced significant revenue growth and/or huge margin improvement that was never going to be sustainable – CHWY US, PTON US, ALGN US
- Structural or stock specific issues:
  - Poor acquisitions – TDOC US, WRBY US
- Share prices dislocated from reality:
  - Meme stocks, fads, extreme euphoria – AMC US, GME US, RIVN US

Outlook

- The final quarter of 2021 saw a marked change in performance of markets globally
- We may have seen a reversal in interest rates that have been falling for 30 years
- The strong trends experienced in high-valuation growth-style stocks for much of the last two years in many cases reversed (interest rate sensitive)
- At the same time, trends across the resources and energy sectors have improved with increased participation and breadth (inflation 'winners')
- The portfolio's construction has changed significantly to align with these developments
- A period of increasing interest rates and elevated inflation will lead to different types of stocks performing relative to what we have seen in recent years
- There will be opportunities in stocks that get 'caught up' in the selling after they have finished falling and begin to recover
- Shorting and high levels of cash will play an important role
- Liquidity levels are very high in the portfolio as flexibility in this period will be key

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