Cadence Capital Limited (ASX Code: CDM)
March 2022 Quarterly Webcast (Audiocast)

In this quarterly audiocast, Karl Siegling firstly provides an update on the Company’s performance, fully franked interim dividend, the portfolio’s composition and the funds current cash levels. Charlie Gray and Jackson Aldridge then discuss some of the company’s investment themes and it’s positions held in AGL, AMP and 5 coal stocks. Karl Siegling finishes with an update on the outlook for 2022.

You can listen to the audiocast at https://www.cadencecapital.com.au/ccl-mar-2022-webcast/

Cadence Capital Limited

March 2022 Quarterly Update

(Audiocast)

Karl Siegling
Portfolio Manager

Charlie Gray
Portfolio Manager

Jackson Aldridge
Portfolio Manager

YTD Performance

Gross Performance* to 30th April 2022	CDM	All Ords Accum	Outperformance
1 Month	-1.1%	-0.8%	-0.3%
YTD	7.6%	5.4%	+2.2%
1 Year	10.4%	10.2%	+0.2%
2 Years (per annum)	29.9%	21.5%	+8.4%
3 Years (per annum)	11.3%	10.2%	+1.1%
5 Years (per annum)	7.2%	9.5%	-2.3%
10 Years (per annum)	8.1%	10.0%	-1.9%
Since Inception (16.6 years) (per annum)	12.7%	7.5%	+5.2%
Since Inception (16.6 years) (total return)	628.9%	232.5%	+396.4%

* Gross Performance: before Management and Performance Fees

- YTD gross performance of +7.6%, outperforming All Ords. Accum. Index by 2.2%
- Past two years fund is up 29.9% per annum outperforming All Ords. Accum. Index by 8.4% pa
- YTD top contributors to performance have been TMC The Metals Group, Whitehaven Coal, New Hope, Upstart, DigitalOcean, Johns Lyng Group and Champion Iron.
- YTD the largest detractors from performance have been Resimac, Bed Bath and Beyond and Nitro Software
- All of TMC The Metals Group has been sold. Overall CDM realised a substantial profit on this investment

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

Dividend

- 4.0c fully franked Interim Dividend was paid on 14th April 2022- 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 around a 7% dividend yield based on the pre-tax NTA 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
- Dividend Reinvestment Program (DRP) was operational for the half year dividend with a good participation from shareholders.

Pre and Post Tax NTA

Net Tangible Assets Per Share as at 13 May 2022	Amount ($)
Pre Tax NTA*	$1.04
Post Tax NTA*	$1.15
CDM Share Price as at 13 May 2022*	$0.95

*After the 4.0c fully franked interim dividend paid 14 April 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 9% discount to Pre Tax NTA and 17% 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 30 April 2022

Market Capitalisation	Long	Short	Net
> AUD 1 Billion	64.1%	-4.1%	60.0%
AUD 500 Mill - AUD 1 Billion	7.1%		7.1%
AUD 250 Mill - AUD 500 Mill	3.8%		3.8%
AUD 100 Mill - AUD 250 Mill	0.5%		0.5%
0 - AUD 100 Mill	0.4%		0.4%
	75.9%	**-4.1%**	**71.8%**

- Approximately 85% of the funds gross exposure is in Companies with a greater than one billion dollar market capitalisation.
- The liquidity of the CDM portfolio has improved substantially over the past few years
- Currently, more than 95% of the portfolio is able to be liquidated within one week, and over 98% of the portfolio within a month.

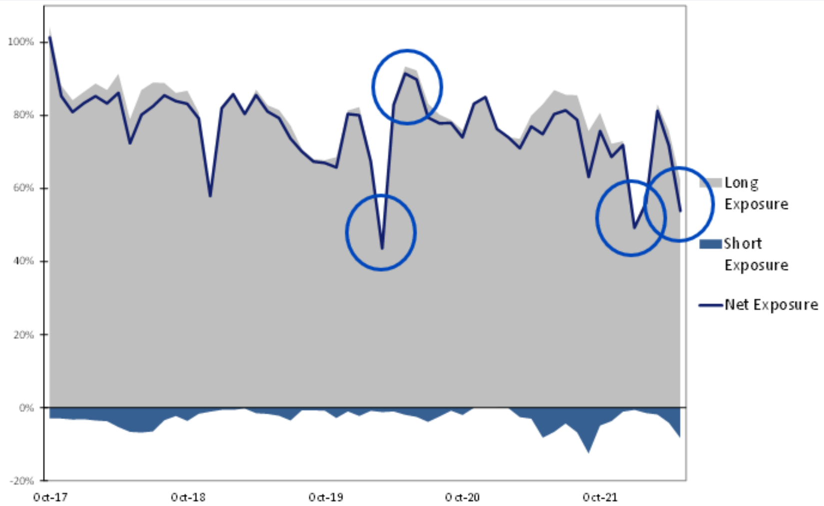
Top 20 Holdings – 30 April 2022

Code	Position*	Direction	Currency Exposure
AGL	AGL Energy Ltd	Long	AUD
BHP	BHP Group Ltd	Long	AUD
BOE	Boss Energy Ltd	Long	AUD
CIA	Champion Iron Ltd	Long	AUD
CRN	Coronado Global Resources	Long	AUD
DAR US	Darling Ingredients Inc	Long	AUD
FLT AU	Flight Centre Travel Group	Long	AUD
MGH	Maas Group Holdings Ltd	Long	AUD
MOS US	Mosaic Co	Long	AUD
NHC	New Hope Corp Ltd	Long	AUD
BTU US	Peabody Energy Corp	Long	AUD
RMC	Resimac Group Ltd	Long	AUD
SLB US	Schlumberger Ltd	Long	AUD
SHL	Sonic Healthcare Ltd	Long	AUD
S32	South32 Ltd	Long	AUD
SMR	Stanmore Coal Ltd	Long	AUD
TER	Terracom Ltd	Long	AUD
WEB	Webjet Ltd	Long	AUD
WHC	Whitehaven Coal Ltd	Long	AUD
WPL	Woodside Petroleum Ltd	Long	AUD

* In Alphabetical Order

A portfolio that is very different to 6 months ago

CDM moving into and out of cash



- Our investment process moves the fund into and out of cash as the share prices of the underlying investments in the fund move downwards and upwards respectively - CDM shareholders exposure to equity markets is reduced as CDM moves into cash.
- Portfolio currently at around 45% in cash (and equivalents)

Current Investment Themes

Interest rates and inflation

- The theme of higher interest rates and elevated inflation has built momentum in 2022
- The major changes in sector trends we outlined in 2021 has also continued
  - Resources & energy strength
  - Technology & small cap weakness
- More recently we have seen more sectors roll over and trend lower
  - Mega-cap technology (AAPL, TSLA, GOOGL, MSFT, FB… etc)
  - Semiconductors
  - Financials
- The performance of broad market indices has started to ‘catch up’ to the underlying weakness that has been building over the past six to twelve months; NASDAQ down 27%, S&P 500 down 17%
- Price earnings (PE) compression has become an increasing feature as investors look to higher interest rates and a more challenging outlook for earnings growth for many businesses
- Forward PE for S&P 500 back to 17x… back to the 10-year average

Current Investment Themes

Investing for higher rates and inflation

- The portfolio has changed significantly over the past 6 months as these trends have evolved
- Energy has grown to become 40% of the portfolio; one of the last strong sector uptrends
- Capital preservation; on average 30% cash over past six months, currently 40%
- Higher focus on ‘Core’ positions – valuations matter again
- Watching for changes in trend and improvement in breadth
- ‘Bottom-up’ fundamental research identifying special situations not tied to general conditions
- Increased shorting activity; no longer a ‘rising tide’ environment
- Maintaining high levels of liquidity to respond quickly to changes in conditions

Current Investment Themes

Commodity bull market – energy leading

- Mining sector has corrected recently; cost & staff pressures, questions over demand outlook
- Energy sector has held up; demand less discretionary, supply situation remains heavily disrupted
- Coal sector despite recent strong performance remains very cheap at spot prices
  - WHC – 1.5x PE, 76% FCF yield
  - NHC – 2.0x PE, 60% FCF yield
  - SMR – 2.0x PE, 138% FCF yield
  - CRN – 1.1x PE, 109% FCF yield
  - TER – 1.1x PE, 49% FCF yield
- While pricing will eventually moderate… it may take longer than many expect. In the meantime there is a significant capital return opportunity
  - CRN announced a 17c special dividend out of cycle after 13c for the first half (14% pre-final)
  - NHC paid 30c for the 1H (10% yield ff)… 2H dividend could be over $1 p/share fully franked on same payout methodology (over $500m in excess franking credits)

AGL Energy – Core Position (Long)

AGL Shares are currently trading 70% off their highs – mismanagement, ESG issues and electricity market dynamics have seen the shares collapse

3 things have changed recently:

- Brookfield/Grok Bid(s):
  - $7.50 initial, revised to $8.25 and since taken an 11.5% stake in the stock
  - Brookfield has form in the space with recent acquisitions
- Demerger or no demerger, there is value greater than the share price in these assets
  - AGL has the largest portfolio of renewable assets in Australia ($4.5bn CAPEX).
  - Proposed AGL Australia is highly profitable and the book of customers could provide numerous synergies for a potential owners.
  - Combined entity will potentially generate $1bn+ FCF and over $3bn of NTA
  - JV between Accel Energy + Global infrastructure partners highlights a clear push toward renewables
- Wholesale Electricity pricing is very strong
  - +67% in the first quarter of 2022 to $87/Megawatt, and since rallied to $150
  - AGL has fixed coal contracts out until 2028 – potential $250m EBITDA tailwind
  - FY24 of 5x PE, PEG of <1 and 17% operating cash flow yield

AMP Capital – Core Position (Long)

Huge Amounts of Excess Capital:

- Recent divestments (Collimate, GEFI), existing seed capital, current excess liquidity balance - approximately $1.3bn
- Over the next 12-18 months there is still management rights (Real estate and Infrastructure Equity), carried interest from Infrastructure Equity and a potential earnout from the Dexus Deal – approximately $1bn
- FY22 expected cash flow for core business – approximately $200m
    - ***Subtotal of $2.5bn excess liquidity***
- AMP has confirmed using $200-$400m to pay down debt
    - **Net excess liquidity post debt repayment of $300m = $2.2bn**
    - **Or ~68c/per share**
- Remaining 'stub' is the core business of AMP Bank, AMP wealth, AMP NZ and minority stakes in AMP china – this combined entity is on track from $250m NPAT FY23
    - At current share price this business is valued at 4.3x PE
- AMP will be removed from ASX100 – a number of ex 100 funds will need to own this stock

Outlook

- Global financial markets have continued to trend lower in recent months
- Australia has outperformed its international peers; higher weightings to resources and defensive sectors and less weightings in technology and 'growth stocks'
- Interest rates and inflation trends globally remain the key driver of financial markets
- The RBA lifted interest rates in May and has signalled further increases. Similarly Central Banks around the world are lifting interest rates.
- The outlook for consumer demand is becoming more challenging; higher costs for businesses & households
- Trends in the resources sector have diverged with energy remaining the clear leader. This is a trend that emerged almost a year ago.
- Finding opportunities in stock specific situations not tied to general economic conditions
- Maintaining high cash and liquidity levels is also preserving our capital
- An open mandate and ability to move in and out of cash are important in these market conditions

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