

Cadence Opportunities Fund (ASX Code: CDO) 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 the company's trading statistics, investment themes and some of its current long and short holdings. Karl Siegling finishes with an update on the outlook for 2022.

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



Cadence Opportunities Fund Limited

March 2022 Quarterly Update (Audiocast)



Karl Siegling
Portfolio Manager



Charlie Gray
Portfolio Manager



Jackson Aldridge
Portfolio Manager



YTD Performance – 30 April 2022

Gross Performance* to 30th April 2022		CDO	Fund Attributes	
1 Month		0.1%	Pre Tax NTA	\$2.557
YTD		19.4%	Post Tax NTA	\$2.527
1 Year		24.5%	Share Price	\$2.690
2 Years (per annum)		69.2%	Dividend Yield (2022)	5.1%
Since Inception (per annum)		48.6%	Gross Yield (2022)	7.3%
Since Inception (3.3 years) (total return)		274.3%	All Ords Accum. Index - since Inception	51.6%

* Gross Performance: before Management and Performance Fees

- YTD gross performance of +19.4%, outperforming All Ords. Accum. Index by 14.0%.
- Since inception fund is up 274.3% outperforming All Ords. Accum. Index by 222.7%.
- YTD top contributors to performance have been Whitehaven Coal, Tuas, Stanmore Coal, Upstart, TMC the Metals Co., Champion Iron, New Hope Corp and DigitalOcean.
- YTD the largest detractors from performance have been Nitro Software, Betmakers Technology and Bed Bath and Beyond.



Half Year Dividend

- 7.5c fully franked Interim Dividend was paid on 14th April 2022
- An annualised increase of 25% on last year's ordinary dividends
- Annualised yield of 5.1% fully franked (7.3% gross including franking) based on share price of \$2.94 on date of the announcement.
- The Company is well positioned to pay an increased dividend. After paying this dividend the Company still has more than 50 cents per share of profits reserves to pay future dividends.
- Dividend Reinvestment Program (DRP) was operational for the half year dividend with strong participation from shareholders.

3



CDO Holdings as at 30 April 2022

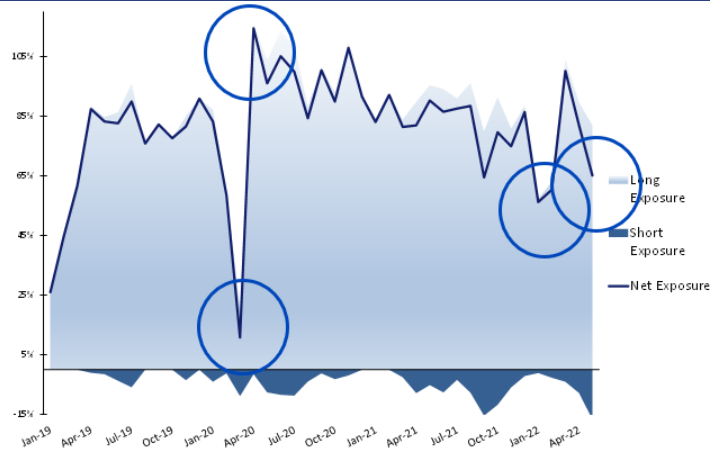
Stock Code	Position	Direction	Exposure	Stock Code	Position	Direction	Exposure
AKE	Allkem Ltd	Long	AUD	MAY	Melbana Energy Ltd	Long	AUD
AMP	AMP Ltd	Long	AUD	MOS US	Mosaic Co	Long	AUD
ABB	Aussie Broadband Pty Ltd	Long	AUD	NHC	New Hope Corp Ltd	Long	AUD
BHP	BHP Group Ltd	Long	AUD	PDN	Paladin Energy Ltd	Long	AUD
BOE	Boss Energy Ltd	Long	AUD	PIPR US	Piper Sandler Cos	Short	AUD
BCB	Bowen Coking Coal Ltd	Long	AUD	POD	Podium Minerals Ltd	Long	AUD
CXL	Calix Ltd	Long	AUD	RED	Red 5 Ltd	Long	AUD
CWH US	Camping World Holdings Inc	Short	AUD	STO	Santos Ltd	Long	AUD
CF US	CF Industries Holdings Inc	Long	AUD	SLB US	Schlumberger Ltd	Long	AUD
CIA	Champion Iron Ltd	Long	AUD	SHV	Select Harvests Ltd	Long	AUD
CRN	Coronado Global Resources	Long	AUD	SWM	Seven West Media Ltd	Long	AUD
DAR US	Darling Ingredients Inc	Long	AUD	SHL	Sonic Healthcare Ltd	Long	AUD
FSLR US	First Solar Inc	Long	AUD	SMR	Stanmore Resources Ltd	Long	AUD
FLT	Flight Centre Travel Group Ltd	Long	AUD	TER	Terracom Ltd	Long	AUD
GT1	Green Technology Metals Ltd	Long	AUD	TGH	Textainer Group Holdings Ltd	Short	AUD
HAL US	Halliburton Co	Long	AUD	TIE	Tietto Minerals Ltd	Long	AUD
JRV	Jervois Mining Ltd	Long	AUD	TUA	Tuas Ltd	Long	AUD
JOY CN	Journey Energy Inc	Long	AUD	WEB	Webjet Ltd	Long	AUD
KAR	Karoon Energy Ltd	Long	AUD	WBC	Westpac Banking Corp	Short	AUD
LIC	Lifestyle Communities Ltd	Short	AUD	WHR US	Whirlpool Corp	Short	AUD
LM8	Lunnon Metals Ltd	Long	AUD	WHC	Whitehaven Coal Ltd	Long	AUD
MFG	Magellan Financial Group Ltd	Short	AUD	WPL	Woodside Petroleum Ltd	Long	AUD

4





Portfolio Exposure



- A reminder that the CDO 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 – CDO shareholders exposure to equity markets is reduced as CDO moves into cash
- Portfolio currently at around 35% in cash

5



Trading Statistics

Fund Trading Statistics	FY20	FY21	FY22 (Apr 30th)
Portfolio return	44.4%	98.4%	19.4%
Total Positions	219	268	251
Winners	115	148	91
Losers	104	120	160
Win Rate	52.5%	55.2%	36.3%
Win Loss \$ Ratio	2.45	3.16	2.38
Turnover	7.8x	9.1x	6.1x
Largest position size (Approx)	6.5%	6.8%	7.9%
Average Gross Exposure	87%	98%	91%
Average Net Exposure	81%	91%	77%

Statistics show

- Win rate has fallen as market breadth has dropped significantly
- Win loss ratio >2. The fund is adding to winning positions and cutting losers
- Average of 23% cash level
- Turnover remains high – true to the trading strategy of the fund

6





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, AMZN, 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

7



Current Investment Themes

Investing for higher rates and inflation

- The portfolio has changed significantly over the past 6 months as these trends have evolved
- How we have been approaching this environment:
 - Inflation 'winners'; Energy & resources currently over 50% of portfolio
 - Capital preservation; on average 30% cash over past six months, currently 35%
 - Avoid downtrends; watching for changes in trend and improvement in breadth
 - Equity raisings & sell-downs in selective situations
 - Increased shorting activity; no longer a 'rising tide' environment
 - Maintaining high levels of liquidity

8





Current Investment Themes

Energy sector strength

- The trends in energy continued to build momentum in 1Q22
- The world is scrambling to reshuffle global energy supply chains in response to Russian sanctions
- There remains significant challenges in bringing on any material new supply in the near term
- Demand in many cases is essential, and is less price sensitive than some other commodities
- ASX listed Coal stocks continue to show strong technical action and remain very cheap based on spot prices (WHC, NHC, TER, SMR, BCB)
 - The fund has taken advantage of secondary market activity in this area (e.g. SMR, TER)
 - Ongoing catalysts for many of these stocks with massive capital returns expected near-term
- US Oil & Gas will be an important part of the solution for Europe in replacing Russian volumes
 - Many of these companies also displaying strong technical action
 - Fundamentals strongest in producers with less hedging, more exposure to international pricing; upside in capital management also a key catalyst
 - Stocks include: AR US, MRO US, SD US, MEG CN, SLB US

9



Current Investment Themes

Shorting

A couple thematics we are currently short:

- US/Global Housing weakness – construction, mortgage lenders
 - JHX, PFSI US
- Softening Consumer – wealth effect
 - JBH
- Hype/Fad Stocks
 - ASM, NVX
- Pre-Covid Normalization – COVID super profits weren't just in tech
 - Materials – NUE US, SGM
 - Supply chain – TGH US

10





Shorting – Sims Group (SGM AU)



11



Shorting – Nucor (NUE US)



12





Shorting – Textainer (TGH US)



Year	2018	2019	2020	2021	2022 est	2023 est
EPS	0.9	0.96	1.63	5.62	6.05	6.75

13



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

14





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