

Cadence Opportunities Fund Limited

(ASX Code: CDO)

June 2022 Year-End Audiocast

In this year-end audiocast, Karl Siegling firstly provides an update on the Company's performance, the 7.5c fully franked year-end dividend, the portfolio's current composition and the trend of increasing interest rates. Karl Siegling, Charlie Gray and Jackson Aldridge then discuss some of the funds core investments (WHC, NHC, PYPL US, AMP) and some of the funds trading positions (SMR, BCB, TIE, DHG, PNI, NAN and CCX). Karl Siegling then finishes with an update on the outlook for 2023.

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



Cadence Opportunities Fund Limited

June 2022 Year End Audiocast



Karl Siegling
Portfolio Manager



Charlie Gray
Portfolio Manager



Jackson Aldridge
Portfolio Manager



Year end Performance

Gross Performance* to 30th June 2022		CDO	Fund Attributes	
YTD		1.5%	Pre Tax NTA	\$2.272
1 Year		1.5%	Post Tax NTA	\$2.298
2 Years (per annum)		41.9%	Share Price	\$2.400
3 Years (per annum)		42.7%	Dividend Yield (2022)	6.3%
Since Inception (per annum)		39.2%	Gross Yield (2022)	8.9%
Since Inception (3.5 years) (total return)		218.1%	All Ords Accum. Index - since Inception	33.1%

* Gross Performance: before Management and Performance Fees

- Fund ended financial year up +1.5%, outperforming All Ords. Accum. Index by 9.0%.
- Past two years Fund up 41.9% p.a., outperforming All Ords. Accum. Index by 32.1% p.a.
- YTD top contributors to performance have been Whitehaven Coal, Upstart Holdings, TMC The Metals Company, Tuas, Terracom, DigitalOcean Holdings and Stanmore Coal.
- YTD the largest detractors from performance have been Nitro Software, Betmakers Technology, Bed Bath and Beyond, Sofi Technologies and Aussie Broadband.





Final Dividend

- 7.5c fully franked Final Dividend.
- An increase of 25% on last year's ordinary dividends.
- Annualised yield of 6.3% fully franked (8.9% gross including franking) based on share price of \$2.40 on date of the announcement.
- After paying this dividend the Company still has more than 44 cents per share of profits reserves to pay future dividends.
- Dividend Reinvestment Program (DRP) is operational for the year end dividend.
- Issue price of DRP will be at a 5% discount.
- Ex-date is 17th October 2022, Payment date is 28th October 2022.

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CDO Holdings as at 30 June 2022

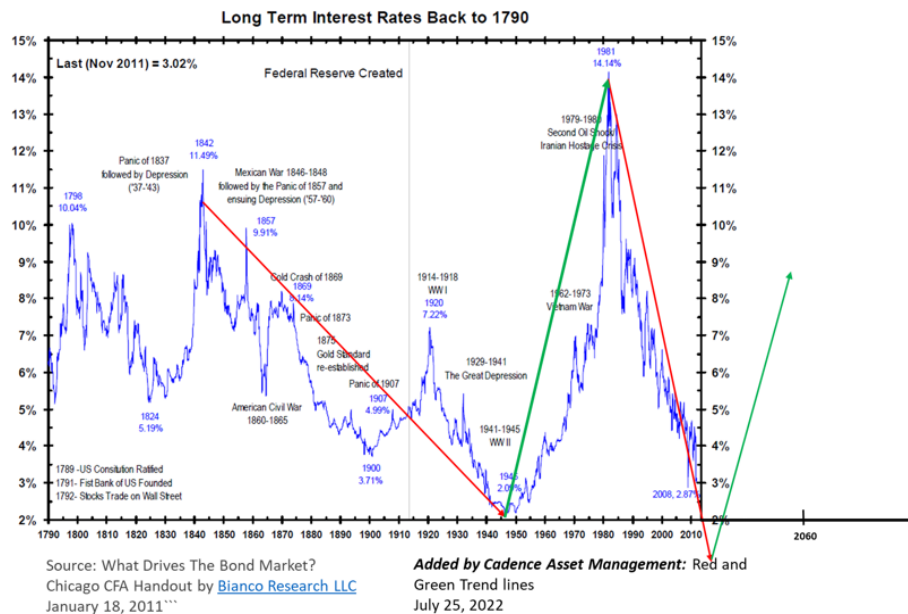
Stock Code	Position	Direction	Exposure	Stock Code	Position	Direction	Exposure
3690 HK	Meituan-Class B	Long	AUD	MAY	Melbana Energy Ltd	Long	AUD
9988 HK	Alibaba Group Holding Ltd	Long	AUD	MEG CN	MEG Energy Corp	Long	AUD
AGL	AGL Energy Ltd	Long	AUD	MIN	Mineral Resources Ltd	Short	AUD
AMP	AMP Ltd	Long	AUD	NHC	New Hope Corp Ltd	Long	AUD
AMR US	Alpha Metallurgical Resources Inc	Short	AUD	NXT	NextDC Ltd	Short	AUD
APX	Appen Ltd	Short	AUD	ORG	Origin Energy Ltd	Long	AUD
BCB	Bowen Coking Coal Ltd	Long	AUD	OZL	OZ Minerals Ltd	Short	AUD
BHP	BHP Group Ltd	Long	AUD	POD	Podium Minerals Ltd	Long	AUD
BOE	Boss Energy Ltd	Long	AUD	PFSI US	Portsmouth Square Inc	Short	AUD
BTE CN	Baytex Energy Corp	Long	AUD	SFR	Sandfire Resources Ltd	Short	AUD
CRN	Coronado Global Resource	Long	AUD	SGM	Sims Ltd	Short	AUD
DAC US	Danaos Corp	Short	AUD	SHL	Sonic Healthcare Ltd	Long	AUD
DHG	Domain Holdings Australia Ltd	Long	AUD	SMR	Stanmore Resources Ltd	Long	AUD
DMP	Domino's Pizza Enterprises Ltd	Short	AUD	STO	Santos Ltd	Long	AUD
EDV	Endeavour Group Ltd	Short	AUD	TER	Terracom Ltd	Long	AUD
FLT	Flight Centre Travel Group Ltd	Long	AUD	TGH US	Textainer Group Holdings Ltd	Short	AUD
FMG	Fortescue Metals Group Ltd	Short	AUD	TIE	Tietto Minerals Ltd	Long	AUD
GFS US	GlobalFoundries Inc	Short	AUD	TSM US	Taiwan Semiconductor Manufacturing	Short	AUD
GT1	Green Technology Metals Ltd	Long	AUD	WDS	Woodside Energy Group Ltd	Long	AUD
GTLB US	Gitlab Inc Class A	Long	AUD	WEB	Webjet Ltd	Long	AUD
IGO	IGO Ltd	Short	AUD	WHC	Whitehaven Coal Ltd	Long	AUD
LYC	Lynas Corp Ltd	Long	AUD	YAL	Yancoal Australia Ltd	Long	AUD

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Interest Rates (this is not a prediction)



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Increasing Rate Trends

- Interest rate trends are long in duration.
- Interest rates went up from 1945 until the mid 1980's and then fell from the mid 1980's until around 2020.
- Since 'bottoming out' interest rates have been going up for the last two years.
- Assets and different asset classes behave differently in an interest rate falling environment versus an interest rate rising environment.
- This change in interest rate trend, if it persists, could be the most significant trend change in 40 years.
- As always very few people predicted interest rates would rise as quickly as they have and almost certainly very few people will predict interest rates will go much higher.
- Very few people benefit from predicting that interest rates will go up and it would not be a 'popular' trend.

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WHC and NHC – Core Positions (Long)

- Coal Prices are at record high prices.
- Coal is required to produce energy in nearly all aspects of our lives.
- For many reasons there has been ‘underinvestment’ in fossil fuels in the hope that green energy can replace fossil fuels.
- ‘Underinvestment’ and recent events in Russia and Ukraine has led to coal shortages.
- Whitehaven Coal (WHC) is trading on a PE of 3 this year and 2 next year based on current coal prices and cash earnings have ‘exploded’ making WHC fundamentally cheap.
- Similarly, New Hope Coal (NHC) is trading on a PE of 3.2 this year and 1.9 next year.
- WHC has operating cash flow yield of 32% this year and around 45% next year and a very cheap Price to Earnings Growth (PEG) Ratio.
- Similarly, NHC has operating cash flow yield of 28% this year and around 58% next year.
- Coal and energy prices generally are cyclical and using the Cadence Process we add to cheap positions when they are going up and sell them when they roll over.
- WHC and NHC have met and continue to meet our fundamental and technical criteria.

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Resources and Coal – Trading Positions

- During the year CDO participated in the Stanmore Coal (SMR) acquisition from BHP which has risen significantly in price. Unlike WHC and NHC, SMR still has debt but is rapidly paying down debt and should be in a position to start paying fully franked dividends next financial year.
- CDO also participated in a Bowen Coking Coal capital raising. This position was initially a trading position as the company was not earning cash flow. Since then BCB is earning cash flow and has the potential to become a core position over time.
- CDO participated in the capital raising for Tietto Gold (ASX Code: TIE) during the year and TIE is on track for its first gold pour in November / December 2022. Positive cash flows and high margins should significantly re-rate this stock.
- In the year just gone there was significantly more trading opportunity in the first half of the year than the second half. It is important to trade when there is opportunity and stop trading when trading opportunities no longer present.

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PYPL US – Core Position (Long)

- Paypal tripled in the covid bull market before falling 70% over the past 12 months.
- The stock has gone from loved as a major covid beneficiary to hated as growth as slowed and earnings rebased following the end of its partnership with Ebay.
- Management have refocused on core businesses of checkout, digital wallet, and processing where PYPL has significant competitive advantages and long-term growth potential.
- Growth has reaccelerated in recent months with July revenue up 14% on 2021 - market share continues to build contrary to fears over increasing competition.
- Refocused strategy includes cost savings of at least \$1.3bn for 2023 – half just from renegotiating transaction fees.
- \$15bn buyback also announced, with more capital management flagged.
- The stock is trading on 19x PE in CY23 with 23% EPS growth for a PEG of 0.8x. FCF yield is 7%.
- Technically the stock has started to turn back up after reaching long term support.

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DHG – Trade Position (Long)

- Domain operates as the #2 in the duopoly Australian property portal market.
- Stock has halved in last six months on fears over a property downturn.
- The business's long-term growth opportunity continues to be significant and can support strong growth for many years to come.
 - Pricing power - An online presence is critical to reach buyers but still only comprises ~15% of an average marketing budget and less than 5% of total selling costs.
 - Successful strategy in upselling agents/sellers to higher priced tiers; been increasing at about 4% a year (25% in 2018, now ~40%, REA at 70%).
 - High margins and low capex requirements – less risk from inflation pressure
- Downturn not necessarily negative for the business; listings typically fall initially but then recover, while listing times also increase.
- Listing volumes have in fact been overall positively correlated with interest rates.
- The stock is trading on 25x PE in FY22 growing at 25%, for a PEG ratio of 1.0x – this is 30% below its 5 year average.
- Technically the stock has started to turn back up after reaching long term support.

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AMP Capital – Core Position (Long)

Huge Amounts of Excess Capital:

- \$1.3b of cash with another \$1b to be realized over next 12-18 months = \$2.3b cash.
- FY22 expected cash flow of \$200m for core business.
 - **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 – current share price is \$1.14 (60% of market cap in cash)**
- 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 for \$250m NPAT FY23.
 - At current share price this business is valued at 4.3x PE
- Estimated NTA is approximately \$1.42.
- Over last 4 years of trading, AMP typically trades at 20+% premium to NTA – except now.
- Capital management and business turnaround could re rate stock back to NTA premium.

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Heavily Shorted Stocks

- Market pessimism has led to a number of stocks having extremely high short interest – in some cases multiple weeks of trading volume.
- In line results, and in some cases, 'not as bad' results have led to large daily moves
 - i.e. KGN +40% in a day.
- PNI:
 - 13.5m shares short – 600k shares trade a day. i.e. 22 days of volume to cover.
 - Result in line with consensus, stock rallied 14% on the day.
- NAN:
 - 34.1m shares short – 450k shares trade a day... i.e. 75 days of volume to cover.
 - Sales strength/momentum in recent update against backdrop of GE distributor issue.
- CCX:
 - 17.6m shares short – 950k shares trade a day... i.e. 18 days of volume to cover.
 - Large inventory balance, however result late august may provide a catalyst for positive or 'not as bad' news.

Shanghai to Los Angeles 40 foot containerized Index

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Outlook

- The last year has seen significant changes in trend across markets; interest rates, inflation, energy prices and commodity prices.
- This has led to very different types of stocks performing well in 2022 vs 2021.
- How expectations change - 12 months ago, the RBA said rates will remain at 0% until 2024... now big bank economists expect them raise to over 3% by the end of 2022.
- Rising mortgage payments, energy bills and food costs mean households are facing quite a different year ahead than in recent years of stimulus and 'free money'.
- While this will be significant headwind for many businesses, it will also lead to opportunities for others.
- We continue to focus on implementing the Cadence process that has served us well through market cycles.
- This year saw a marked skew between trading opportunities in the first half of the year and a lot less opportunity in the second half. Trading opportunity is also cyclical.
- Cash and liquidity levels remain high.

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