

# Cadence Opportunities Fund Limited (ASX Code: CDO) Quarterly Audiocast

In this audiocast, Karl Siegling firstly discusses the Company's recent performance, the interim dividend recently paid and the current composition of the portfolio. Karl then discusses some of CDO's current investment themes and looks in detail at two of its current investments, Newcrest Mining and Meta Platforms. Karl Siegling finishes with the outlook for the rest of the year.

You can listen to the audiocast at <https://www.cadencecapital.com.au/cdo-mar-2023-webcast/>



# Cadence Opportunities Fund Limited



## March 2023 Quarterly Audiocast



## Performance Update

Gross Performance* to 31st May 2023	CDO
1 Month	-4.3%
3 Years (per annum)	24.6%
Since Inception (per annum)	27.5%
Since Inception (4.4 years) (total return)	192.8%

\* Gross Performance: before Management and Performance Fees

- Top contributors to performance for the for the first 5 months of CY 2023 were Patriot Battery Metals, Meta Platforms, Red 5, Stanmore Coal, Arafura Resources and Kogan.
- The largest detractors from performance for first 5 months of CY 2023 were Tietto Minerals, Health and Happiness, Syrah Resources, New Hope, Genworth Financial and Domino's Pizza.
- Underperformance in this period has been driven by :
  - Coal positions have provided large positive contributions over the past 2 years, however more recently they have rolled over from their peak prices and we have sold them.
  - Investing in potential turnaround situations too early and too many trading positions
  - The fund has had about 40% of its portfolio in cash over this period.





# Half Year Dividend

Calendar Year	Interim	Final	Special	Total	Gross (Inc. Franking)
2020		6.0c	-	6.0c	8.6c
2021		12.0c	3.0c	15.0c	21.4c
2022	7.5c	7.5c	-	15.0c	21.4c
2023	7.5c	-	-	7.5c	10.7c
<b>TOTAL</b>	<b>15.0c</b>	<b>25.5c</b>	<b>3.0c</b>	<b>43.5c</b>	<b>62.1c</b>

- 7.5c fully franked Interim Dividend was paid.
- Annualised yield of 6.5% fully franked (9.2% gross including franking) based on share price of \$2.32 on date of the announcement.
- After paying this dividend the Company still has more than 36 cents per share of profits reserves to pay future dividends.
- Dividend Reinvestment Program (DRP) was in operation for the half year dividend.

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# CDO Portfolio

## Sector Analysis of Portfolio

Sector	Long	Short	Net
Basic Materials	20.5%	-2.1%	18.4%
Consumer, Non-cyclical	8.7%		8.7%
Communications	7.4%		7.4%
Insurance	4.3%		4.3%
Utilities	2.6%		2.6%
Energy	2.3%	-0.7%	1.6%
Financial	3.0%	-1.5%	1.5%
Industrial	2.3%	-1.2%	1.1%
Consumer, Cyclical	1.9%	-1.0%	0.9%
Banks		-2.0%	-2.0%
	<b>53.0%</b>	<b>-8.5%</b>	<b>44.5%</b>

<b>Net Cash Holdings</b>			<b>55.5%</b>
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- The company currently holds around 40 positions with the largest position 5% of the fund.
- 56% of CDO's portfolio is in cash.

## 20 Top Holdings (Both Long and Short) 31 March 2023

Stock Code	Position *
ANG	Austin Engineering Limited
BHP	BHP Group Ltd
CS CN	Capstone Copper Corp
DAC US	Danaos Corp
HLO	Helloworld Travel Limited
MEG CN	MEG Energy Corp
META US	Meta Platforms Inc
NHC	New Hope Corp Ltd
NCM	Newcrest Mining Ltd
NHY NO	Norsk Hydro ASA
PMET CN	Patriot Battery Metals Inc
QBE	QBE Insurance Group Ltd
SRX	Sierra Rutile Holdings Ltd
SMR	Stanmore Resources Ltd
SYR	Syrah Resources Ltd
TLG	Talga Group Ltd
700 HK	Tencent Holdings
TIE	Tietto Minerals Ltd
THL	Tourism Holdings Rental Ltd
WHC	Whitehaven Coal Ltd

\* In Alphabetical Order

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## Current Investment Themes

- Global indexes have drifted higher during the new calendar year 2023, with the S&P 500 Index up 8.6% and the All Ordinaries Accumulation Index up 5.4%.
- Participation in this uplift has not been widespread across stocks, for example, the top 15 stocks in the S&P 500 Index accounted for 97% of the S&P 500 year to date performance, and Apple alone accounted for 26%.
- More focus is being placed on company fundamentals such as earnings and cashflows as opposed to peak valuation metrics such as enterprise value/revenue.
- CDO portfolio holdings such as Helloworld Travel, QBE Insurance and Meta Platforms are good examples of this with these companies having PEG ratios of less than one and strong earnings growth forecasts for next year.

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## Current Investment Themes

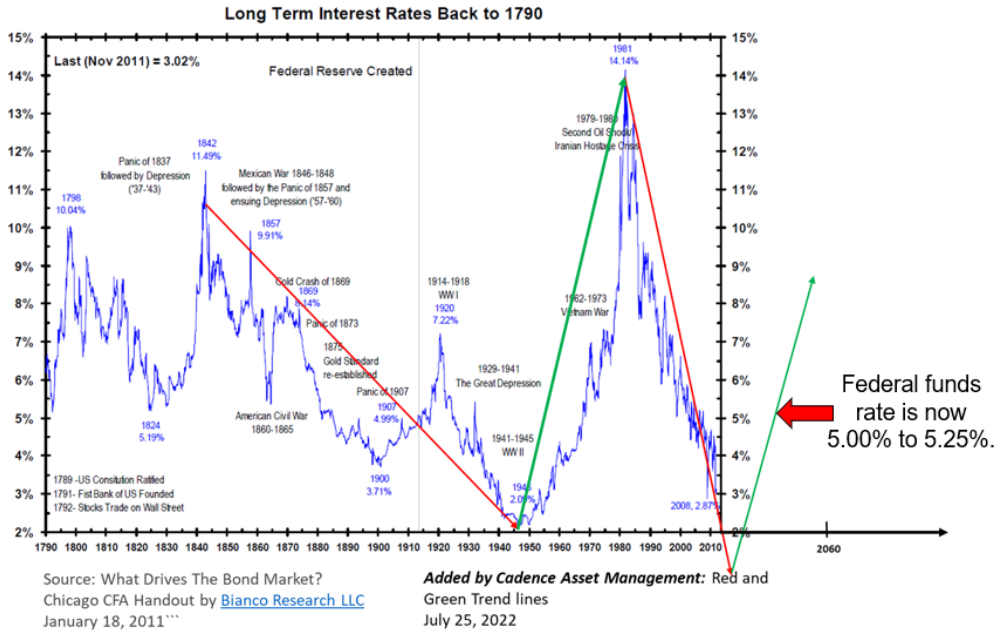
- A key change in trend over the last 12 months has been the directional change in interest rates, which fell for 30 years to near zero, bottomed out, and started moving upwards at the fastest pace in history (now 3.85%).
- What has performed well in similar previous cycles are companies with pricing power, precious metals and energy.
- Insurance companies typically have strong pricing power, and despite a cyber-attack, Medibank Private has performed resiliently and shown the businesses strength to hold customers and put prices up.
- Boral, which is in the early stages of a multiyear turnaround has successfully put through price rises and expects this to continue.
- Gold positions in the fund such as Newcrest Mining and Resolute Mining have performed strongly as the gold price has traded over USD 2,000 per ounce (AUD 3,000), and toward multi decade highs.

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# Interest Rates – AGM 16/11/2022

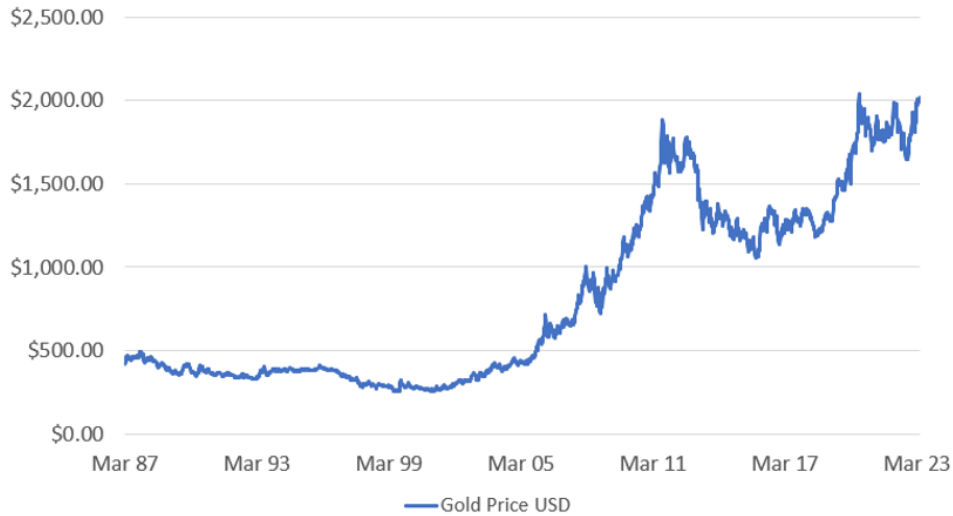


# The Australian Dollar





## Gold Price Chart – USD per ounce



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## Newcrest Mining (NCM) – Long (Trade)

### Stock Profile NCM

#### Long Position (FY24)

EPS Growth	11%
PE	36x
PEG	3.3
OCF yield	6.7%
FCF yield	2.8%
Net debt	\$1.9b
Market Cap	\$25.3b

### Fundamental Analysis

- Gold Price has hit multi decade highs, currently trading over \$2,000 USD per ounce (AUD\$3,000 per ounce)
- We initiated a position as gold price started to move up again and initial indications of a Newmont Corporation takeover was being discussed
- Newmont Corporation share price had fallen substantially before and during the takeover talks.
- The Newmont bid was improved and the strategy involves significant medium and longer term synergies
- We estimate that at current spot and with these synergies in place NCM could be worth around AUD\$40 per share inside Newmont
- Provided the gold price stays around these levels Newmont should trades between 10%-20% higher in the medium term
- Should the gold price move higher and synergies are realised sooner then Newmont is worth more

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# Newcrest Mining (NCM)



# Meta Platforms (META US) – Long (Core)

## Stock Profile META US

### Long Position (FY23)

EPS Growth	22%
PE	22x
PEG	1.0
OCF yield	8.4%
FCF yield	3.5%
Net cash	\$4.7b
Market Cap	\$615b

## Fundamental Analysis

- 2022 results were lower than 2021 primarily due to increased costs and higher CAPEX associated with the Metaverse
- Mark Zuckerberg has called 2023 the “year of efficiency” – as the company reduces its cost base and reduces growth CAPEX
- The company recently announced a \$40 billion dollar increase to its existing share buyback program, bringing the total amount for 2022 and 2023 to \$80 billion.
- The stock has rallied on the back of the last two quarterly results being ahead of market expectations, however still only trades on 18x FY24 PE, with a PEG of 0.8.



## Meta Platforms (META US)



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## Outlook

- Central banks globally have been increasing their purchases of physical gold – 228t in Q1, 34% higher than the previous Q1 record in 2013.
- The Australian budget recorded a \$4.2 bln surplus in 2022/23, aided by high commodity prices in Iron Ore and Coal, projections are for multi-year deficits of \$14bln p.a.
- Negotiations have progressed over the US debt ceiling.
- Western economies continue to run high levels of debt – with Australia having a net debt position of \$517 billion – costing over \$112 billion in interest over 5 years. Whereas countries such as China and Russia run net surpluses.
- Interest rates have risen at the fastest pace in history over the past 12 months, the effects of this are still yet to be fully absorbed.
- This is an investing environment where fundamental stock picking is once again generating profits.
- CDO is currently trading at around a 10% discount to pre-tax NTA and holding 50% cash. CDO share price is implying the shares in the portfolio can be bought at a 20% discount to their underlying value.

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