



Cadence Capital Limited

AGM and Investor Briefing 25 November 2016



Fund Performance

Performance* to 31st October 2016	CDM**	All Ords	Outperformance
1 Month	-0.4%	-2.2%	+1.8%
YTD	6.4%	3.0%	+3.4%
1 Year	-9.9%	6.6%	-16.5%
3 Years	11.0%	13.5%	-2.5%
5 Years	51.7%	54.1%	-2.4%
8 Years	264.6%	91.9%	+172.7%
10 Years	218.8%	54.6%	+164.2%
Since Inception (11.1 years)	381.4%	88.3%	+293.1%
Since Inception Annualised (11.1 years)	15.2%	5.9%	+9.3%

* Gross Performance: before Management and Performance Fees

**Includes the franking value of RHG dividend received in May 2011

- For the first four months of the new financial year, Cadence Capital Limited has returned a positive gross performance of 6.4% outperforming the All Ordinaries Accumulation Index by 3.4%.
- Over the past few years the portfolio has benefited from falling resource prices, a falling Australian dollar and the strength of diversified financial services companies on the back of falling interest rates.
- During the earlier part of this calendar year each of these trends reversed and our portfolio underperformed the market.



CDM Dividend Information

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
TOTAL	33.5c	34.2c	11.5c	79.2c	112.3c

* Off market Equal access buy back

- 4.0c fully-franked Final Dividend paid 27 October 2016
- 7.1% fully franked yield (10.1% grossed-up)
- Dividend Reinvestment Plan (DRP) currently issued at 3% discount



Returns and Yield

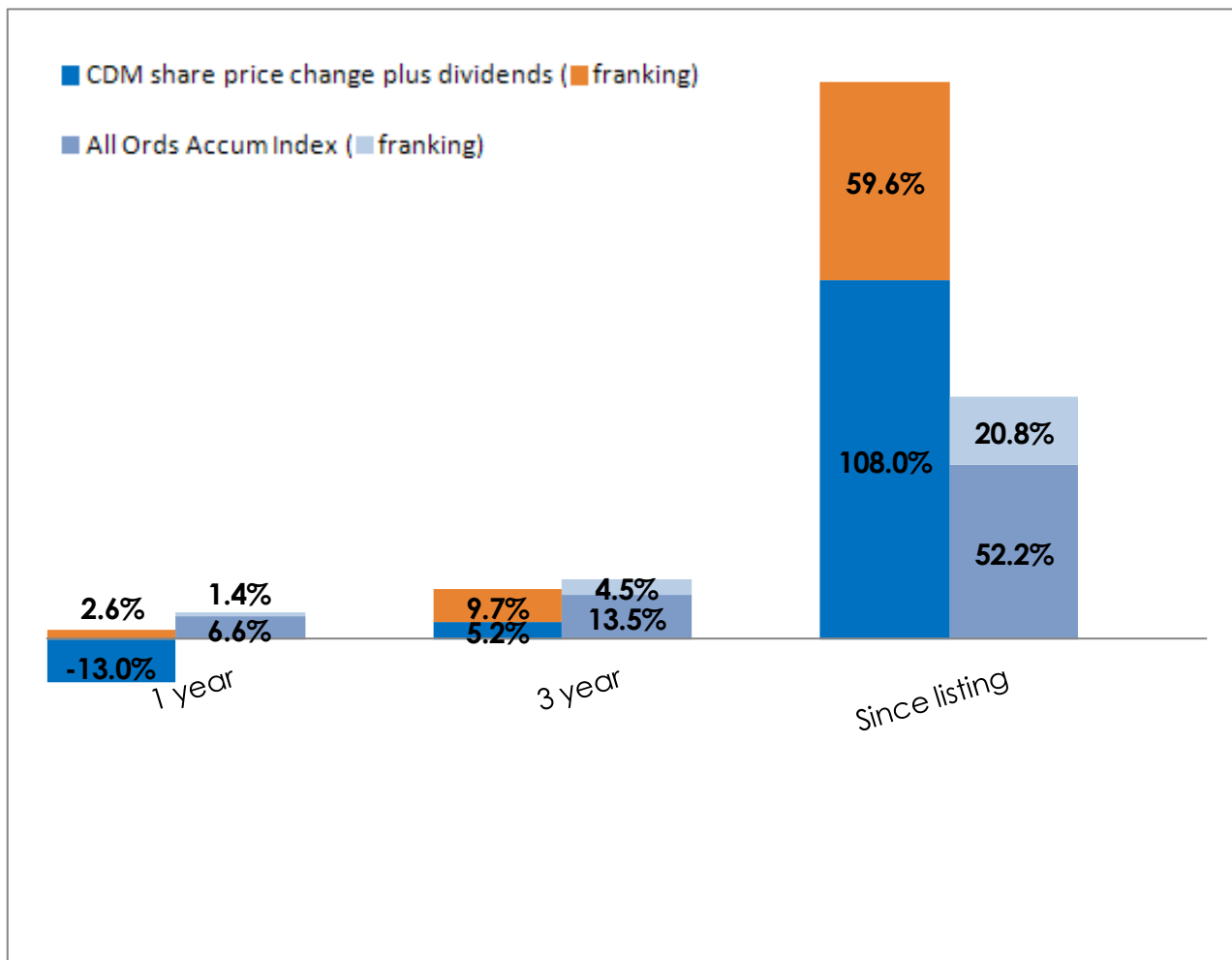
- CDM has earned 15% pa gross performance for 11 years and currently yields around 7% fully franked.
- To pay a 7% fully franked yield the portfolio needs to earn a gross return of 11%.

	<u>CDM</u>	<u>All Ords</u>	<u>Cash</u>
Gross Return	11%	5.9%	2.0%
Less Management fees	(1%)	(0.2%)	-
Less Taxation (30%)	(3%)	(1.7%)	(0.6%)
Fully franked dividend	<u>7%</u>	<u>4.0%</u>	<u>1.4%</u>
Volatility of Returns	<i>Less than Market (Held 25 % cash)</i>	<i>Market</i>	<i>"Secure"</i>

- 15% pa equates to 7% fully franked return (11% Gross) plus 4% Capital growth.
- CDM returns are not "linear" and follow our investment process.
- CDM has a history of paying out excess dividends (specials) when it has additional returns.

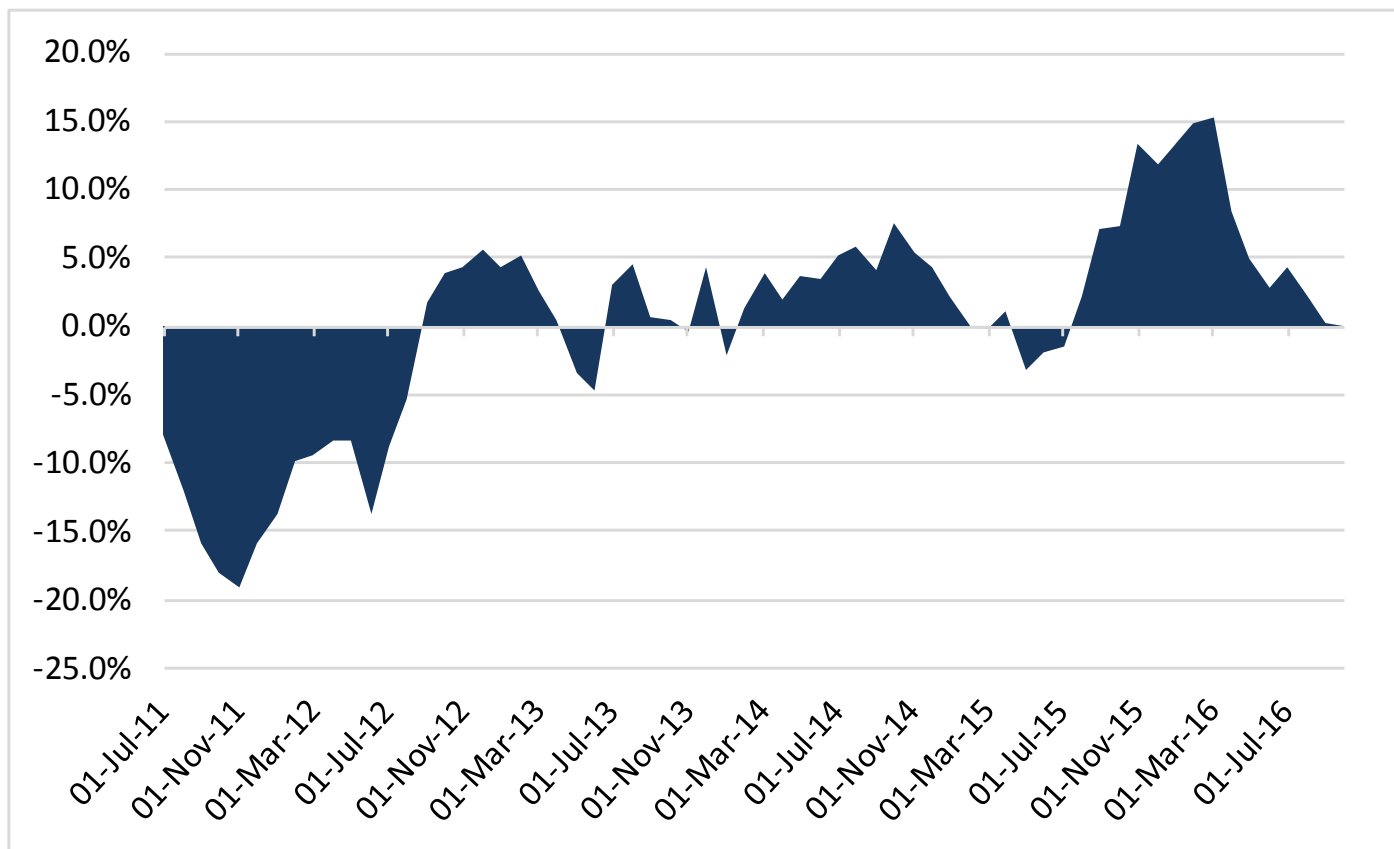


CDM franking since listing (31st Oct 2016)





Discount and Premium to NTA past 5 years



31 October 2016: Post Tax NTA \$1.199* CDM Share Price \$1.200*

(* After the 4.0 Cent fully franked final dividend)



Premium/Discount to NTA

- CDM has earned 15% pa gross performance for 11 years and currently yields around 7% fully franked.
 - For an SMSF on 0% tax this dividend is worth 10% (3% franking).
 - For an SMSF on 15% tax this dividend is worth 8.5% (1.5% franking).
- Paying a 15% premium to NTA equates to between 5 and 10 years of franking.
- Paying a 15% discount to NTA is preferable
- Your entry point into an investment can have a big effect on your overall return



Fund Top Positions – 31 October 2016

Code	Position	Direction	Currency	Holding
MLB	Melbourne IT Ltd	Long	AUD	9.4%
MQG	Macquarie Group Ltd	Long	AUD	9.1%
RFG	Retail Food Group	Long	AUD	6.1%
HGG	Henderson Group Plc	Long	AUD	5.4%
9984 JP	Softbank Group Corp	Long	AUD	3.6%
FB US	Facebook Inc	Long	AUD	3.4%
5930 KS	Samsung Electronics Co Ltd	Long	USD	3.4%
GOOG US	Alphabet Inc	Long	AUD	3.0%
RIO	Rio Tinto Ltd	Short	AUD	2.6%
ECX	Eclixp Group Ltd	Long	AUD	2.6%
AIG US	American International Group	Long	AUD	2.5%
IGO	Independence Group NL	Long	AUD	2.3%
ANZ	Australia and New Zealand Banking Group	Long	AUD	2.2%
WPL	Woodside Petroleum Ltd	Short	AUD	2.0%
IPH	IPH Ltd	Long	AUD	1.9%
MND	Monadelphous Group Ltd	Long	AUD	1.8%
MA US	Mastercard Inc	Long	AUD	1.6%
NAB	National Australia Bank Ltd	Long	AUD	1.6%
SHV	Select Harvest Ltd	Long	AUD	1.5%
CBA	Commonwealth Bank of Australia	Long	AUD	1.3%
Top Portfolio Holdings Gross Exposure				67.38%



Melbourne IT Limited (ASX code MLB)

- The Business:
 - Domain name and web hosting provider, including a growing web solutions business
 - Enterprise Services (Cloud and Managed services, Mobile solutions and Data and Analytics).
- MLB integration of NetRegistry and other acquisitions over the last two years remains on track and in the case of NetRegistry ahead of schedule.
- Underlying earnings for MLB should grow around 100% over a two year turnaround period.
- On completion of stage one of these integration projects MLB is trading on a 10 to 11 times price earnings multiple based on EBITDA of \$28 to \$30M (cheap on a PEG basis).
- We estimate MLB to be trading on 7 times E/V and generating between \$25M and \$30M of Operating cashflow next year.
- MLB's Market Cap is \$190M.
- We started buying MLB at \$1.11 and have been adding to the position as the share price has moved up.



Domino's Pizza (ASX code DMP)

- DMP holds exclusive master franchise rights for the Domino's brand in Australia, New Zealand, France, Belgium, the Netherlands and Japan.
- There are 2,000 pizza stores in the network. 75% are franchised, and 25% are corporate.
- FY16 underlying NPAT \$92M. FY17 guidance for underlying NPAT growth of about 30%. Guidance equates to underlying FY17 NPAT of \$120M.
- Market capitalisation \$6,200M. FY17 PE ratio 52. (Expensive on a PEG basis).
- DMP management has driven excellent business performance over the past 10 years, and the share price has risen from \$2 to \$80.
- Focus on technology has been a key driver of DMP success. GPS Driver Tracker, fast and easy ordering online using mobile phone applications or SMS, Guaranteed delivery of pizza in 15 or 20 minutes for an additional fee.
- Fundamentally expensive, and share price uptrend may have ended with shares down 13% from peak.
- Is Domino's Pizza an IT Company that makes Pizza?



The Comparison

MLB - Long Position

PE	11
EPS Growth	50%
PEG	0.2
OCF Yield	11%
Net Cash	-\$10M

DMP - Short Position

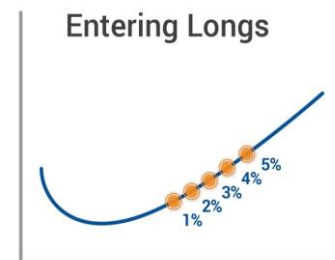
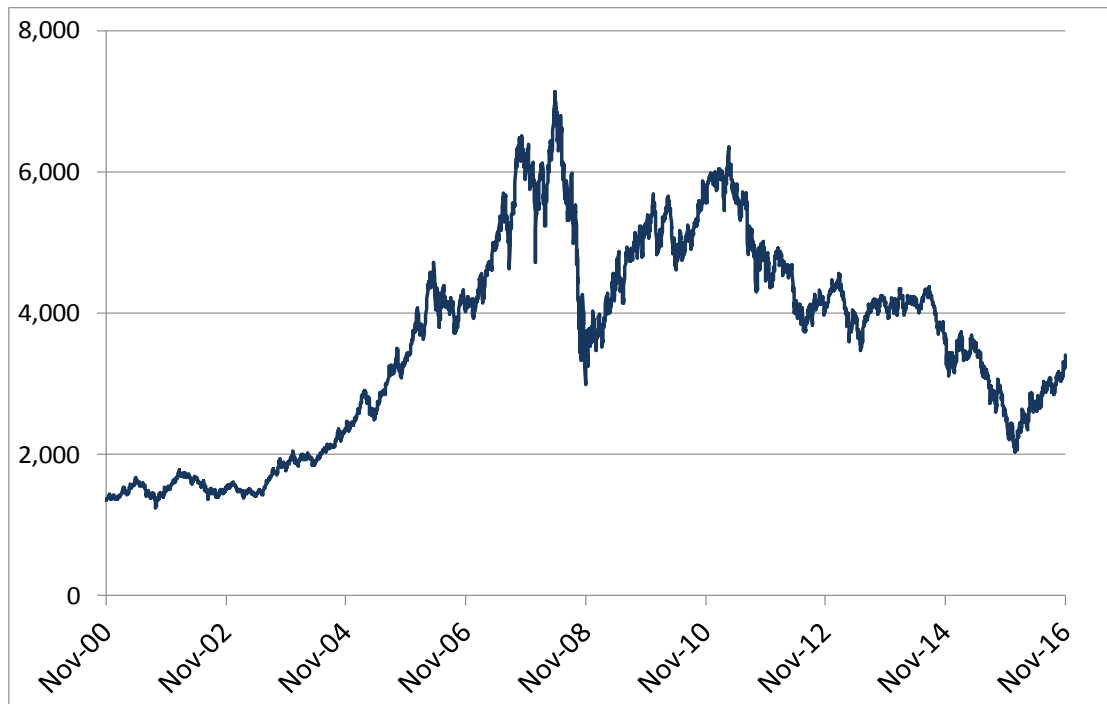
PE	52
EPS Growth	30%
PEG	1.7
OCF Yield	2%
Net Cash	-\$261M

Melbourne IT, trading at 10 to 11 times PE multiple, is one of the IT companies building the IT infrastructure for Domino's Pizza trading on 52 times PE multiple



Resources Thesis

- S&P/ASX 200 Resources reached a low of 2000 in January 2016 and is up 50% since.
- Iron Ore and Coal have been particularly strong and more recently some base metals.



- Cadence has been scaling out of its short resources and scaling into new long positions



Outlook

- Australia has had falling interest rates for 30 years, markets are questioning whether this trend has ended, this could be an important inflection point.
- Speculation of increasing interest rates in the USA, this could be an important inflection point.
- Rising US interest rates with static Australian interest rates could see the USD\$ appreciate markedly against the AUD\$.
- These inflection points could signal headwinds for interest rate sensitive stocks.
- The early stages of inflationary pressure should benefit many sectors.
- Low interest rates, contained energy prices, lower AUD\$.
- Lower AUD\$ would benefit exports and make imports more expensive.
- Our process of entering trending stocks and sectors and adding to positions will be important in periods of changing long term trends.



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