



# Cadence Capital Limited



## AGM

26<sup>th</sup> November 2014

10.30 am – 12.00 pm

Museum of Sydney



CADENCE  
CAPITAL



# Resolution 1

## To re-elect Mr James Chirnside as a Director

Votes for	16,944,698
Votes against	18,692
Open Proxy Votes to the Chair	2,889,625
Open Proxy Votes - Others	758,993

Any Questions?

Someone to support the resolution

Someone to second the resolution



# Resolution 2

## To Adopt the Remuneration Report

Votes for	15,016,159
Votes against	1,490,477
Open Proxy Votes to the Chair	207,692
Open Proxy Votes - Others	751,878

Any Questions?

Someone to support the resolution

Someone to second the resolution



# Presentations

- Wayne Davies presenting on the Cadence Capital Investment Process
- Portfolio Managers Chris Garrard and Simon Bonouvrie presenting investments in the Cadence Capital portfolio
- Karl Siegling presenting on the past year and the outlook for 2015
- Questions to all members of the team
- Tea and Coffee



# CDM: What we are ... and what we're not

## What we are ...

- **Long biased** long/ short global equities fund
- A fund that has developed a **disciplined approach** to dealing with most types of market cycles
- A fund that makes **solid risk-adjusted returns** over time and through cycles
- A fund that manages money for investors **the way we manage our own money**

## What we are not ...

- We are **not** an index hugging fund
- We are **not** a highly leveraged fund

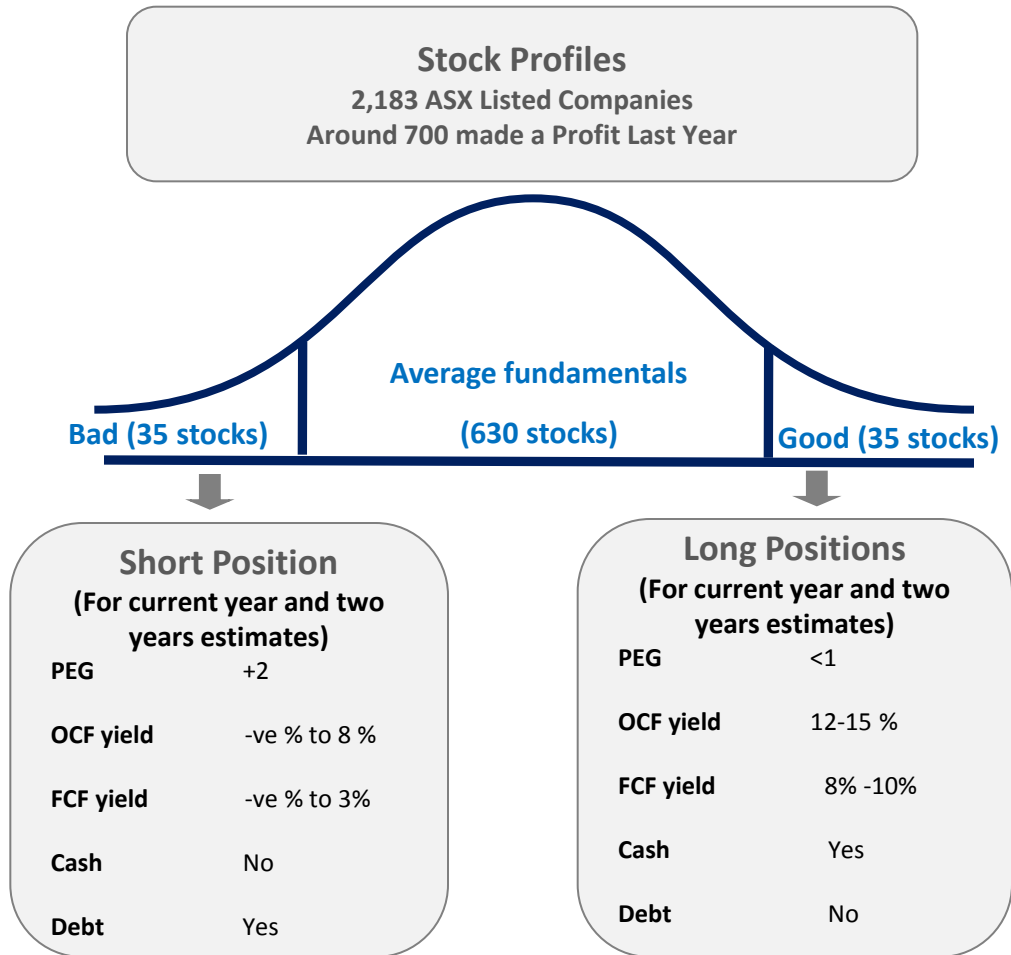


# Investment Philosophy and Beliefs

- A combination of **Fundamental** and **Technical** Research has a greater probability of producing higher returns than either Fundamental or Technical analysis alone
- On a daily basis we visit and research companies to determine whether they are cheap or expensive
- We use a combination of Price versus Growth, Operating Cash Flow and Free Cash Flow analysis, as well as balance sheet strength to determine value
- We follow a disciplined 'Entry and Exit' strategy (Technical Research) and scale into and out of positions



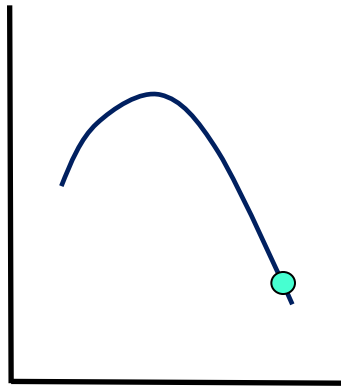
# Fundamental Research



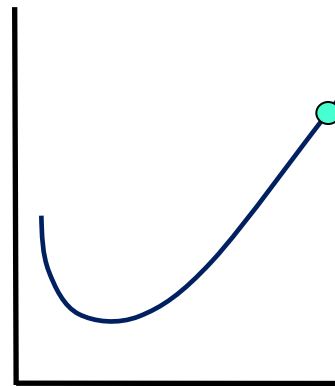
- 300 - 400 company visits per annum
- Detailed industry research
- A company's relative bargaining power
- Proprietary Models



# Technical Research



Do NOT  
buy



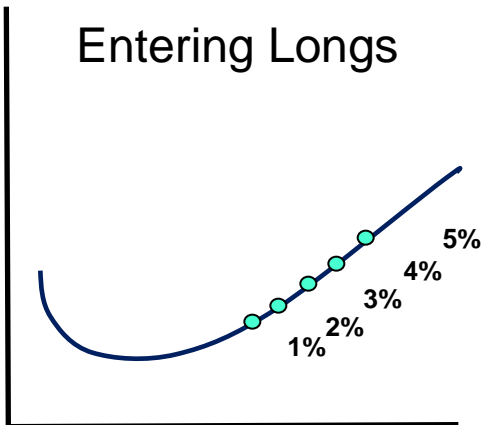
Do NOT  
short

- the short-term (one year) share price and share volume indicators (short term trend)
- the long-term (five year) share price and share volume indicators (long term trend)
- the average weekly volume of shares traded



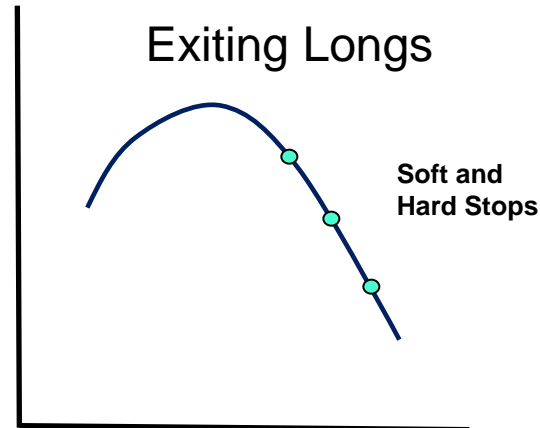
# Entry and exit of long positions

## Entering Longs



- Wait until trend has turned and then accumulate positions
- Do not average down

## Exiting Longs



- Identify a change in trend - 1, 3 and 12 month chart analysis
- Individual stock positions are monitored for a change in trend using bear market variance and liquidity measures

Cadence Dashboard summary generated and monitored



# Market Participation

- IPOs
- Placements
- SPPs
- Rights Issues
- Underwriting
- Block Trades
- Price action/sell down
- Takeover arbitrage
- Dual listed arbitrage
- Convertible note arbitrage

Participate when opportunities present & **stop** when they don't



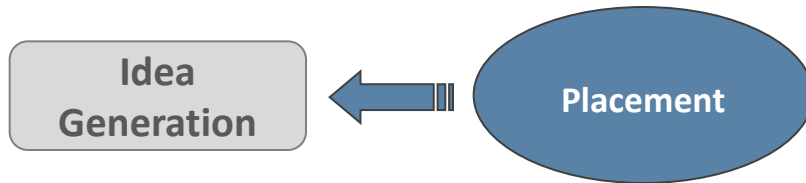
# CDM as a SMSF Investment

- Cadence Investment Process makes the Equities vs Cash decision daily
- Top performing, high yielding ASX listed Equity - recently ranked #1 Australian Equity LIC over 5 years (ASX October 2014 Monthly Update)
- CDM gives SMSF's exposure to :
  - Domestic Equities
  - Global Equities
  - Selective Short Opportunities
- Management are the largest investors in the business
- Alignment of interests is an important part of our philosophy



# Retail Food Group - RFG

RFG is a franchisor of over 2400 retail food outlets



## Stock Profile

### Long Position

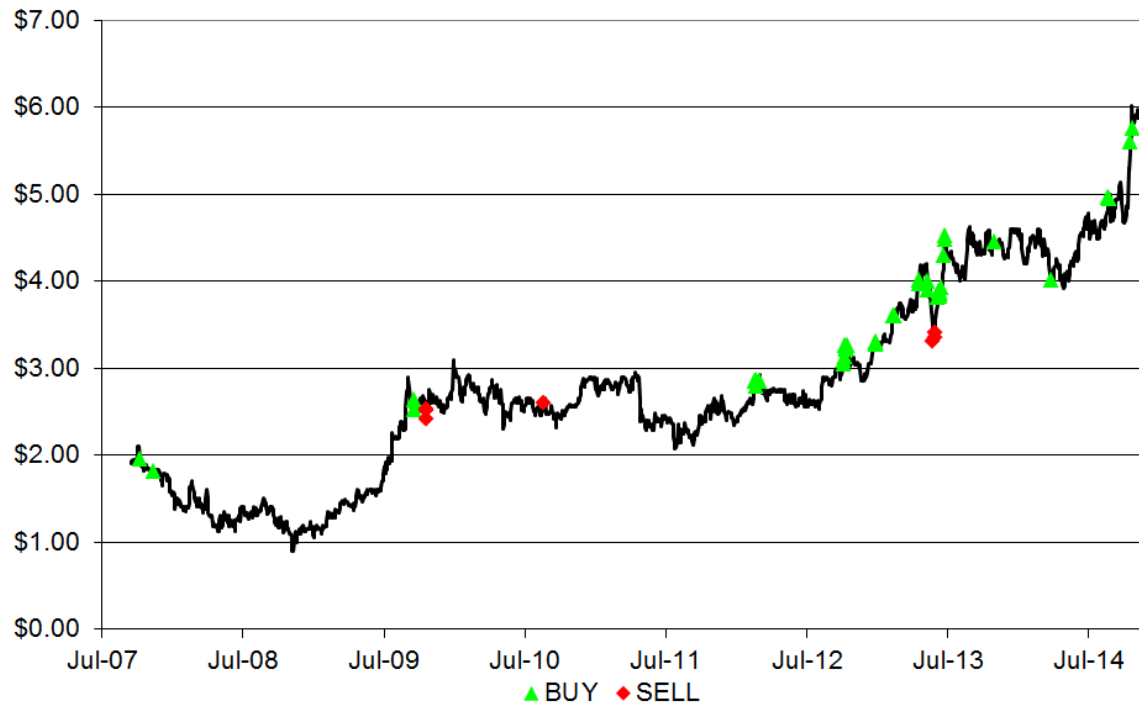
EPS Growth	22%
PE	18x
PEG	0.8
OCF yield	5.7%
FCF yield	5.5%
Cash	\$12M
Debt	\$187M
Market Cap	\$915M

## Fundamental Analysis

- RFG owns the brands for Donut King, Brumby's Bakery, Michel's Patisserie, bb's café, Esquires Coffee, The Coffee Guy, Pizza Capers Gourmet Kitchen and Crust Gourmet Pizza.
- RFG earns franchise fees from outlet owner operators.
- The business model is robust with franchise fees largely independent of outlet profitability.
- RFG has an excellent track record of growing earnings and dividends, including throughout the GFC in 2007/2008.
- Tony Alford (Managing Director) owns 15.8% of RFG. His stake is currently worth \$138M. At Cadence we like it when the interests of shareholders and management aligned through large management shareholdings.



# RFG – Entering & exiting the position

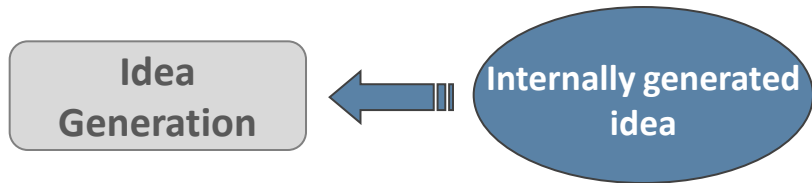


- We first bought RFG in a placement in October 2007. The company performed well during the GFC but the shares fell with the rest of the market.
- Post GFC the shares have performed very well and we have added to our position over time as the shares have risen.
- We recently took part in the RFG capital raising to fund the acquisition of Gloria Jeans. The placement price was \$4.80, and the shares have rallied strongly post the capital raising and are now about \$6.



# iiNet - IIN

iiNet (IIN) is an internet service provider and telecommunications company



## Stock Profile

### Short Position

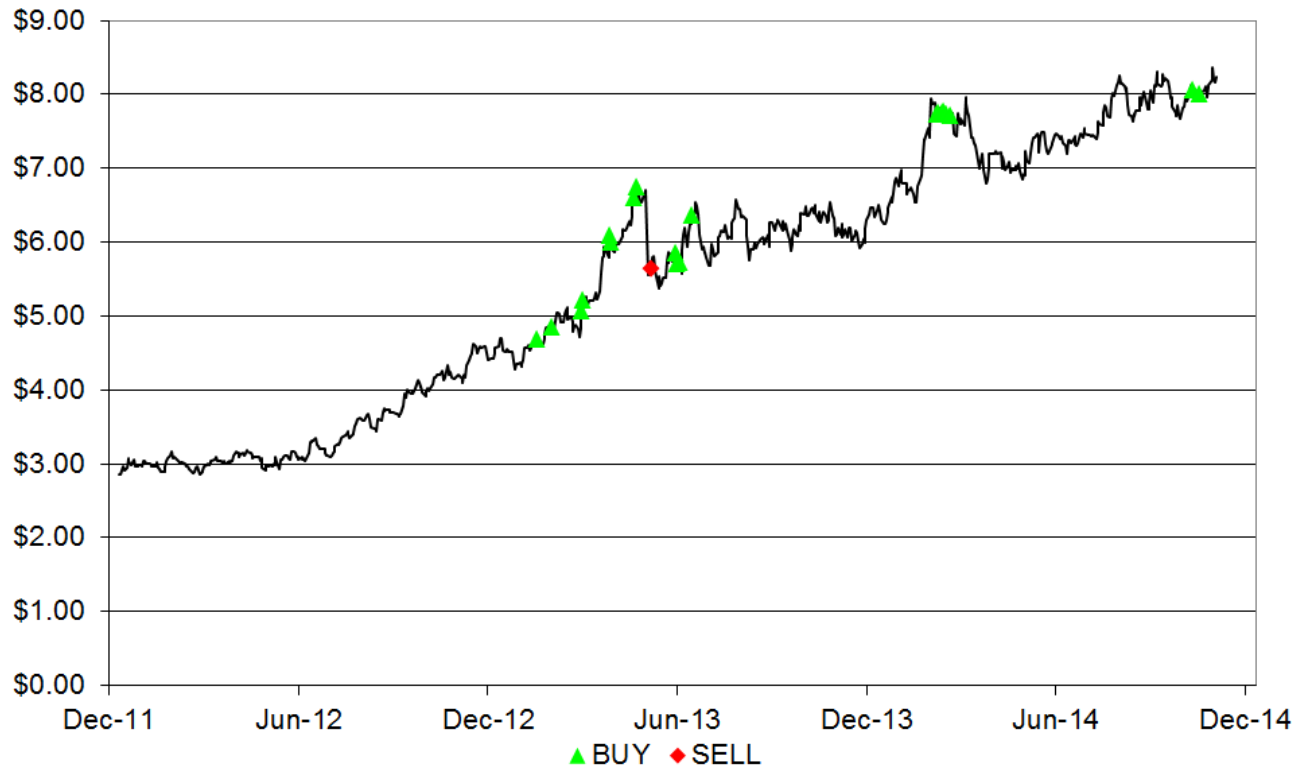
EPS Growth	15%
PE	17x
PEG	1.1
OCF yield	11.9%
FCF yield	9.7%
Cash	\$25M
Debt	\$204M
Market Cap	\$1,330M

## Fundamental Analysis

- iiNet profit has increased steadily in the last few years. This has been driven by organic customer growth and well timed acquisitions of smaller internet service providers.
- iiNet cash flow is strong. Significant capital has already been spent setting up the iiNet network, and current capital expenditure is significantly less than depreciation and amortisation.
- The industry is undergoing significant change with the introduction of the NBN. iiNet is focussed on the NBN opportunity and is gaining market share.
- iiNet had excellent subscriber growth in the second half of 2014, and recently announced at their AGM that they expect subscriber growth to continue at similar rates in 2015.



# IIN – Entering & exiting the position



- IIN shares started rising in mid 2012. We made our initial purchase after the upwards trend had been well established, with the shares having risen from \$3 to \$4.50 over 6 months.
- After buying our initial position at about \$4.50 we have continued to add to the position as the share price has continued to rise. The shares are now over \$8 and the upwards price trend is intact.



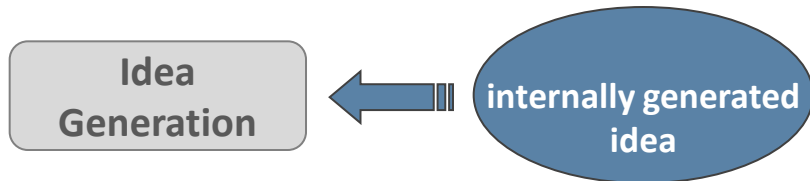
# Global Opportunities

- Many ASX listed stocks are global businesses and generate significant revenues from offshore.
- Cadence has long standing positions in Macquarie Group (ASX Code: MQG) (8.0%) and Henderson Group (ASX Code: HGG) (2.6%) which generate the majority of their revenue offshore.
- Macquarie generates 68% of its income from international locations and 53% of its staff sit outside Australia.
- Henderson is a UK based fund manager focussing on European & Global Equities and Global Fixed Income products
- ASX market is heavily weighted towards the financials and resources sectors, with limited opportunity to invest in industrial stocks
- Over the past 5 years the All Ordinaries Index is up 16% approximately compared to the S&P500 Index up 89%
- Cadence recently started investing in off-shore listed stocks



# Gilead Sciences Inc.

Gilead Sciences (GILD) is a US based biotech company



## Stock Profile

### Long Position

EPS Growth	>15%
PE	10.5
PEG	0.8
OCF yield	9.0%
FCF yield	8.0%
Cash	High
Debt	Small
Market Cap	US\$155 Bn

## Fundamental Analysis

- Cadence's first US listed stock investment is Gilead Sciences Inc (GILD). This position has grown to become our second largest holding.
- GILD is a US based biotech/pharma company which develops drugs to treat and cure serious diseases.
- GILD has five main focuses: i) Hepatitis C, ii) HIV/AIDS, iii) Oncology, iv) Cardiovascular, v) Respiratory illnesses.
- GILD are the global market leaders in the treatment of Hepatitis C and HIV/AIDS.
- GILD recently launched a new drug called Sovaldi (and its successor called Harvoni) which effectively cures hepatitis C. These drugs should underpin GILD's revenues for many years to come.



# Gilead Sciences Inc.

Gilead Sciences (GILD) is a US based biotech company

- **Fundamentally** and **technically** we like this US listed stock
- GILD is trading on about 10x forward earnings and we expect it to produce solid double digit earnings growth over the next several years
- PEG ratio 0.8, OCF 9%, little or no debt
- GILD is cheaper than most of its large-cap biotech/pharma peer group which trade on much higher multiples
- GILD's strong cash flow forecasts and strong balance sheet will enable the company to buy back stock and/or make acquisitions, thus enhancing earnings per share
- Share Price Trend for 3 months, 1 year and 5 years is up



# Gilead Sciences Inc.

Gilead Sciences (GILD) is a US based biotech company

- Share Price Trend for 3 months, 1 year and 5 years is up





# Mastercard Inc.

Mastercard Inc (MA) is a US based payments technology company

Idea  
Generation



internally generated  
idea

## Stock Profile

### Long Position

EPS Growth	>15%
PE	23.5
PEG	1.38
OCF yield	4.6%
FCF yield	4.3%
Cash	High
Debt	Small
Market Cap	US\$98 Bn

## Fundamental Analysis

- Payments technology company. MA has a dominant market position (VISA biggest)
- Connects consumers, financial institutions, merchants, businesses and government
- Operates in more than 210 countries. MA has issued approximate 2 billion cards
- Leveraged to the following themes:
  - Shift from cash to electronic payments
  - Internet & mobile transactions
  - Contactless payments
  - Emerging markets + Chinese consumer spending growth
  - Data analysis
- The major risks for MA are unfavourable regulatory decisions and litigation



# Mastercard Inc.

Mastercard Inc (MA) is a US based payments technology company

- **Fundamentally** and **technically** we like this US listed stock
- MA is trading on about 23x forward earnings. MA has consistently grown its EPS at mid to high teens and we expect this to continue
- Strong balance sheet will enable acquisitions and/or stock buy-backs to continue
- Recent 3Q results were excellent. Revenue growth of 13% and EPS up 19%
- The revenue was driven by 12% increase in gross dollar volume to \$1.2 trillion and 10% increase in processed transactions to 11 billion for the quarter



# Mastercard Inc.

Mastercard Inc (MA) is a US based payments technology company

- Share Price Trend for 3 months, 1 year and 5 years is up with the stock recently making new all-time highs





# The Year in Review

- The year to date has seen an All Ordinaries range of 5,000 to 5,600 with the market flat year on year. Put simply 10% volatility with no return
- The established commodity and interest rates trends have continued
- The resource boom ended four years ago and the trend has been down ever since. It is conceivable that the trend goes much lower
- Sectors exposed to falling and low interest rates have continued to perform well: banks, diversified financial services, property and infrastructure
- The sectors that performed so poorly during the Global Financial Crisis (GFC) have performed exceptionally since the GFC
- The Australian Dollar peaked at \$1.1065 and has been falling since



# Outlook for the year ahead

- There is nothing to suggest the falling commodity price trend will reverse in the year ahead.....if anything, on a balance of probabilities, things could get worse in the sector
- A major issue for global markets (and Australia in particular) is whether the 25 to 30 year trend in falling interest rates will continue, or reverse. A drastic rise in interest rates is unlikely. The market remains sensitive to any suggestion that interest rates may rise (we accept that eventually they will)
- The falling AUD\$ trend looks firmly in place and creates opportunities and challenges. Overseas travel will be replaced by domestic travel, inward bound tourism should improve. Exports benefit from a falling dollar and imports fall.
- Australia's ranking as one of the most expensive places in the world to do business should improve with a falling AUD\$.
- The market continues to 'climb a wall of worry' as it recovers from around 3,100 and will one day reach new highs above 6,800.....we are about half way between the two extremes



# Outlook for the year ahead (continued)

- The Superannuation Industry continues to grow strongly and is nearly \$1.9tln
- The entire ASX market capitalisation is around \$1.2tln to \$1.4tln
- As superannuation grows it will become two to three times the size of the ASX market capitalisation (we estimate \$3tln of super in 7 years time)
- Investing in Global equities creates diversification and extends our open mandate philosophy
- Investing in Global equities accesses new investment sectors not available in the domestic economy and can protect our portfolio from domestic trends
- We will continue to implement our investment strategy as outlined over the past 10 years
- As always using a bottom up approach will identify opportunities
- 'Bearish sentiment' is as popular now as after the GFC which tends to suggest the market will continue to 'climb a wall of worry'



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# Questions

We would like to open up the floor to all questions.

Thank You