# Cadence Capital Limited

# AGM and Investor Briefing

Monday, 23rd November 2015

10.30am – 12.00pm

Museum of Sydney

# Resolution 1

**To Adopt the Remuneration Report**

| | |
|---|---:|
| Votes for | 13,930,176 |
| Votes against | 1,905,387 |
| Open Proxy Votes to the Chair | - |
| Open Proxy Votes - Others | 1,082,654 |

Any Questions?

Someone to support the resolution

Someone to second the resolution

# Resolution 2

**To re-elect Mr Karl Siegling as a Director**

| | |
|---|---:|
| Votes for | 28,672,990 |
| Votes against | 99,187 |
| Open Proxy Votes to the Chair | 2,000,341 |
| Open Proxy Votes - Others | 948,634 |

Any Questions?

Someone to support the resolution

Someone to second the resolution

# Resolution 3

**Appointment of Auditor – Pitcher Partners**

| | |
|---|---|
| Votes for | 28,254,350 |
| Votes against | 124,722 |
| Open Proxy Votes to the Chair | 2,062,788 |
| Open Proxy Votes - Others | 948,634 |

Any Questions?

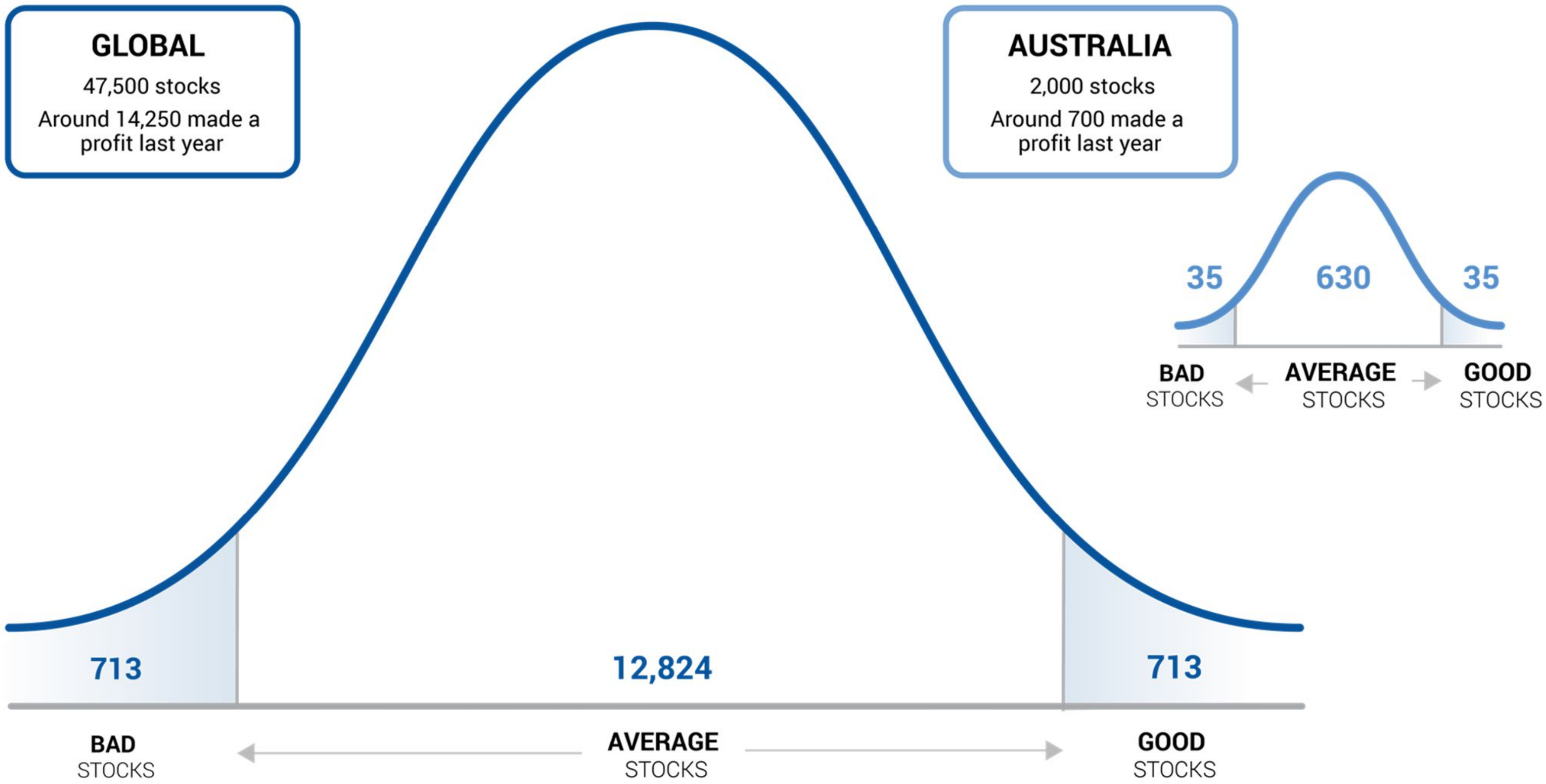
Someone to support the resolution

Someone to second the resolution

# Investment Philosophy and Beliefs

- Cadence Capital Limited looks to **outperform the market** by going long or short equities and by moving into and out of cash
- It looks for long and short opportunities across all sectors, market caps and countries – the portfolio moves to where the value is at any point in time
- 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

# Cadence Fundamental Research




CADENCE

# Cadence Fundamental Research

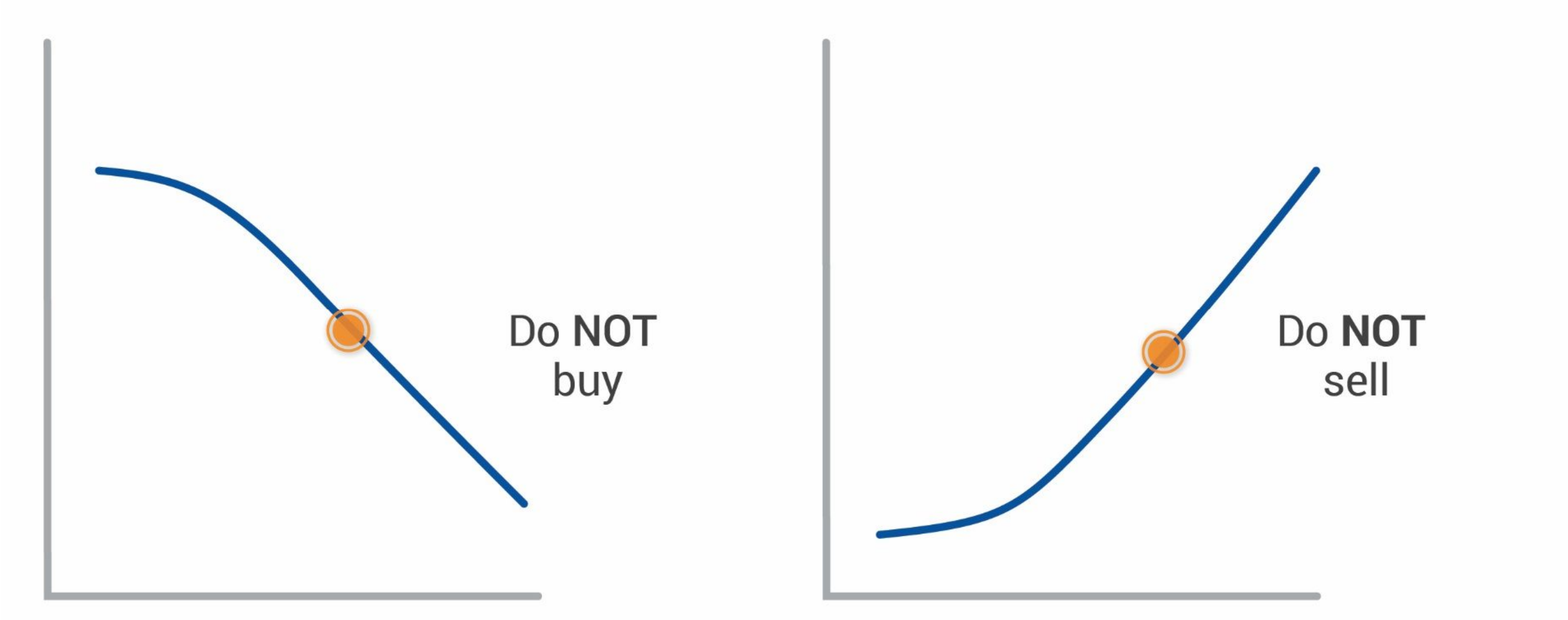
| Bad Fundamentals (For current year and two years estimates) | |
|---|---|
| **PEG** | 2+ |
| **OCF yield** | -ve% to 8% |
| **FCF yield** | -ve% to 3% |
| **Cash** | No |
| **Debt** | Yes |

| Good Fundamentals (For current year and two years estimates) | |
|---|---|
| **PEG** | <1 |
| **OCF yield** | 12% - 15% |
| **FCF yield** | 8% - 10% |
| **Cash** | Yes |
| **Debt** | No |

The Cadence Fundamental Research Model

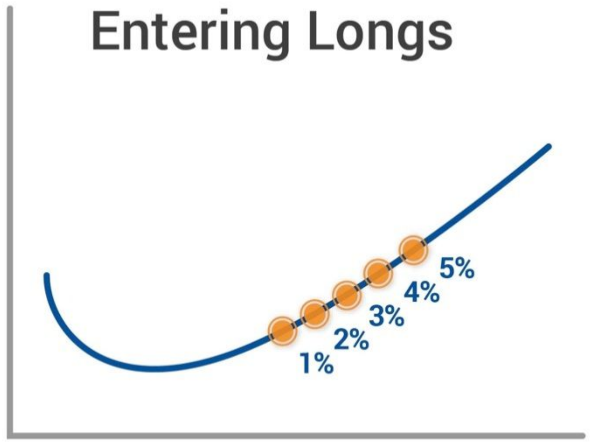
- 300-400 company visits per annum
- Detailed industry research
- A company's relative bargaining power
- Proprietary Models

# Technical Research

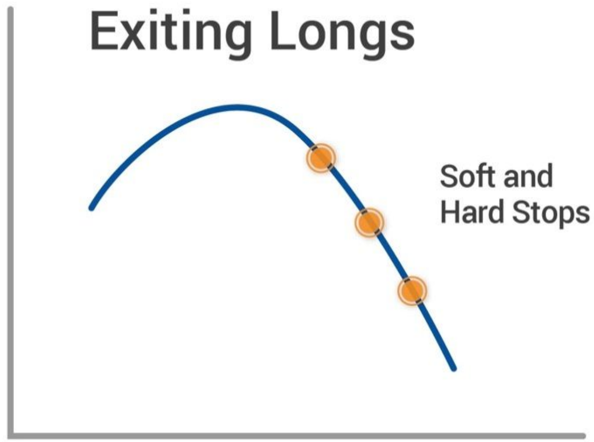



- the short-term (one year) share price and share volume indicators (short term trend)
- the long-term (five year) share price and share volume indicators (long term trend)
- the average weekly volume of shares traded

# Entry and Exit of Long Positions




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




- 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

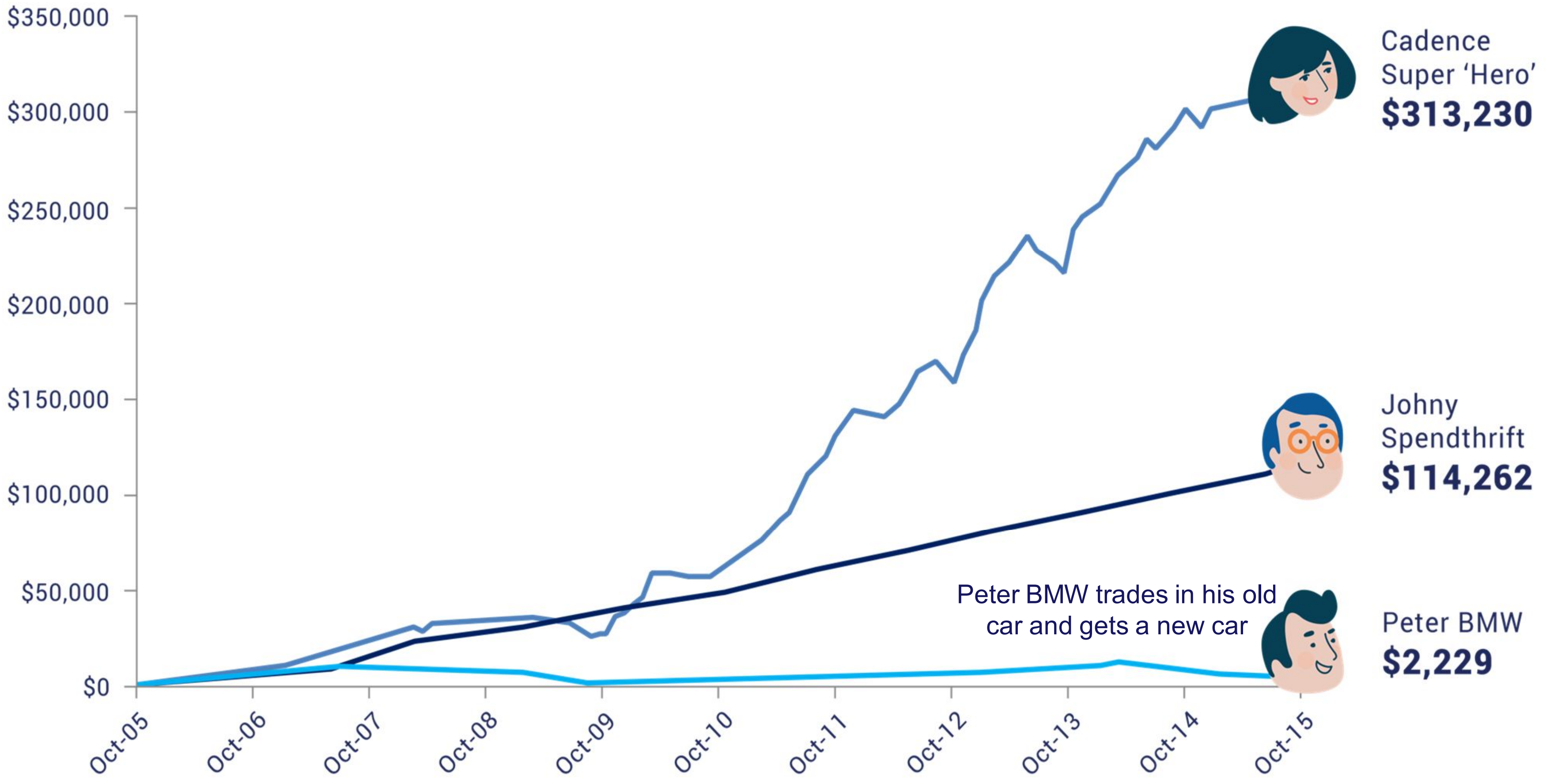
# Performance - 10 year track record

| Performance* to 31st October 2015 | CDM** | All Ords | Outperformance |
|---|---|---|---|
| 1 Month | 5.60% | 4.59% | +1.01% |
| 1 Year | 14.42% | 0.45% | +13.97% |
| 2 Years | 23.12% | 6.41% | +16.71% |
| 3 Years | 44.78% | 32.67% | +12.11% |
| 5 Years | 179.30% | 38.80% | +140.50% |
| 8 Years | 178.88% | 10.36% | +168.52% |
| 10 Years | 432.24% | 83.57% | +348.67% |
| Since Inception (10.1 years) | 434.04% | 76.54% | +357.50% |
| Since Inception Annualised (10.1 years) | 18.07% | 5.80% | +12.27% |

- *10 year track record* ***18.07% pa***
- ***3 times the All Ords Acc Index*** *whilst* holding on average 24.2 % cash
- 1st Quarter 2016 : Fund outperformed the market by 3.94%
- **ASX ranks CDM as one of Australia's Top Performing LICs**
- Rated '**Recommended PLUS**' by Independent Investment Research
- Outperformance over time and through different market cycles

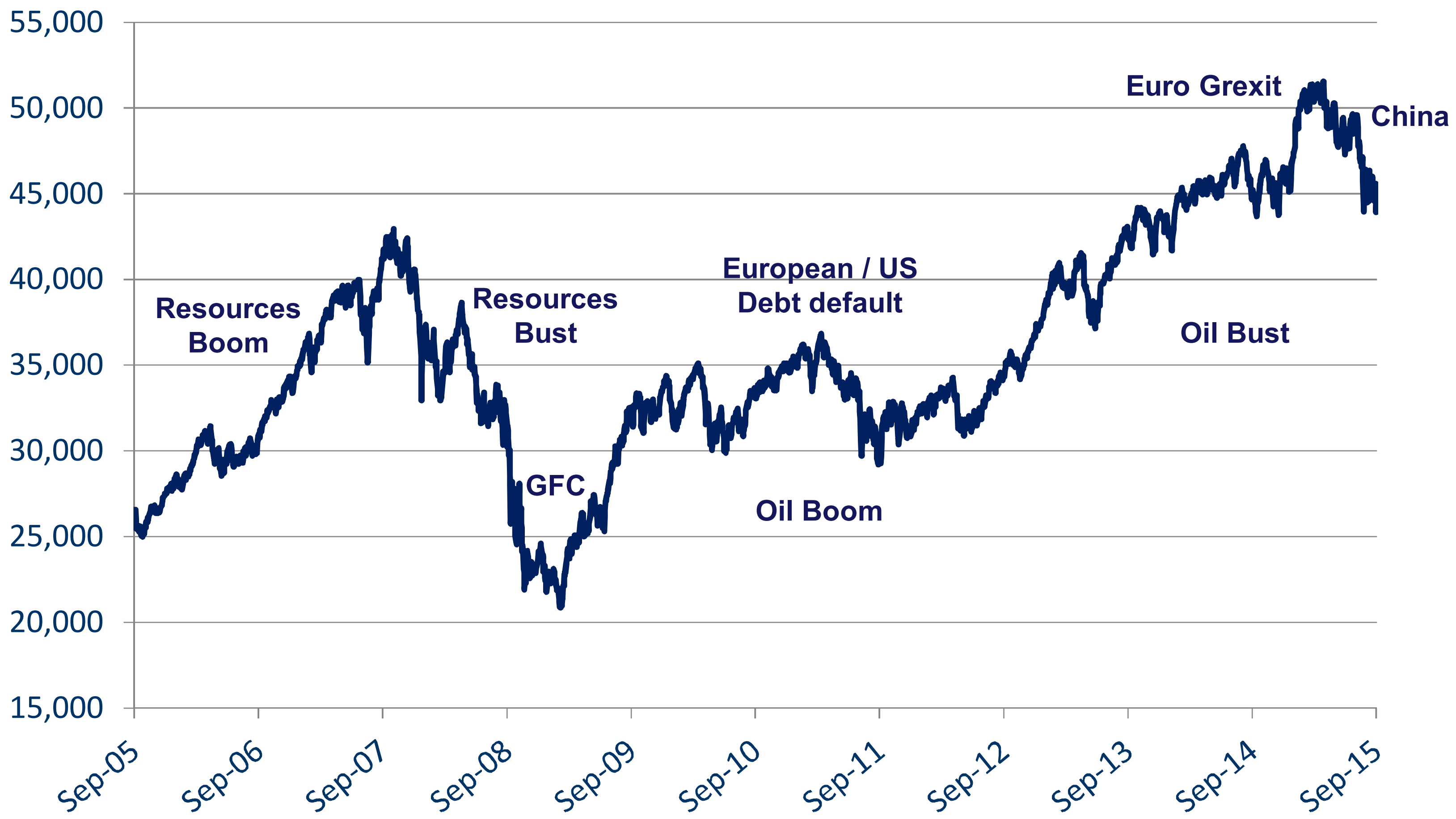
CADENCE

# Our Super Hero’s past 10 years




CADENCE

# Past 10 years: Market 5.8% p.a.




CADENCE

# Yield

| 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 |
| **TOTAL** | **28.5c** | **30.2c** | **11.5c** | **70.2c** | **99.4c** |

* Off market Equal access buy back

- **7.4% fully franked annualised yield (10.9% grossed up)**
- **ASX ranks CDM as of one Australia’s Top Yielding LICs**

# 10 Years on

- Funds Under Management (FUM) of $400 million
- One of the most actively traded LICs - ASX Ranking
- 7,500 shareholders - 65% of current investors are SMSFs
- Cadence Management team are still ***the largest Investor*** in the Company
- Broker research by Morgan Stanley, Evans & Partners, Baillieu Holst, Bell Potter & Patersons
- The fund invests in both local and overseas stocks

# Overseas Investments Performance

- In 2015 overseas investments delivered four times the returns of domestic investments. Currency contributed 1.3% to overall fund performance.
- CDM is a **trader** for tax purposes. CDM pays **Australian income tax** on **any** profits made (including on overseas investments). This enables CDM to pay ***fully franked dividends*** on ***all*** profits.
- CDM has continued to add to overseas investments, currently 53% (Cash 24%, Domestic investments 23%):
  - 35% invested directly in global listed equities
  - 18% are ASX listed but earn the majority of income overseas
- The investment universe and liquidity of the portfolio has significantly improved due to expansion into overseas investments.

# Outlook

- One year ago we said the AUD$, Iron ore and Oil were in a downward trend. 51, 41, 31.These trends are still firmly in place.
- Investing with the trend rather than against the trend is prudent
- In 2015/16 investing with the trend continues to mean avoiding or 'shorting' resources, investing further funds into global equities and holding overseas assets.
- A falling interest rate environment in Australia and a rising interest rate environment, particularly in the USA, will put increased pressure on the AUD$. Interest on cash deposits are very low.
- A recovering USA, a stabilising Europe, an emerging South America and a strongly growing, though volatile Asia, should assist global markets in 'climbing a wall of worry'.
- 'Climbing a wall of worry' commenced after the GFC and has continued since, with pauses along the way.

# Portfolio Top 20 Positions

| Code | Position | Direction | Currency | Holding |
|---|---|---|---|---|
| MQG | Macquarie Group Ltd | Long | AUD | 11.7% |
| HGG | Henderson Group Plc | Long | AUD | 6.9% |
| LUX IM | Luxottica Group SPA | Long | EUR | 5.8% |
| MLB | Melbourne IT Ltd | Long | AUD | 5.6% |
| MA US | Mastercard Inc | Long | USD | 5.5% |
| GILD US | Gilead Sciences Inc | Long | USD | 4.3% |
| 327 HK | Pax Global Technology Ltd | Long | HKD | 3.4% |
| 5930 KS | Samsung Electronics Co Ltd | Long | USD | 3.4% |
| FB US | Facebook Inc | Long | USD | 3.1% |
| ANZ | Australia & New Zealand Banking Group | Long | AUD | 3.1% |
| NAB | National Australia Bank Ltd | Long | AUD | 2.7% |
| RIO | Rio Tinto Ltd | Short | AUD | 2.6% |
| RFG | Retail Food Group | Long | AUD | 2.6% |
| AIG US | American International Group | Long | USD | 2.4% |
| NCM | Newcrest Mining Ltd | Long | AUD | 2.2% |
| GOOG US | Alphabet Inc | Long | USD | 2.0% |
| IPH | IPH Ltd | Long | AUD | 1.9% |
| TPM | TPG Telecom Ltd | Long | AUD | 1.8% |
| CBA | Commonwealth Bank of Australia | Long | AUD | 1.8% |
| MYO | MYOB Group Ltd | Short | AUD | 1.7% |
| **Top Portfolio Holdings Gross Exposure** | | | | **74.71%** |

CADENCE

# Great Wall Motor Co. – Long Position

Idea Generation ← Internal

**Stock Profile**

**Long Position**

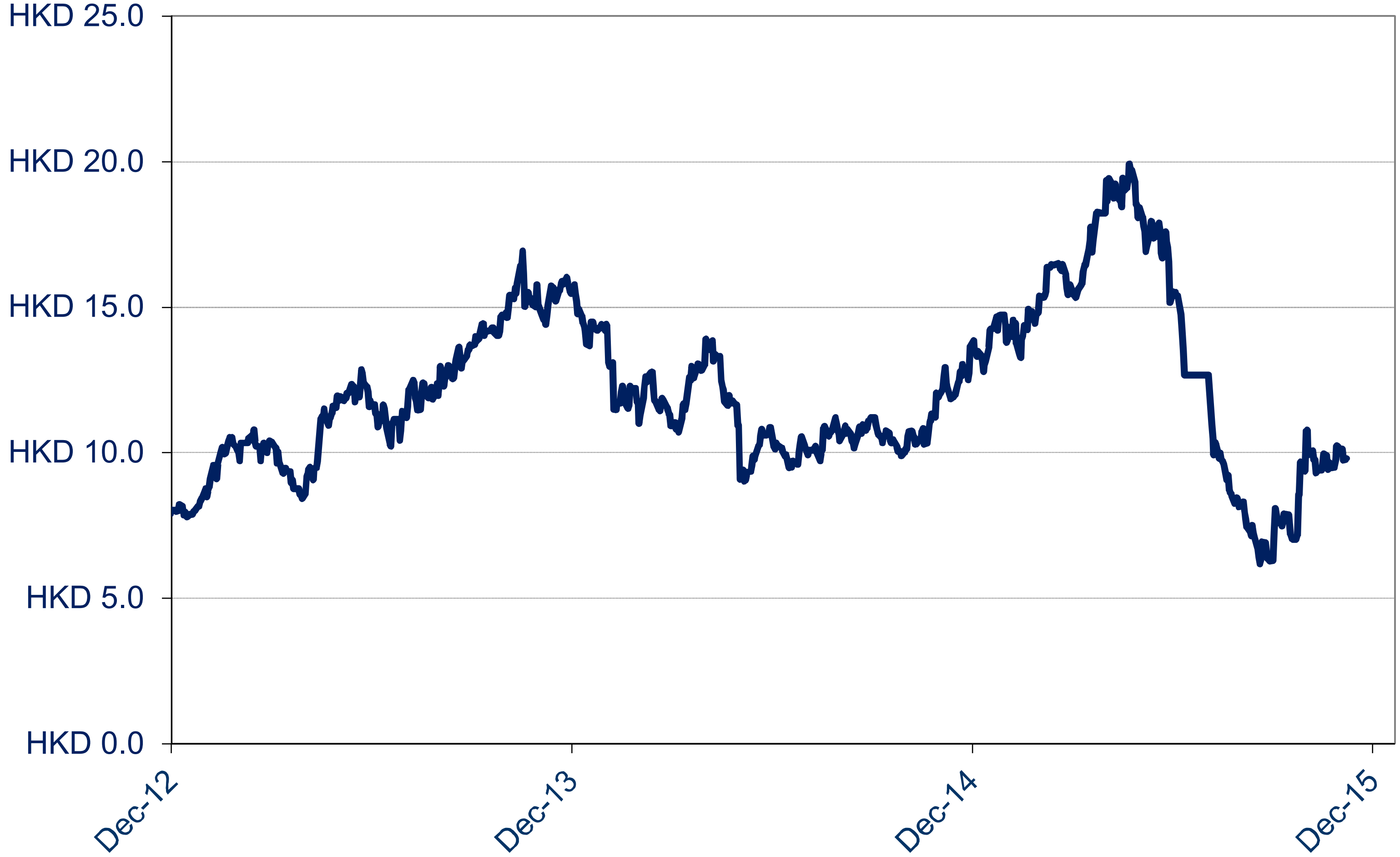
| | |
|---|---|
| **EPS Growth** | 14% |
| **PE** | 8.8x |
| **PEG** | 0.6 |
| **OCF yield** | 12.3% |
| **FCF yield** | 4.3% |
| **Cash** | $3,839M |
| **Debt** | $7,155M |
| **Market Cap** | $86,706M |

<u>Fundamental Analysis</u>

- The ‘must own’ stock in Singapore and Hong Kong last year when we visited DB Asia Conference
- Previously trading on 31x PE multiple
- Earlier this year became the ‘must not own’ stock in Asia falling 72% and trading on a 6.5x PE
- Fundamentally the motor vehicle manufacturer continues to grow earnings
- The Yuan depreciated 20% during the China sell off making Great Wall Motor vehicles 20% cheaper globally
- All imported motor vehicles into China have effectively become 20% more expensive
- Chinese domestic demand is for an affordable motor vehicle
- Japan and South Korea both successfully adopted a similar strategy previously

CADENCE

# Great Wall Motor Co. – Long Position




* Chart adjusted for capital returns, share splits, etc

CADENCE

# Melbourne IT Ltd – Long Position

Idea Generation ← Internal

## Stock Profile

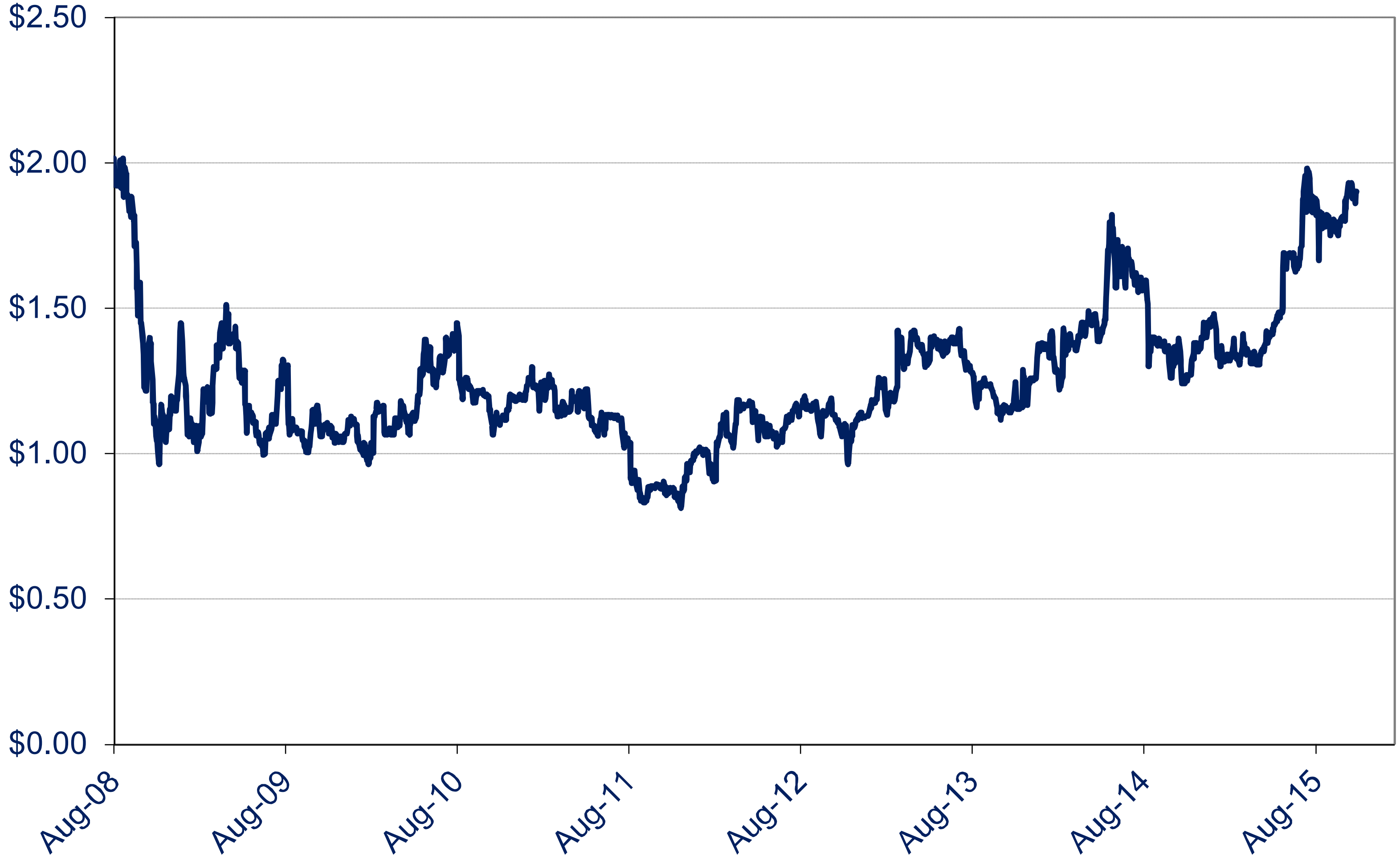
### Long Position

| | |
|---|---|
| **EPS Growth** | 31% |
| **PE** | 22x |
| **PEG** | 0.7 |
| **OCF yield** | 6.9% |
| **FCF yield** | 5.7% |
| **Cash** | $18M |
| **Debt** | $0M |
| **Market Cap** | $167M |

## Fundamental Analysis

- MLB is a turnaround story
- Earnings growth in 2016 is strong and very strong for 2017
- Catalyst has been the purchase of Net Registry business with the founder taking stock in MLB not scrip
- A new management team have been put in place to integrate businesses as well as expand into new revenue streams
- Commodity style revenue is being replaced by value added revenue and earnings
- We started buying the stock at $1.11 (ex capital return) and have been adding to it since
- Operating Cash Flow and Free Cash Flow should improve over time for a business in transition

# Melbourne IT Ltd – Long Position




* Chart adjusted for 54 cents capital return, share splits, etc

CADENCE

# Rio Tinto Ltd – Short Position

Idea Generation ← Internal

**Stock Profile**

**Short Position**

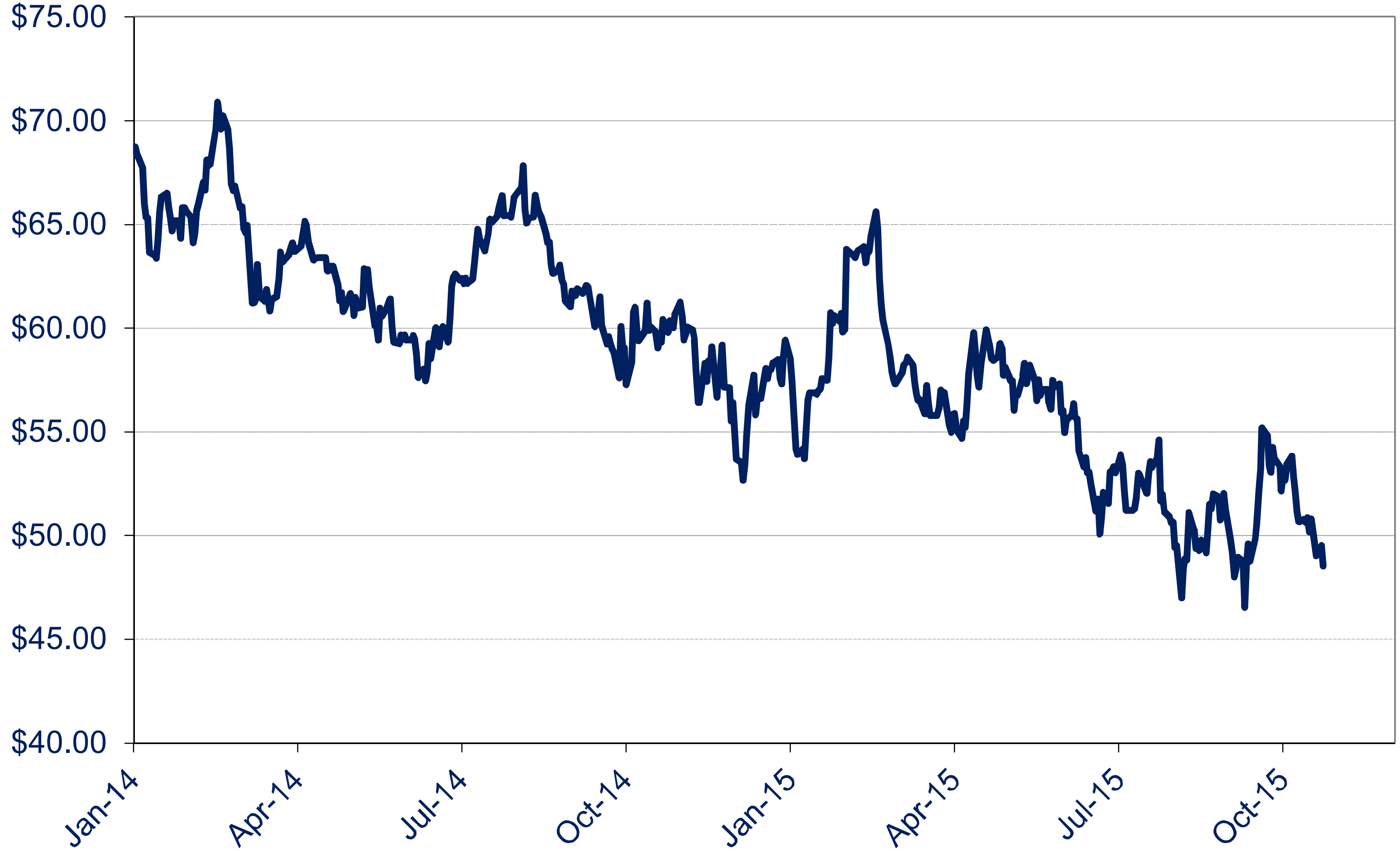
| | |
|---|---|
| **EPS Growth** | -50% |
| **PE** | 20x |
| **PEG** | Negative |
| **OCF yield** | 9.9% |
| **FCF yield** | 1.0% |
| **Cash** | USD 11B |
| **Debt** | USD 25B |
| **Market Cap** | USD 62B |

Fundamental Analysis

- In the first half of 2015 Rio Tinto made 63% of it's profit from iron ore, 24% from aluminium, 11% from copper, and 2% from other commodities.
- The price trend for these main commodities is down. Compared to H1 2015 iron ore is down 25%, aluminium is down 18% and copper is down 21%.
- This is offset by a weaker Australian Dollar (9% down vs H1) and Canadian Dollar (7% down vs H1).
- If commodity prices and currencies remain relatively stable from here we estimate RIO's 2016 profit will be about USD 3.1b compared to USD 9.3b for 2014.
- We believe that the iron ore market is oversupplied, and that iron ore will need to fall another 20% to 30% from here to cause a significant reduction in production. If this happened RIO's profit could fall to about USD 1b (equates to a PE of 62).

* Rio Tinto reports in USD and the information in this slide is all based on USD

# Rio Tinto Ltd – Short Position




CADENCE

# Mastercard Inc. – Long Position

Idea Generation ← Internal

## Stock Profile

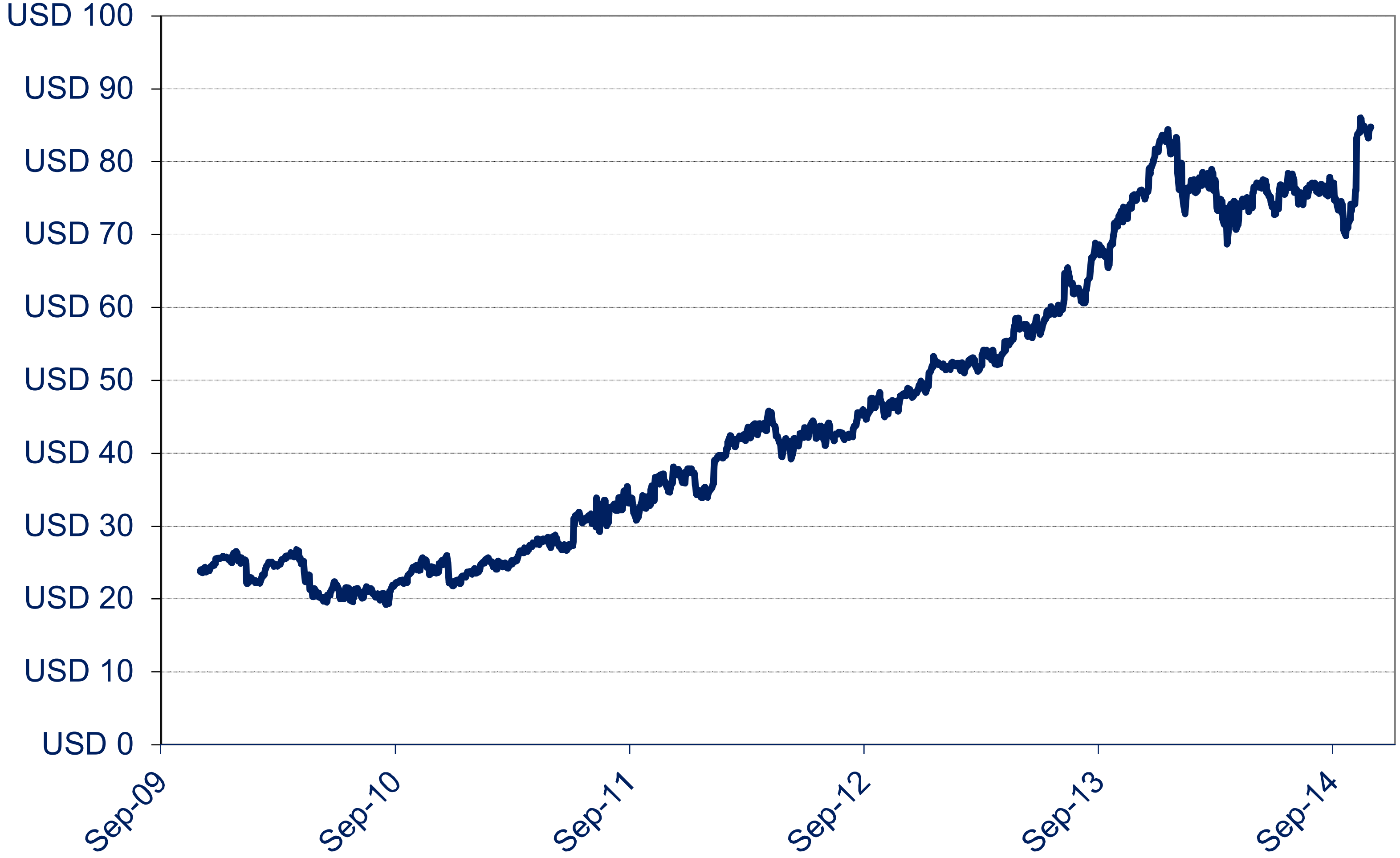
### Long Position

| | |
|---|---|
| **EPS Growth** | 15%(FY16) |
| **PE** | 25.5x |
| **PEG** | 1.70 |
| **OCF yield** | 4.3% |
| **FCF yield** | 4.0% |
| **Cash** | $3900M |
| **Debt** | $1500M |
| **Market Cap** | A$155Bn |

## Fundamental Analysis

- Mastercard (MA US) is a payments technology company with operations in more than 200 countries and more than 2 billion cards issued.
- Mastercard is the technology network intermediary connecting consumers, banks, merchants, businesses and government. Does not take credit risk.
- Mastercard first entered the Cadence portfolio in 2014. At the time it was a Core position with a P/E of approximately 20x for 18.5% EPS growth in 2014.
- We have added to the position several times as the stock has risen, albeit the valuation is now more expensive. 5.5% position size in the CDM portfolio.
- Mastercard has a history of delivering consistent, predictable EPS growth, has a clean balance sheet and is exposed to the attractive payments industry. We expect many years of robust earnings growth ahead.
- Global business – currency (strong USD)has been a headwind to earnings.

# Mastercard Inc. – Long Position




CADENCE

# Questions

We would like to open up the floor to any questions that they may have on the stocks in the portfolio.

Thank You