

## INVESTMENT UPDATE

DECEMBER 2021

Cadence Capital Limited was down 2.7% in December, compared to the All Ordinaries Accumulation Index which was up 2.7% for the month. The Company has had a strong start to FY22 with the fund up 10.2% over the first six months of the year, outperforming the All Ordinaries Accumulation Index by 5.6%.

The final quarter of calendar year 2021 has seen a marked change in the performance of markets globally. Following the initial 'panic' of the Covid 19 pandemic, high-valuation growth stocks and smaller market capitalisation stocks experienced significant gains for nearly one and a half years. These stocks and the Small Ordinaries index, NASDAQ index and Russell 2000 index outperformed the larger indices and our funds benefitted significantly from being positioned in growth stocks and sectors that experienced significant growth, specifically technology related companies that traded on high multiples of earnings or were valued based on revenue multiples.

This trend experienced a significant reversal in late calendar year 2021 and many stocks within these indices were down between 40% and 50% during this period. For example, approximately 40% of stocks in the NASDAQ are down at least 50% from highs, whilst the index itself is down only 8%. Domestically, the average stock in the ASX 200 is down over 15% whilst the index is down only 1%. Generally speaking, larger capitalization, 'lower risk', lower growth stocks have held up well whilst 'higher risk', smaller capitalisation growth stocks have experienced significant retracement and a reversal in trend.

Following the Cadence process of scaling into and out of positions and trends, the Portfolio rose to an average of 30% cash in the final quarter. In addition, trends have emerged in resources and energy stocks as well as stocks with pricing power, as fears of inflation and higher interest rates continue, and could become a reality. The Portfolio has seen new positions and increased positions in BHP, Whitehaven Coal, Mineral Resources, Fortescue Metals, OZ Minerals, Freeport-McMoran, Champion Iron and New Hope. These stocks have been performing well recently. A number of specific stocks that meet our criteria have also performed well including John Lyng, Uniti Group, Credit Corp and Money3.

This rotation in the underlying portfolio has led to underperformance in the short term but significant outperformance of over 24% for the previous two years. The construction of the portfolio is now significantly different to a year ago and is consistent with the fact that the investment environment is different to the last few years, and we may actually be starting to experience a shift in longer term trends towards higher interest rates and inflation. In this scenario the stocks that will perform well will be very different to the stocks that have performed well previously. We are beginning to see the first signs of these trends.

We remain confident that the Cadence process will move us out of underperforming stocks into stocks that are trending well and meet our fundamental and technical criteria

## Fully Franked Half Year Dividend Declared

The Board has declared a 4.0 cents fully franked half year dividend, an increase of 100% over the previous half year dividend reflecting the strong performance of the company over the last two years and the build-up of its profits reserves and franking balances. This interim dividend equates to an 8.2% annualised fully franked yield or a 11.7% gross yield (grossed up for franking credits) based on the current share price of \$0.98 per share. Importantly this equates to a 7% dividend yield based on the current pre-tax NTA of \$1.14, as the Company shares are currently trading at a discount to NTA despite recent strong performance and a 16-year track record of significant outperformance against the All Ordinaries Accumulation Index. The Company is now well positioned to pay an increased dividend.

Following shareholder request and after considering several options the Board has decided to implement the Dividend Reinvestment Program (DRP) for the half year dividend. There will be no DRP discount applied. Shares will be issued at the weighted average of the prevailing share price over the relevant DRP pricing period. The Company will be able to reissue shares that it has purchased in the on-market buy-back at an average price of \$0.768 per share. The profits from the on-market buy-back benefit all existing shareholders.

The Ex-Date for the dividend is the 31st March 2022. The payment date for the dividend is the 14th April 2022.

## Fund NTA

Net Tangible Assets as at 31st December 2021	Amount (\$)
Pre Tax NTA	\$1.158
Post Tax NTA	\$1.245
Share Price (ASX Code: CDM)	\$0.995

## Fund Gross Performance

Gross Performance* to 31st December 2021	CDM	All Ords Accum	Outperformance
1 Month	-2.7%	2.7%	-5.4%
YTD	10.2%	4.6%	+5.6%
1 Year	23.7%	17.7%	+6.0%
3 Years (per annum)	14.2%	14.8%	-0.6%
5 Years (per annum)	8.5%	10.4%	-1.9%
8 Years (per annum)	6.5%	9.0%	-2.5%
10 Years (per annum)	9.0%	11.0%	-2.0%
Since Inception (16.3 years) (per annum)	13.2%	7.6%	+5.4%
Since Inception (16.3 years) (total return)	647.0%	229.9%	+417.1%

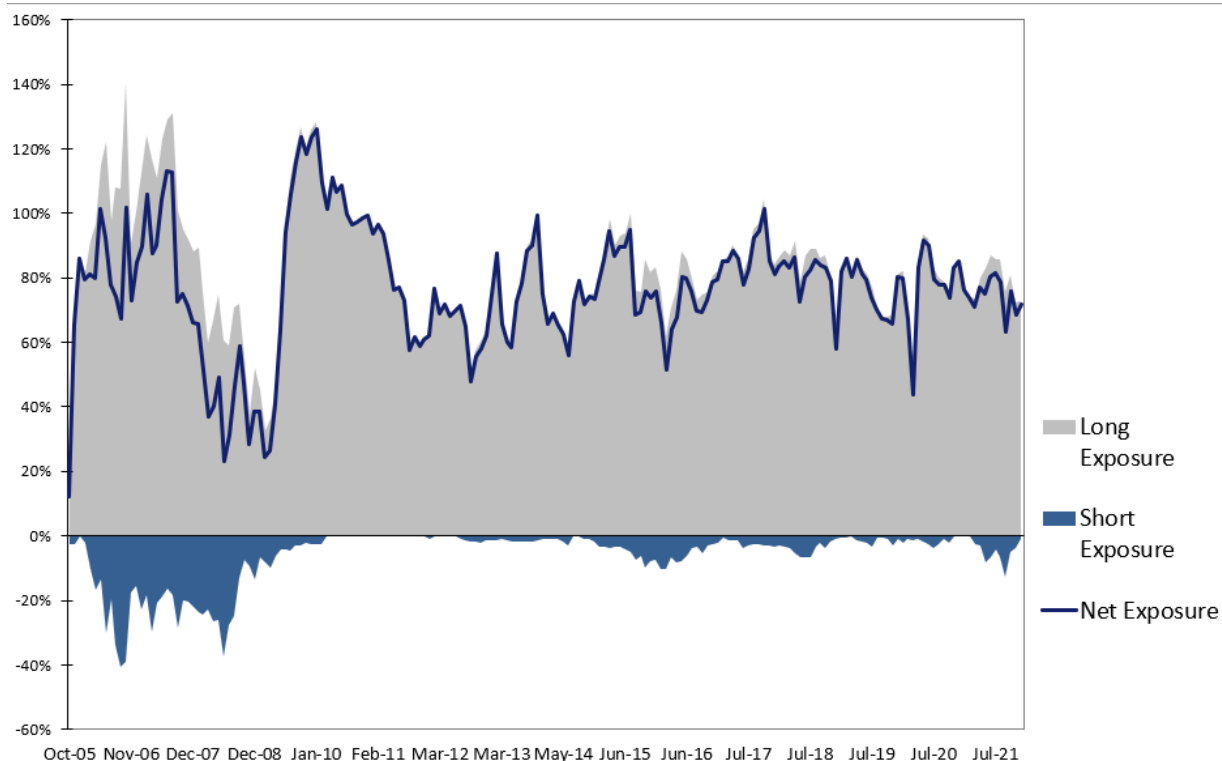
\* Gross Performance: before Management and Performance Fees

## Franked Dividends Declared Since Listing

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
2017	4.0c	4.0c	-	8.0c	11.4c
2018	4.0c	4.0c	-	8.0c	11.4c
2019	3.0c	2.0c	-	5.0c	7.1c
2020	2.0c	2.0c	-	4.0c	5.7c
2021	2.0c	3.0c	-	5.0c	7.1c
2022	4.0c	-	-	4.0c	5.7c
<b>TOTAL</b>	<b>52.5c</b>	<b>49.2c</b>	<b>11.5c</b>	<b>113.2c</b>	<b>160.7c</b>

\* Off market equal access buy back

## Historic Portfolio Exposure



## Portfolio Sector Analysis

Sector	Long	Short	Net
Communications	16.2%	-0.2%	16.0%
Technology	14.0%		14.0%
Basic Materials	10.1%		10.1%
Financial	7.5%	-0.9%	6.6%
Energy	5.6%		5.6%
Industrial	5.2%		5.2%
Consumer, Cyclical	4.8%		4.8%
Diversified	3.0%		3.0%
Materials	2.9%		2.9%
Consumer, Non-cyclical	2.1%		2.1%
Capital Goods	1.5%		1.5%
	<b>73.0%</b>	<b>-1.1%</b>	<b>71.9%</b>

<b>Net Cash Holdings and Tax Asset</b>	<b>28.1%</b>
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## Top 20 Portfolio Positions

Code	Position*	Direction	Currency Exposure
GOOGL US	Alphabet Inc	Long	AUD
ALQ	ALS Limited	Long	AUD
BHP	BHP Group Ltd	Long	AUD
CAR	Carsales.com Ltd	Long	AUD
CIA	Champion Iron Ltd	Long	AUD
CCP	Credit Corp Group Ltd	Long	AUD
FMG	Fortescue Metals Group Ltd	Long	AUD
JLG	Johns Lyng Group	Long	AUD
LRCX US	Lam Research Corp	Long	AUD
MGH	Maas Group Holdings Ltd	Long	AUD
MIN	Mineral Resources Ltd	Long	AUD
MNY	Money3 Corp Ltd	Long	AUD
NHC	New Hope Corp Ltd	Long	AUD
OZL	OZ Minerals Ltd	Long	AUD
QCOM US	Qualcomm Inc	Long	AUD
RMC	Resimac Group Ltd	Long	AUD
TMC US	TMC The Metals Company Inc	Long	AUD
TUA	Tuas Limited	Long	AUD
UWL	Uniti Group Limited	Long	AUD
WHC	Whitehaven Coal Ltd	Long	AUD

\* In Alphabetical Order

## Portfolio Market Capitalisation Analysis

Market Capitalisation	Long	Short	Net
> AUD 1 Billion	56.5%	-1.1%	55.4%
AUD 500 Mill - AUD 1 Billion	13.7%		13.7%
AUD 250 Mill - AUD 500 Mill	2.0%		2.0%
AUD 100 Mill - AUD 250 Mill	0.4%		0.4%
0 - AUD 100 Mill *	0.4%		0.4%
	<b>73.0%</b>	<b>-1.1%</b>	<b>71.9%</b>
Net Cash Holdings and Tax Asset			<b>28.1%</b>

## News

Cadence Capital Limited held its AGM and Investor Briefing on the 1<sup>st</sup> December 2021. At the Investor Briefing, Chairman Karl Siegling started by giving an update on the company's performance, dividends, and profits reserves balances and CDM's current portfolio structure. Portfolio managers Jackson Aldridge and Charlie Gray then discussed a number of the company's current holdings. Karl Siegling closed with the outlook for 2022. [Click here to view this Investor Briefing.](#)

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