



# AGM Investor Briefing

Cadence Capital Limited (CDM) &  
Cadence Opportunities Fund Limited (CDO)



# CDM and CDO

## Cadence Capital Limited (ASX Code CDM)

- YTD fund up **+7.8%** outperforming index by 1.3%.
- Past three years fund up **+12.7% p.a.** outperforming index by 7.5% p.a.
- Past 17 years fund up **+12.1% p.a.** outperforming index by 5.2% p.a.
- Past 17 years fund on average **75% net exposed** to market (i.e. 25% in cash)
- Annualised dividend yield of **8.3% fully franked** (11.9% gross including franking)
- Opportunity to buy at a **discount to NTA**

## Cadence Opportunities Fund Limited (ASX Code CDO)

- CDO is an **active trading version** of the Cadence Capital process, using **shorter duration** trends to produce alpha opportunities.
- Past two years fund gross performance of **+24.0% p.a.** outperforming index by 12.5% p.a.
- Since inception 3.8 years ago fund up **37.5% p.a.** outperforming index by 27.9% p.a.
- Annualised yield of **6.5% fully franked** (9.3% gross including franking)
- Trading around NTA



# Open Mandate – Portfolio Changes

In October 2021, 49% of CDM's exposure was in Technology and Communication stocks and 7% in Energy stocks



In March 2022, (5 months later) 42% of the fund's exposure was in Energy and 28% in Resources and 8% in Technology and Communication stocks

Sector	Long	Short	Net
Communications	19.1%		19.1%
Technology	20.4%	-2.0%	18.4%
Financial	9.7%	-1.1%	8.6%
Consumer, Cyclical	7.0%		7.0%
Industrial	6.0%		6.0%
Consumer, Non-cyclical	5.6%		5.6%
Energy	5.2%		5.2%
Diversified	3.9%		3.9%
Capital Goods	2.6%		2.6%
Materials	1.2%		1.2%
Utilities		-1.1%	-1.1%
Basic Materials		-0.4%	-0.4%
Banks		-0.3%	-0.3%
	<b>80.7%</b>	<b>-4.9%</b>	<b>75.8%</b>

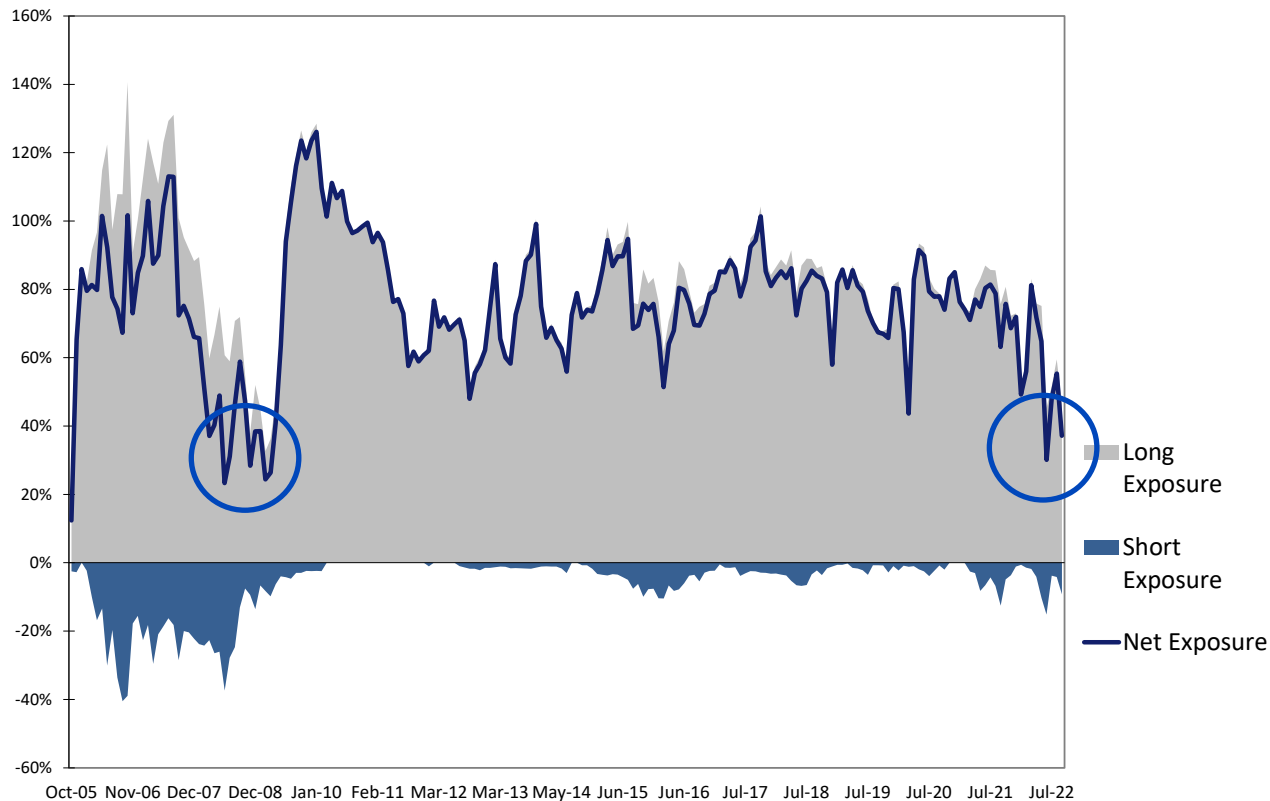
<b>Net Cash Holdings and Tax Asset</b>	<b>24.2%</b>
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Sector	Long	Short	Net
Energy	34.2%		34.2%
Basic Materials	23.1%		23.1%
Consumer, Non-cyclical	6.7%		6.7%
Financial	5.4%	-1.8%	3.5%
Communications	3.8%		3.8%
Technology	3.2%		3.2%
Industrial	3.0%		3.0%
Consumer, Cyclical	3.1%	-0.4%	2.8%
Utilities	1.0%		1.0%
	<b>83.5%</b>	<b>-2.2%</b>	<b>81.2%</b>

<b>Net Cash Holdings and Tax Asset</b>	<b>18.8%</b>
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# CDM Historical Exposure



- Investors do not need to sell CDM to reduce their equity exposure as CDM's investment process already does this
- For example, CDM was 75% cash in June 2008 and March 2009 and 70% cash in June 2022



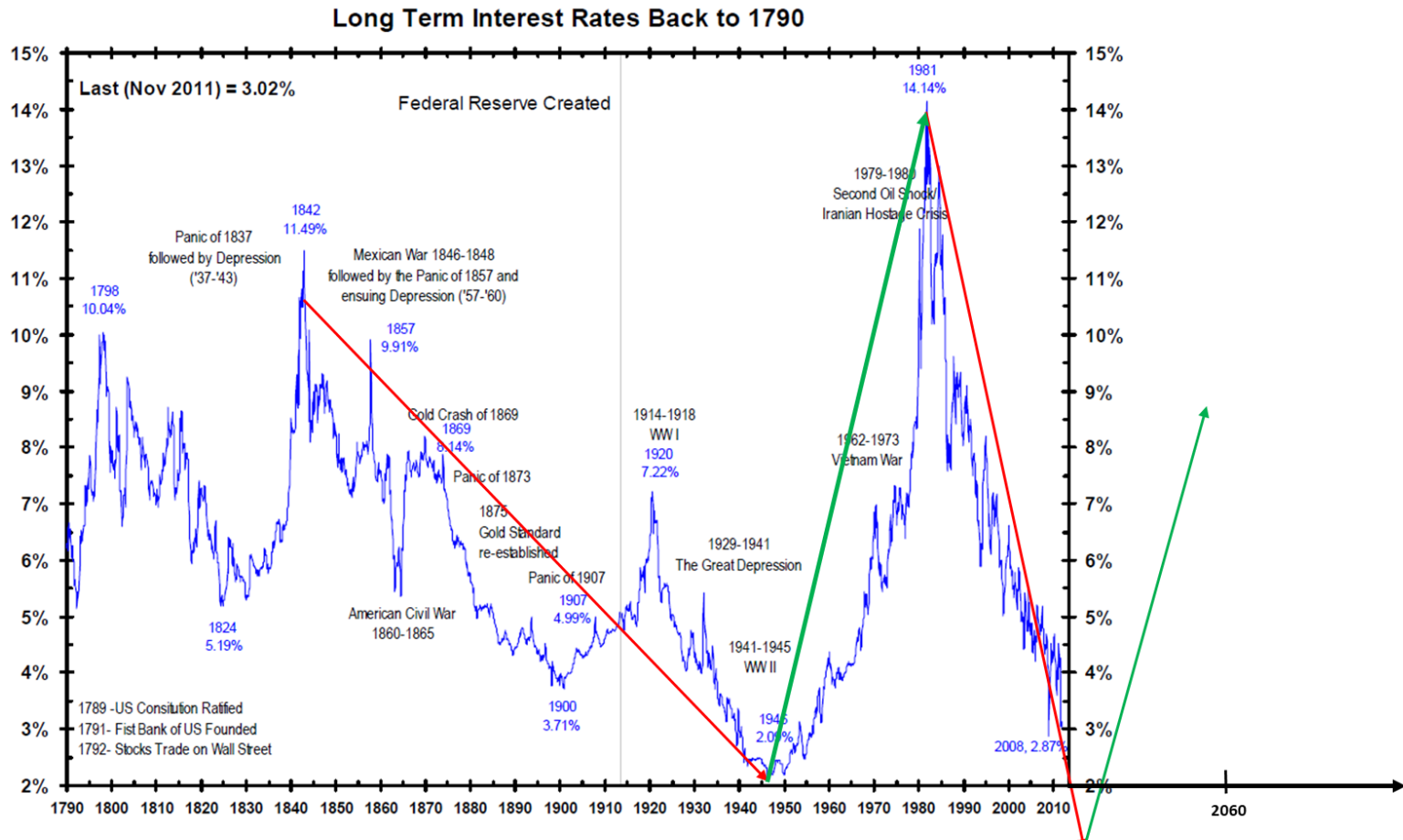
# CDM Top 20 (31 October 2022)

Code	Position*	Direction	Currency Exposure
AMP	AMP Ltd	Long	AUD
ALL	Aristocrat Leisure Ltd	Long	AUD
BHP	BHP Group Ltd	Long	AUD
DAC US	Danaos Corp	Short	AUD
FMG	Fortescue Metals Group Ltd	Short	AUD
NHC	New Hope Corp Ltd	Long	AUD
NVDA US	NVIDIA Corp	Short	AUD
QAN	Qantas Airways Ltd	Long	AUD
RMD	Resmed Inc	Long	AUD
SYA	Sayona Mining Ltd	Short	AUD
SMR	Stanmore Coal Ltd	Long	AUD
SYR	Syrah Resources Ltd	Long	AUD
TSM US	Taiwan Semiconductor Manufacturing Co	Short	AUD
TER	Terracom Ltd	Long	AUD
TEVA US	Teva Pharmaceutical	Long	AUD
TGH US	Textainer Group Holdings Ltd	Short	AUD
TIE	Tietto Minerals Ltd	Long	AUD
TMC US	TMC The Metals Company Inc	Long	AUD
WHC	Whitehaven Coal Ltd	Long	AUD
WDS	Woodside Energy Group Ltd	Long	AUD

\* In Alphabetical Order



# Interest Rates (June 2022 webcast)



Source: What Drives The Bond Market?  
Chicago CFA Handout by [Bianco Research LLC](#)  
January 18, 2011

**Added by Cadence Asset Management:** Red and  
Green Trend lines  
July 25, 2022



# Interest rate trends

- Interest rate trends are long – 40 years +
- Interest rates went up from 1945 until the mid 1980's and then fell from the mid 1980's until around 2020
- Since 'bottoming out' interest rates have been going up for the last two years
- Asset classes behave differently in an interest rate falling environment versus an interest rate rising environment
- This change in interest rate trend could be the most significant trend change in 40 years
- As always very few people predicted interest rates would rise as quickly as they have and fewer people will predict interest rates will go much higher
- Very few market participants benefit from predicting that interest rates will go up and is not a 'popular' trend



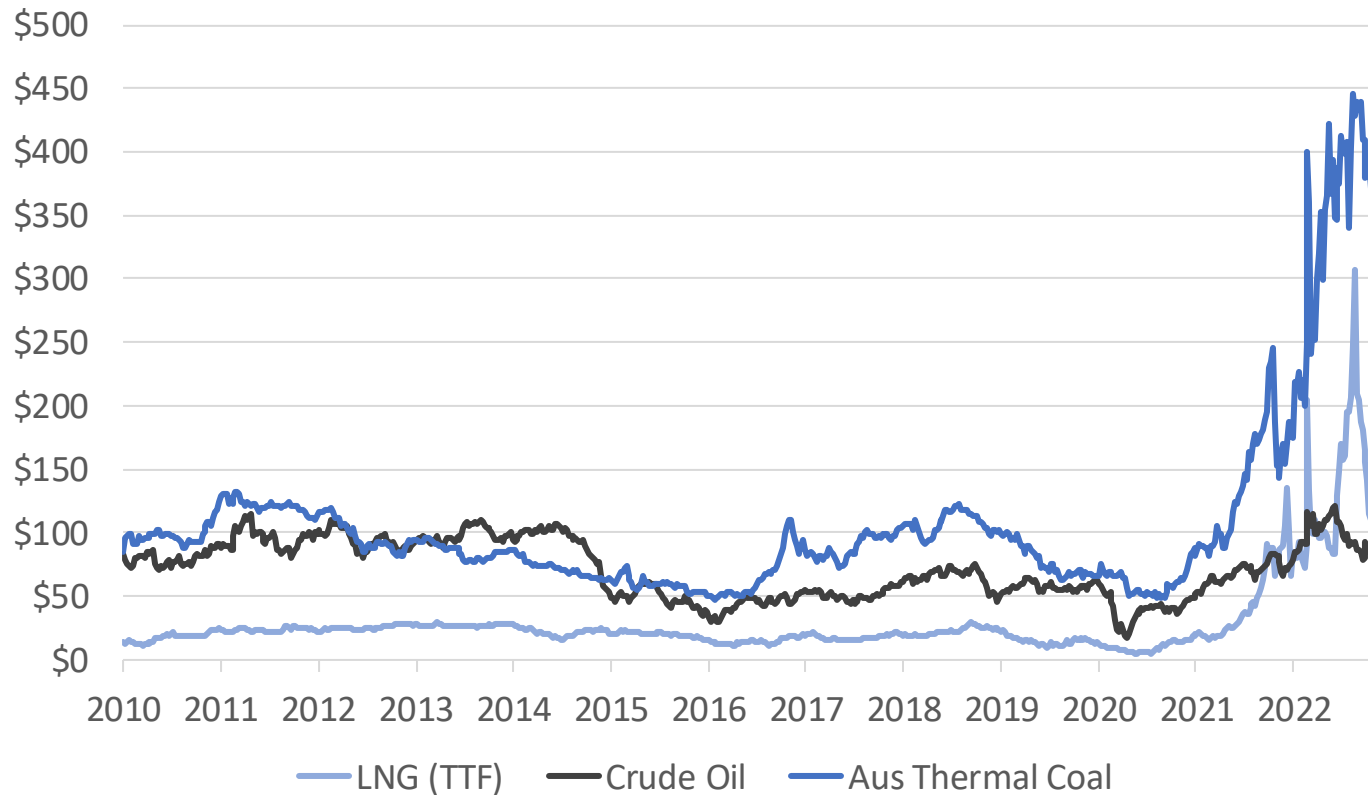
# The Australian Dollar







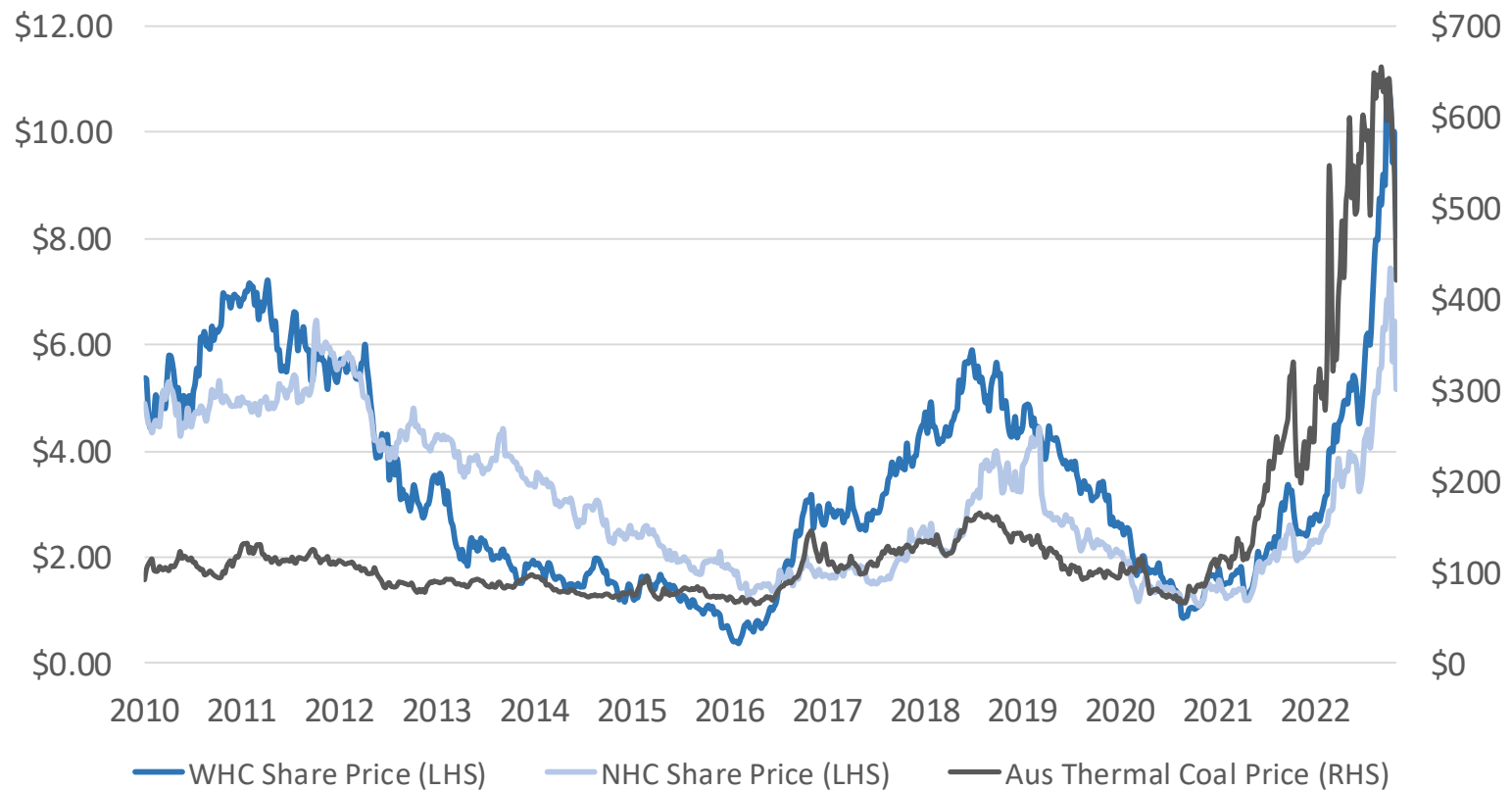
# Fossil Fuel Prices



Source: Bloomberg, Prices are in USD



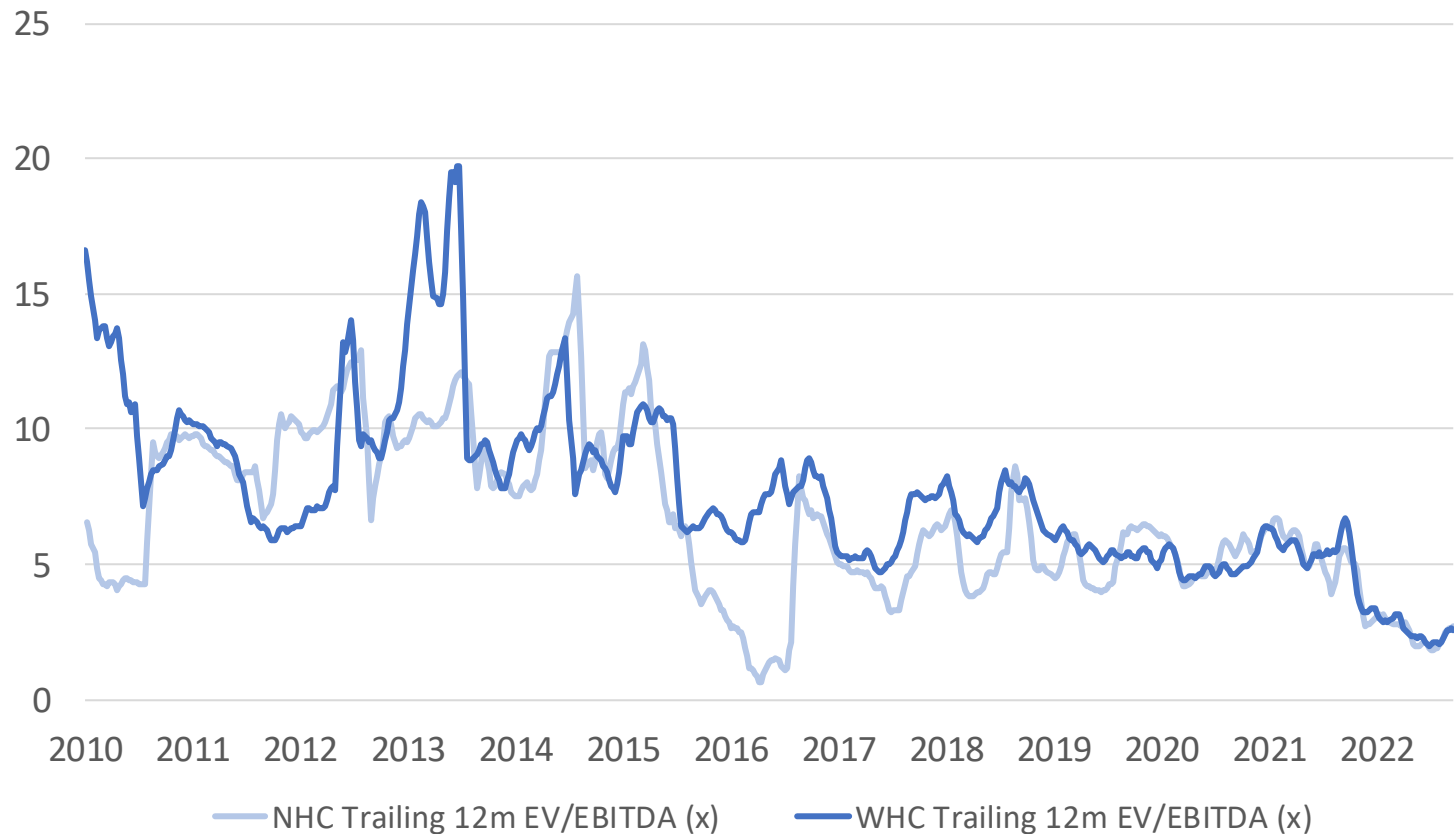
# Australian Coal Producers



Source: Bloomberg, Prices are in AUD



# Coal producer valuations have fallen



Source: Bloomberg



# WHC and NHC – Core Positions (Long)

- Whitehaven Coal (WHC) is trading on a PE of 3x this year and 2x next year based on current coal prices and cash earnings have ‘exploded’ making WHC fundamentally cheap
- Similarly, New Hope Coal (NHC) is trading on a PE of 3x this year and 1.9x next year
- WHC has an operating cash flow yield of 41% in FY22 and around 57% this year and a very cheap Price to Earnings Growth (PEG) Ratio
- Similarly, NHC has an operating cash flow yield of 28% in FY22 and around 37% this year.
- Coal and energy prices generally are cyclical and using the Cadence Process we add to cheap positions when they are going up and sell them when they roll over
- Other Coal positions in the fund: TER, SMR, AQC, BCB, CRN



# LNG & Oil market dynamics

## **Probabilities favouring a tighter LNG market in 2023**

- LNG imports up 60% to Europe in 2022
- At the same time, China has reduced LNG imports significantly
- In 2023, Europe will have more capacity to import LNG (regasification facilities)
- What will happen if China is no longer locked down next year and both need the energy?
- There is no significant new LNG supply expected until 2025/2026

## **Oil a harder call**

- The Oil price has trended lower since July on lower demand and boosted supply from US Strategic Oil Reserve releases
- Underlying supply remains tight
- Many moving parts moving forward: demand trends, OPEC cuts, end or extension of US Reserve releases, Russian ban implementations, gas-to-oil switching, etc



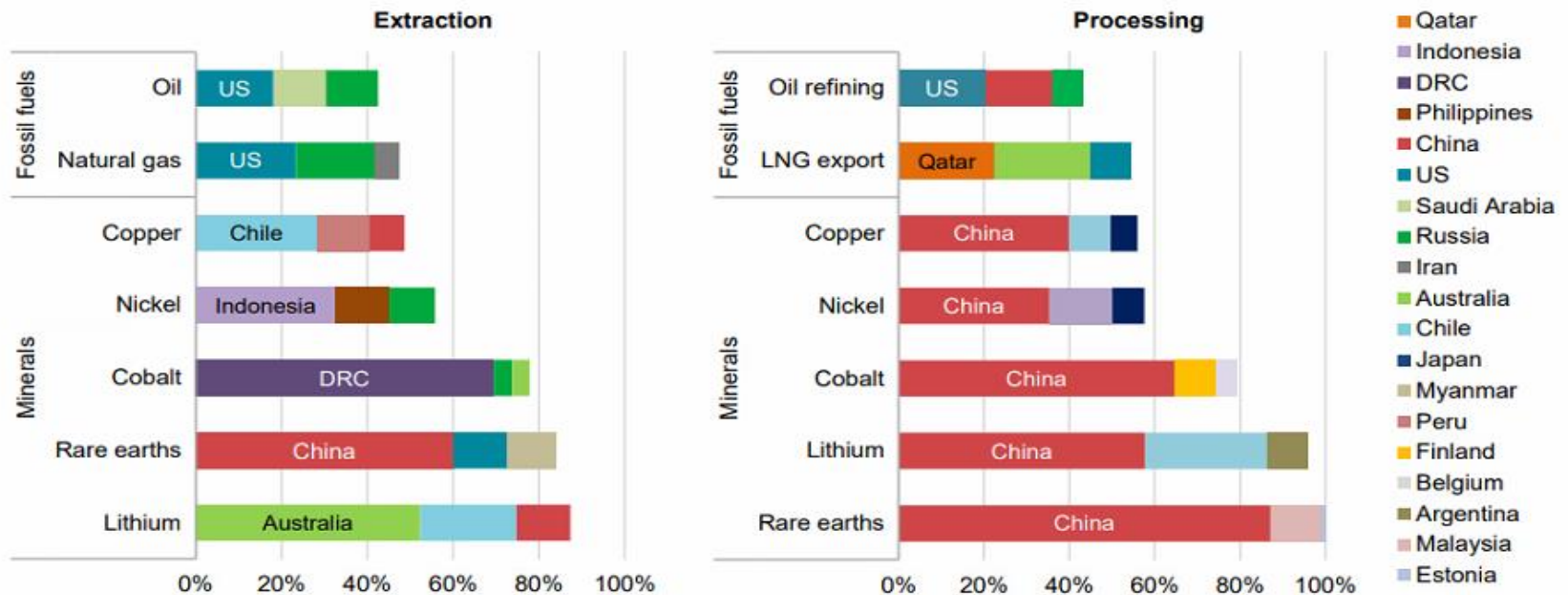
# WDS and KAR - Core Positions (Long)

- Woodside Energy (WDS) is the merger of Woodside Petroleum and BHP's Oil & Gas assets
- 70% of assets involved in gas production with increasing exposure to spot prices
- WDS is trading on a PE of 8.0x next year based on current energy prices
- WDS has an operating cash flow yield of 17% this year and a PEG of 0.9x
- Karoon Energy (KAR) is a pure play oil producer that is on track to double production at its flagship asset in Brazil
- So far the workover program is achieving higher than expected production increases
- KAR is trading on a PE of 4.4x this year and 2.9x next year on current oil prices for a PEG ratio of 0.5x
- KAR has an operating cashflow yield of 32% this year and 47% next year



# China dominates 'Clean energy' minerals

Share of top three producing countries in production of selected minerals and fossil fuels, 2019



IEA. All rights reserved.

Notes: LNG = liquefied natural gas; US = United States. The values for copper processing are for refining operations.  
Sources: IEA (2020a); USGS (2021), World Bureau of Metal Statistics (2020); Adamas Intelligence (2020).

Source: IEA (2022) World Energy Outlook Special Report. All rights reserved.



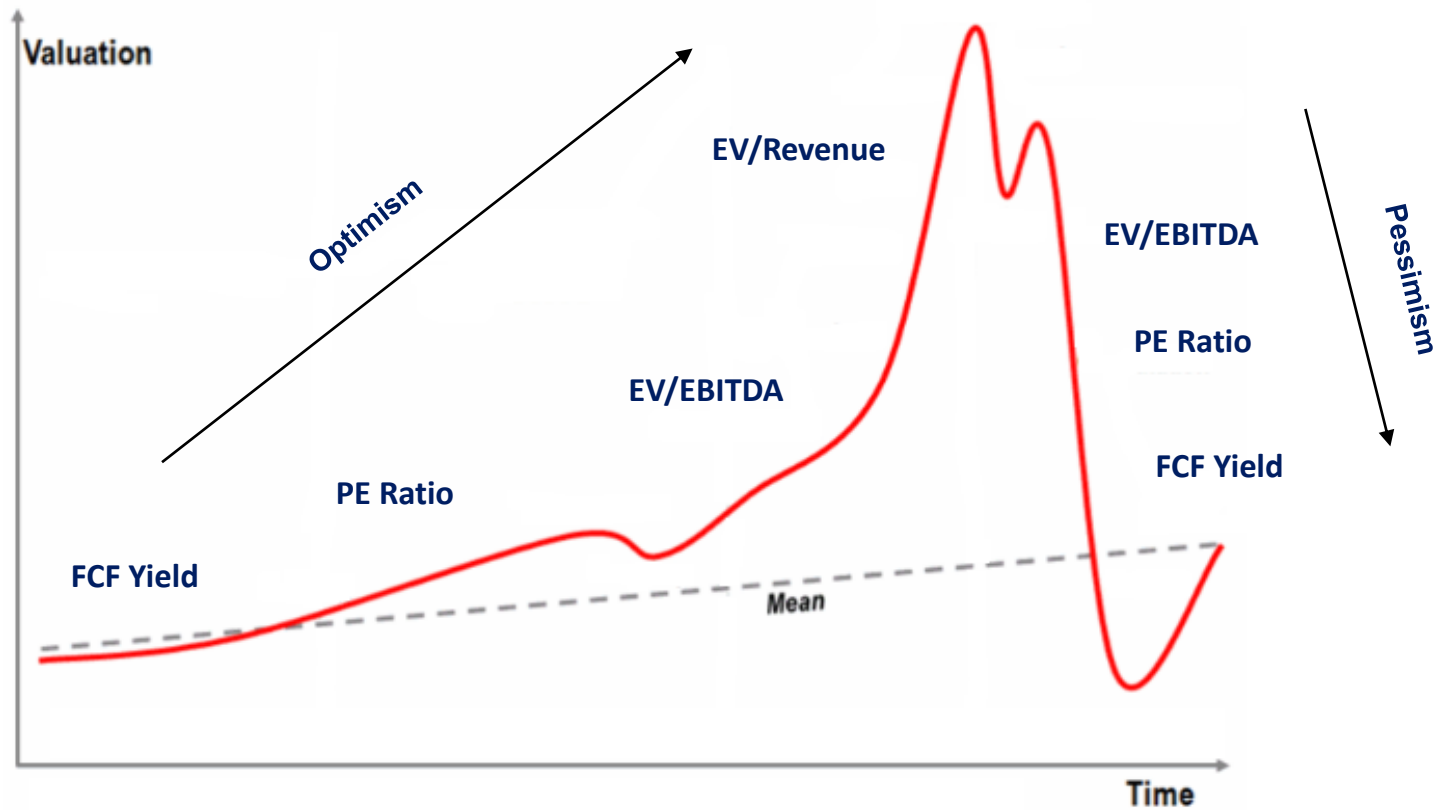
# Shorting – PE Multiples / Bond Yields

PE Multiples	2010	2012	2014	2016	2018	2020	2022
<i>Stock code</i>							
AAPL	17	11	14	13	12	34	25
WMT	13	13	17	16	20	25	22
MSFT	12	9	16	21	23	33	23
GOOGL	18	16	18	20	23	30	19
MA	17	20	25	25	26	48	27
COST	21	22	27	27	26	37	33
PG	16	17	21	21	21	25	22
HSY	18	21	24	23	19	23	27
HD	16	18	21	19	17	22	16
NKE	18	18	25	21	26	41	26
KO	18	17	21	21	22	27	23
UNP	15	14	19	19	16	23	17
<b>Average PE</b>	<b>16</b>	<b>16</b>	<b>21</b>	<b>21</b>	<b>21</b>	<b>30</b>	<b>23</b>
<b>US 10 Year Bond Yield</b>	<b>3.4%</b>	<b>1.8%</b>	<b>2.2%</b>	<b>2.4%</b>	<b>2.7%</b>	<b>0.9%</b>	<b>3.7%</b>





# Shorting - Multiples





# Shorting – Multiple Compression





# Shorting – Earnings Compression



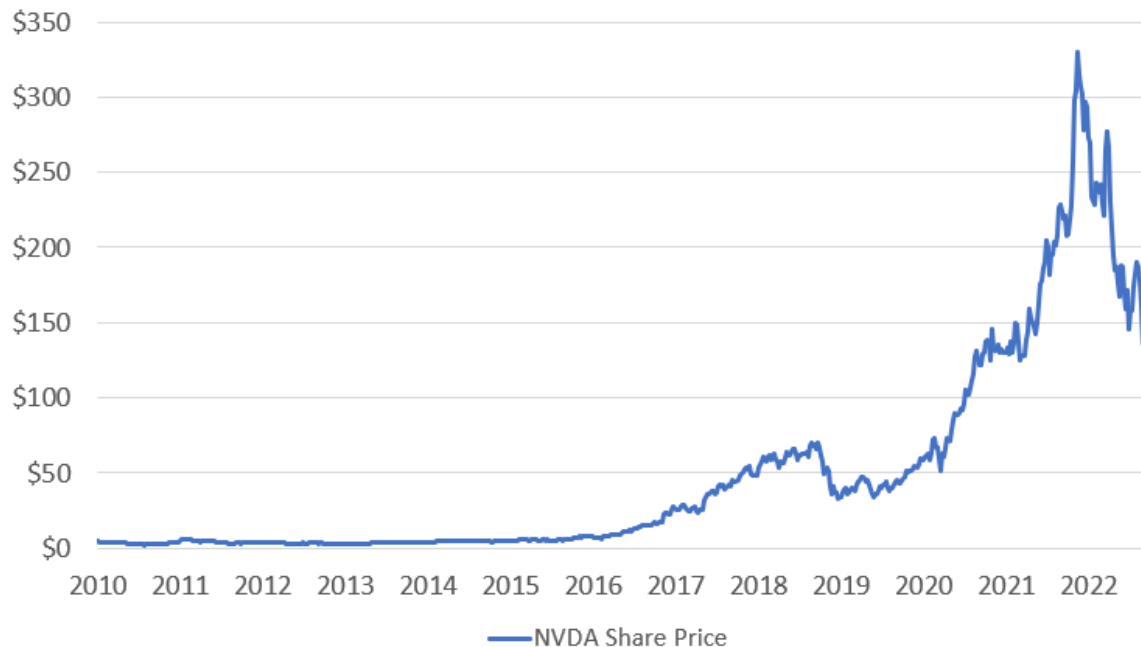
- EPS went from 8c/share in 2016 to 38c in 2020, and back to 2c in 2022



# Shorting – Multiple and Earnings Compression

## NVIDIA:

- GPU Bitcoin Exposure + Russian semiconductor ban = FY23 EPS falling 22% y/y to \$3.50
- Average PE multiple over last 5 years = 50x. What if this fell to 20x..?
  - $\$3.50 \times 20 = \$70...$





# Shorting – Capital Markets are closed (for now)

- Capital hungry business models will find it tough
  - Dilute equity further or pull back on growth?
  - i.e. listed sports betting companies, BNPL, unprofitable tech etc.
- Share Based Compensation
  - Equity is worth less now – can companies still attract talent?
  - Do companies need to start expensing employee costs through the P&L...?
- Early-stage resource companies with huge CAPEX aspirations
  - Rare earth company with \$37m cash on balance sheet, spending \$12.5m a quarter and a \$1.7b CAPEX spend to get the project going.... \$337m market cap.....
  - ‘World leading’ New battery technology with \$1.7b of CAPEX required... \$360m market cap.....

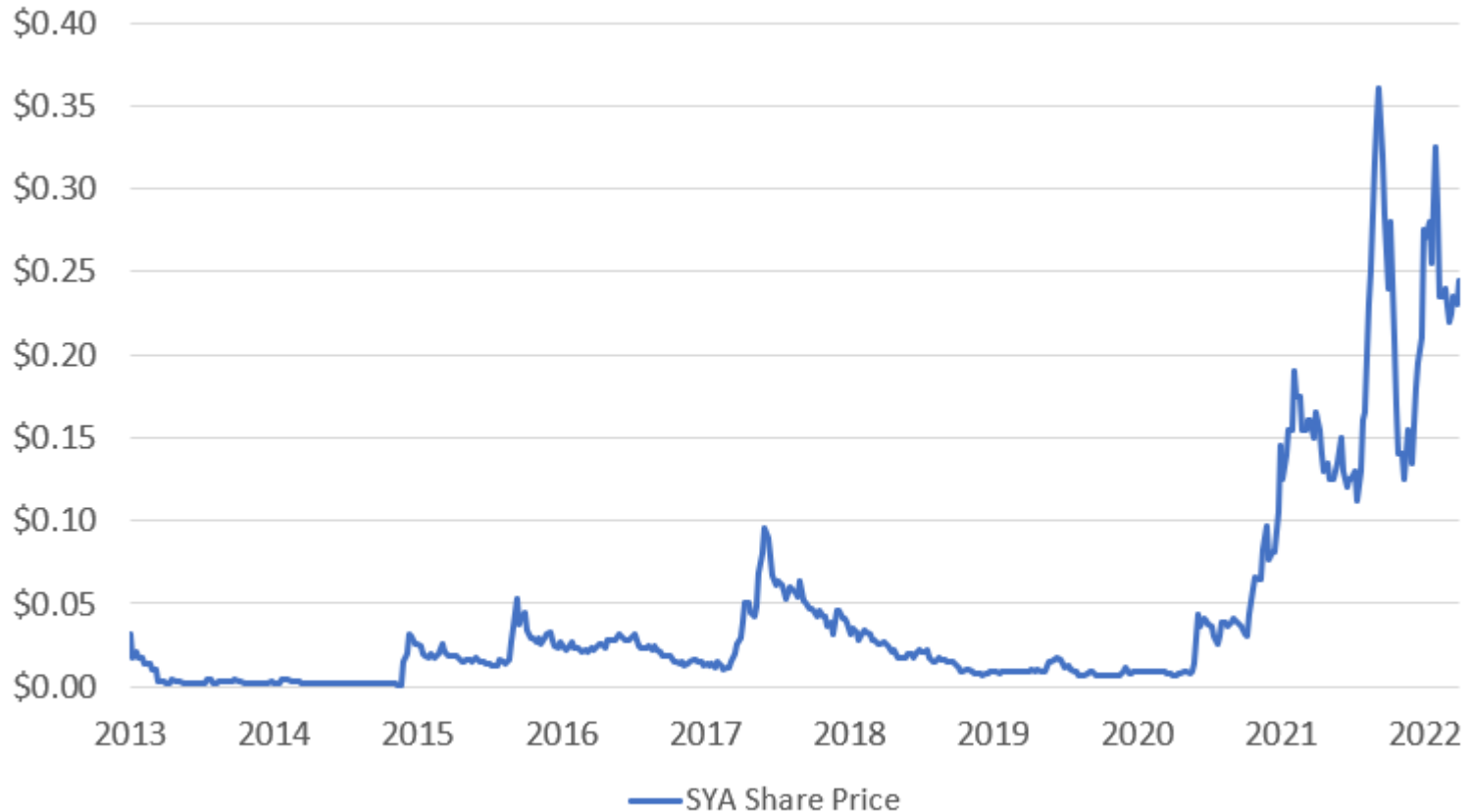


# Shorting – Supply Chains reverting





# Shorting – Sayona Mining Limited (SYA)





# Outlook

- The last year has seen significant changes in trend across markets; interest rates, inflation, energy prices and commodity prices
- **These trends are very important**
- This has led to different sectors performing well in 2022 vs 2021
- How expectations change - 12 months ago, the RBA said cash rates will remain at 0% until 2024... now economists expect 3% cash rates by the end of 2022
- Rising mortgage payments, energy bills and food costs mean households are facing quite a different year ahead than in recent years of stimulus and 'free money'
- While this will be significant headwind for many businesses, it will also lead to opportunities for others
- We continue to focus on implementing the Cadence process that has served us well through market cycles
- Cash and liquidity levels remain high, but opportunity will present





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