

Cadence Opportunities Fund Limited (ASX Code: CDO) Year-End Audiocast

In this year-end audiocast, Karl Siegling firstly provides an update on the Company's 2023 financial year performance, the 6.5c fully franked year-end dividend, the portfolio's composition and CDO's discount to NTA. Karl Siegling and Chris Garrard then discuss their investments in Meta Platforms, Whitehaven Coal and Westgold Resources. Karl Siegling then finishes with an update on the outlook for FY 2024.

You can listen to the audiocast at <https://www.cadencecapital.com.au/cdo-june-2023-webcast/>

Regards,

Wayne Davies
Cadence Opportunities Fund Limited



Cadence Opportunities Fund Limited



June 2023 Year-end Audiocast



FY 2023

- Fund down 5.8% in FY23.
- Past 3 years fund up 23.8% p.a.
- The top contributors to performance during the financial year were Whitehaven Coal, Patriot Battery Metals, New Hope, Terracom, Meta Platforms, BHP and Stanmore Coal.
- The largest detractors from performance were City Chic Collective, Alibaba Group, Nvidia, Australian Pacific Coal, Life360, Lynas Rare Earths and Textainer Group.
- Core investments across the energy and resources sectors were again the major driver of returns for the fund over the past financial year, continuing the theme witnessed over the previous year.
- Conversely, the fund was conservatively positioned over the past year with high cash levels in the portfolio (on average above 40%) which dragged on its returns.
- Other detractors to the company's performance were investing in potential turnaround situations too early and making too many losses on new positions entered (both long and short positions)





Final Dividend

Calendar Year	Interim	Final	Special	Total	Gross (Inc. Franking)
2020		6.0c	-	6.0c	8.6c
2021		12.0c	3.0c	15.0c	21.4c
2022	7.5c	7.5c	-	15.0c	21.4c
2023	7.5c	6.5c	-	14.0c	20.0c
TOTAL	15.0c	32.0c	3.0c	50.0c	71.4c

* Off market Equal access buy back

- 6.5 cps fully franked final dividend bringing 2023 total dividend up to 14.0 cps fully franked.
- The full-year dividend of 14.0 cps fully franked equates to 7.8% fully franked yield or a 11.1% gross yield (grossed up for franking credits) based on share price of \$1.795 per share on the date the dividend was announced.

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Final Dividend

- After paying this final dividend, the Company still has 29 cents per share of profit reserves to pay future dividends.
- The Ex-Date for the dividend is 16th October 2023. The payment date for the dividend is 31st October 2023.
- The DRP will be in operation for this final dividend. The DRP will be priced at the weighted average share price over the relevant DRP pricing period.
- The Company intends to implement an on-market buy-back to repurchase the shares it issues under the DRP.
- This buy-back will operate when the CDO share price is trading at a discount to the Pre-Tax NTA.
- CDO is looking to support its DRP registered shareholders to reinvest their dividends at a discount to NTA, instead of leaving them to manage market orders for reinvesting their dividends.
- If you are not registered for the DRP and you would like to participate, please contact Boardroom on 1300737760.

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CDO Portfolio

Sector Analysis of Portfolio (31 August 2023)

Sector	Long	Short	Net
Basic Materials	23.5%	-6.7%	16.8%
Energy	10.1%		10.1%
Communications	9.7%		9.7%
Consumer, Non-cyclical	7.7%		7.7%
Financial	7.1%	-0.9%	6.2%
Insurance	5.3%		5.3%
Utilities	1.9%		1.9%
Industrial	2.8%	-1.5%	1.3%
Technology	0.7%		0.7%
Consumer, Cyclical	0.0%	-0.6%	-0.6%
Banks	0.0%	-2.1%	-2.2%
Net Cash Holdings	68.8%	-11.9%	56.9%
Net Cash Holdings			43.1%

- CDO has a liquid and diversified portfolio
- The company holds 42 positions with the largest position 7% of the fund.
- Currently 35% of CDO's portfolio is in cash and cash equivalents.

20 Top Holdings (Both Long and Short) 30 June 2023 (Delayed)

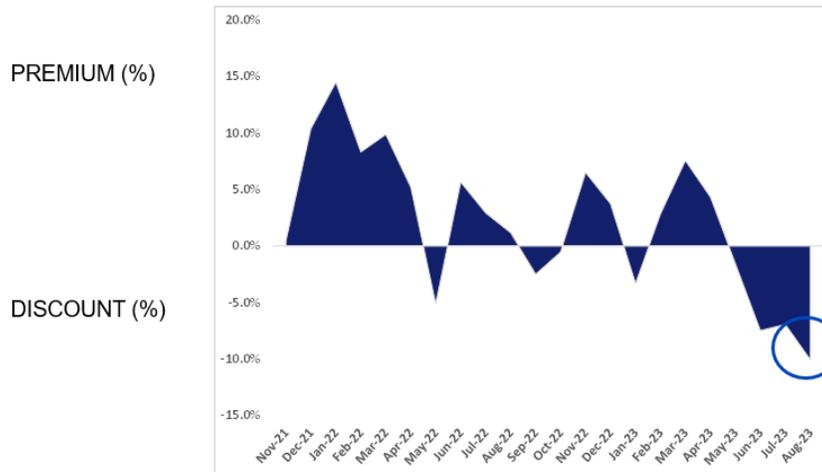
Stock Code	Position *
ANG	Austin Engineering Limited
BHP	BHP Group Ltd
CS CN	Capstone Copper Corp
GNW US	Genworth Financial Inc
IREN US	Iris Energy Ltd
JLG	Johns Lyng Group Limited
LIC	Lifestyle Communities Limited
MEG CN	MEG Energy Corp
META US	Meta Platforms Inc
NCM	Newcrest Mining Ltd
NEM US	Newmont Corporation
NFLX US	Netflix Inc
PMT	Patriot Battery Metals Inc
QBE	QBE Insurance Group Ltd
RED	Red 5 Ltd
SIQ	Smartgroup Corp Ltd
SRX	Sierra Rutile Holdings Ltd
STX	Strike Energy Ltd
THL	Tourism Holdings Rental Ltd
TIE	Tietto Minerals Ltd

* In Alphabetical Order

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CDO Share Price vs Pre-Tax NTA



- CDO is trading at a pre-tax NTA discount of around 16% whilst holding around 35% in cash and cash equivalents. If all the shares in the portfolio fell by 24%, the pre-tax NTA would still be above the share price. To put it another way, the shares in the portfolio can be bought at a 24% discount to their underlying value.

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Meta Platforms (META US) – Long (Core)

Stock Profile META US

Long Position (FY23)

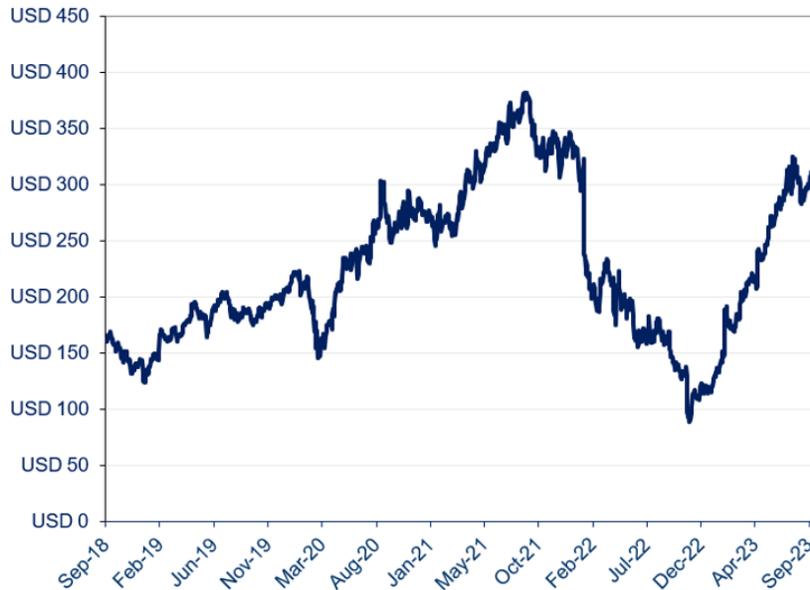
EPS Growth	26%
PE	26x
PEG	1.0
OCF yield	8.0%
FCF yield	3.2%
Net cash	\$13b
Market Cap	\$776b

Fundamental Analysis

- Meta’s main apps are Facebook, Instagram, Threads, and WhatsApp.
- Meta is also heavily involved in AI, with work progressing on their ChatGPT like large language model called Llama 2.
- Meta’s second quarter results were released in July. Net income was USD 7.8b, up 16% compared to Q2 2022.
- Meta’s cash flow is very strong with operating cash flow expected to be USD 60b for 2023.
- The Reality Labs division, which is focused on virtual reality, currently makes a significant loss. The losses will continue in the short term, but eventually this division will make a profit.
- If we exclude the losses in Reality Labs then Meta is on a PE of only 19 for 2023.
- Technically Meta shares have been in a strong uptrend for the past year as shown on the next slide.



Meta Platforms (META US)



Whitehaven Coal Ltd (WHC) - Long (Core)

Stock Profile WHC

Long Position (FY25e)	
EPS Growth	5%
PE	3.7x
PEG	1.3
OCF yield	37%
FCF yield	32%
Net cash	\$2.5b
Market Cap	\$5.9b

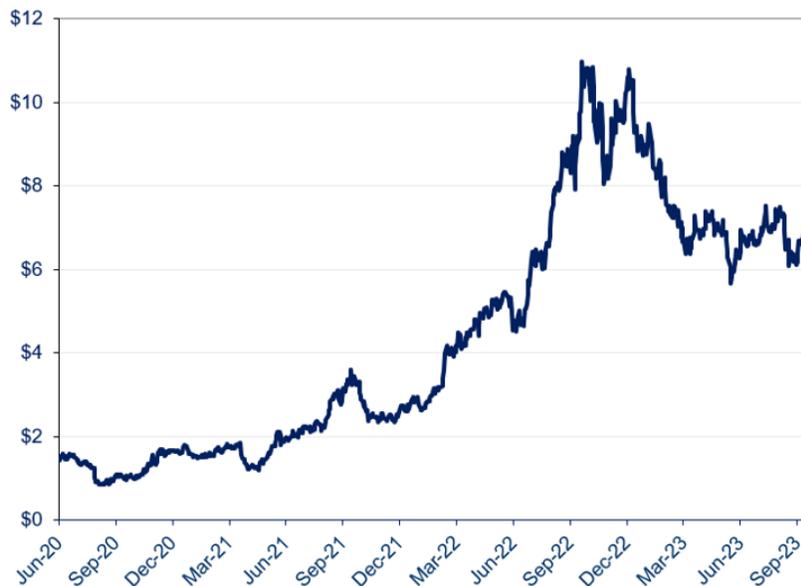
Fundamental Analysis

- After selling out of our WHC position completely in FY23 when the coal price rolled over, we have entered a new position at lower levels.
- Looking at future earnings and excluding any potential acquisitions (the BHP Coal assets currently for sale), WHC is trading on around a 3.7x PE multiple and an even lower Enterprise valuation given high levels of cash and no debt.
- Operating and free cash flow yields are very high.
- Should energy prices remain high for the next 2 years and the world is still using coal, investors are potentially picking up the remaining coal assets and earnings thereafter for free.
- WHC is potentially the buyer of BHP coal assets. Provided WHC pay a valuation lower than current WHC valuations these acquisitions would be value accretive and highly EPS accretive.
- Both the Victorian and New South Wales government have announced they are in negotiations to keep base load coal fired power running for another decade.

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Whitehaven Coal Limited (WHC)



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Westgold Resources (WGX) - Long (Core)

Fundamental Analysis

Stock Profile WGX

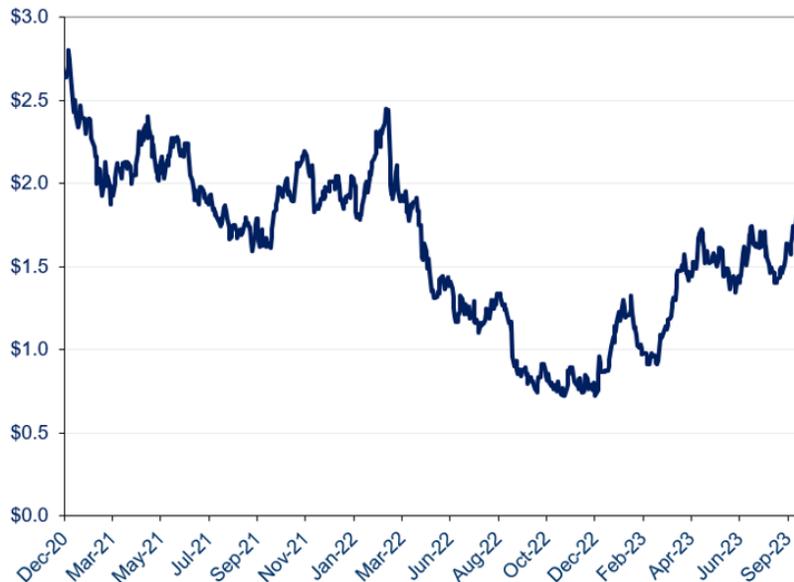
Long Position (FY24)

EPS Growth	910%
PE	8.3x
PEG	0.01
OCF yield	30%
FCF yield	9%
Net cash	\$176m
Market Cap	\$837m

- WGX management have successfully turned the gold operations around and 2024e looks set to deliver much improved earnings.
- WGX has also announced a capex program over the next 2 years to increase the volume of gold mined.
- WGX has been 'suffering' under a previous hedge book that has now rolled off and so gold mined from now on will receive the full margin between the gold price and the cost of mining gold.
- WGX has net cash on the balance sheet and no debt.
- The gold price has been inching up over time and especially in AUD\$ which should also improve earnings.
- A smaller gold position RED entered the portfolio through a 13 cents placement earlier this year and we were recently bid 26 cents for our shares and sold half.
- The gold sector has and continues to experience significant M&A activity. The largest gold merger in history (Newcrest and Newmont) is moving closer to completion as well.



Westgold Resources Ltd (WGX)





Other Investment Themes

- Prior to 2020 we had a decades long downtrend in interest rates. The downtrend has ended, and interest rates have now been rising for three years. This will be one of the most important trends to monitor in determining the direction of future asset prices.
- Commentators continue to talk about 'peak interest rates' or 'terminal interest rates' whilst interest rates reflect the cost of money. The cost of money goes up and down over time and has been as high as around 17% and as low as 2% over the last 50 years.
- In periods of rising interest rates and inflation sectors and stocks with pricing power tend to perform well. In periods of inflation energy and resource stocks can perform well.
- The relentless demand for more energy globally will need to be met by supply, otherwise energy prices will rise significantly and remain high.
- US interest rates are higher than Australian interest rates now (which is historically unusual) and should lead to a generally weaker Australian dollar against the US dollar. The Australian dollar has fallen significantly from parity against the US dollar to around 64 US cents. A weak AUD\$ leads to inflation in Australia as well.

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Outlook

- The post Covid recovery in markets ended in mid 2021. For the past two years markets have continued to be volatile, with no clear trend emerging.
- Asset prices have been very resilient in the face of the dramatic increase in interest rates since 2020. The interest rate trend tends to go in 40-year cycles so the asset price trends should be a longer cycle as well.
- Asset price compression remains a potential risk.
- We continue to focus on implementing the Cadence process that has served us well through market cycles
- Fewer stocks are meeting both fundamental and technical criteria, but they do exist, and we have started to see some of the cash in the portfolio deployed.
- We are starting to see trading opportunities in which shares are trading at a discount to underlying assets and, subject to detailed due diligence, these tend to be good risk adjusted long term investments.
- Nonetheless cash and liquidity levels remain high. Both factors reduce the level of risk in the portfolio whilst looking for new investment opportunities.

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