

Katana Capital Limited

AUGUST 2014

INVESTOR PRESENTATION

www.katanaasset.com



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Personnel

Investment Staff

MEMBER	TITLE	QUALIFICATIONS	YEARS INVESTING	SKILLSET & ORIENTATION
Romano Sala Tenna	Portfolio Manager	B.Bus (Distinction), Grad Dip Applied Investment Analysis, ADA 1&2, F.FINSIA	20	Bottom-up value investing: small-mid-large caps; fundamentally driven with technical analysis overlay; trend-following contrarian opportunities
Brad Shallard	Portfolio Manager	B.Bus (Accounting), CPA, Dip of FP, Grad Dip Applied Investment Analysis, ADA 1&2, F.FINSIA	20	Large cap growth (business model and management) and market generated opportunities; high-conviction mid-cap
Matthew Ward	Investment Manager	B.Econ (Honours), CA, ACA, Harvard Management Leadership	30+	Bottom-up value investing; high-conviction mid-cap and large-cap opportunities; industrial and financial services sectors; macro thematics
Giuliano Sala Tenna	Investment Manager	B.Bus (Distinction), Grad Dip Applied Investment Analysis, GAICD	15	Macro top-down liquid large cap opportunities, especially financial services and healthcare
Stephen Thomas	Senior Analyst	B.Science Royal School of Mines Imperial College London, MBA Cardiff Business School, AusIMM	25+	High conviction bottom-up mining opportunities especially copper, gold, nickel and iron ore; expertise in mining services and related sectors

Personnel

Investment Staff

Combined Experience

The 5 Portfolio Managers have a combined direct investment experience in excess of 100 years.

4 of the Portfolio Managers have invested through at least 3 boom-bust cycles. 2 of the Managers have invested through 4+ stock market cycles. In the world of professional investing, there can be no substitute for experience. And in terms of experience, the very best type is attained during times of crises.

During the 2008-2010 GFC, the Katana team fine tuned its philosophy, processes and culture. Many managers chose to close their funds during this period and re-open with a new track record post the GFC. Others were forced to close or were gated (ie closed to redemptions). The Katana team has emerged with a strong track record and confirmation that their robust processes and conservative approach are able to survive the most trying of market gyrations.

Particular Expertise

Each of the Managers has specific post-graduate training in investment theory and analysis.

In addition the team has specific undergraduate or post-graduate training in economics, business, accounting, mining and geology.

The Portfolio Managers hail from diverse backgrounds in terms of geography, training and profession. Each of the Managers thinks quite differently. Combining this diversity has lead to a stronger and more rigorous decision-making process.

Aligned Interests

As at June 2014, the Managers own approximately 20% of the funds under management.

Investment Philosophy

Overview

Think independently but act in unison with the market, by combining the best precepts of the 5 key investment disciplines:

1. Value Investing
2. Fundamental Analysis
3. Growth Investing
4. Technical Analysis
5. Market Experience and Observation

Overriding pre-occupation with capital preservation

Comfortable to remain weighted in cash for extended periods

Emphasis on flexibility within a strong overlying framework of accountability & risk management

Companies are imperfect; our lot is to choose the 'less imperfect' by clearly prioritising our investment criteria

What we avoid

By definition, as a buyer of a company, we are backing that we are 'better guided' than the seller. We hence look for companies inside our 'circle of competence' and 'network of newsflow'.

Additionally, we generally avoid companies that lack cashflow; in particular:

- Technology / start-up
- Biotech, esp. pre-product release
- Greenfields exploration and except in exceptional circumstances brownfields/pre-production

A comprehensive outline of our Investment Philosophy has been provided on our website
www.katanaasset.com

Investment Philosophy

Key criteria

As a simplistic summary, some key criteria that we seek:

(IN APPROXIMATE ORDER OF PREFERENCE)

1	Trustworthy, competent management and an emphatic corporate culture	Ultimately, inside a company there are innumerable decisions that arise each and every day. How management respond to each of those decisions will – when collated over a period of time – determine the ultimate success [or failure] of our investment
2	Robust business model with a sustainable moat or competitive advantage : we prefer structural growth over cyclical cheap	'Barriers to entry' exist in the form of legislation, patents, intellectual property, economies of scale, brand 'pole position', geographical and physical constraints, infrastructure constraints, corporate culture, cost of capital and more. The long term returns are likely to be [well] above benchmark.
3	Positive macro outlook / tailwinds	Macro factors such as population and industrialisation demographics, sector growth, 'step-change' technology and the phase within the economic cycle, can provide a 'free kick' and overcome a multitude of investment sins.
4	Appropriate price action. We seek to move 'in harmony' with the greater market. Technical analysis provides insights into investor sentiment	An investor can be absolutely totally right fundamentally, but wrong on timing. Once we have identified a potential investment, we resist the urge to purchase until the stock price turns our way. In doing so we save both capital ['cheap' stocks getting cheaper], time and emotional quotient.
5	Strong balance sheet indicating safety, prudent management and flexibility	In addition to providing a snapshot of a company's capacity to survive, the balance sheet also provides an insight into what capacity the company has to maintain or increase dividends, implement a buyback or capital return and grow organically or by acquisition. It also provides a valuable insight into management's state of mind: a 'reckless' balance sheet may indicate reckless management. The converse is also likely to be true.

Investment Philosophy

Key criteria *(continued)*

6	Structurally sound sector : high gross margin indicating pricing power, rational competitors and barriers to entry	Just like the ‘macro sector tailwinds’, a structurally sound sector makes it easier for a company to achieve long term out-performance. The best is the banking sector. The commodity is essential and the consumer is clearly a price taker. The ‘big 4’ are predictably rational and stable and rarely compete on price or margin. Extensive ‘rationalisation’ over 3 decades has minimised new entrants and reduced competitive tension.
7	Low PEG (Price Earnings Growth) ratio -or- high sustainable dividend yield	The PEG ratio is calculated by dividing the PER into the company's annual earnings per share [EPS] growth. It measures how attractive the company's growth is when compared to its current price. If a company is low growth, then it is only attractive where the dividend yield is well above market, sustainable and (preferably) contains upside potential.
8	High Free Cash Flow (FCF)	The very best businesses exhibit a high FCF and by extrapolation low annual capex. A company that converts a high proportion of its net profit after tax [NPAT] into tangible cash without the need to constantly reinvest, is considerably less likely to run into financial difficulty. But even more importantly, high FCF provides the capacity to payout an above average portion to shareholders in the usual forms.
9	ROE (Return on Equity) & ROPE (Return on Price Equity) which connects ROE to market pricing	ROPE is a fancy measure of the traditional ROE, which measures the return on shareholder's funds but fails to link the level of equity to the current market capitalisation. By connecting the ROE to the market price, we are able to assess the ROE based on the current stock valuation.
10	Liquidity and Size	Liquidity is considerably more important than the average investor expects or respects. Invariably some investment decisions will be wrong. Market conditions may change. There are a myriad of reasons as to why you may need to enter, exit or re-enter a company. A lack of liquidity considerably impacts the ‘cost’ at which one is able to enter or exit a company – if indeed these actions can be achieved at all.

“With time and patience, the mulberry leaf becomes a silk gown.” Chinese proverb

Portfolio Construction

Overview and Parameters

Portfolio Overview

- Long only
- ASX listed securities
- Benchmark 'Unaware' – ie flexibility to maximise returns without constraints on size, sector or thematic

By removing restrictions on size, sector and weightings, we enable each investment to be assessed on its merit.

It doesn't make sense to eliminate potential opportunities, yet many fund managers do so to enable themselves to be categorised.

We are not concerned about whether we fit neatly into an asset category; we are concerned about maximising the financial returns for all Katana investors, of which management are the largest.

Top Down Macro Overlay with Bottom Up Stock Analysis

- Economic cycle (timing) decisions
- Asset allocation - preparedness to maintain cash
- Sector allocation – portfolio based on prospectively not sector weighting
- Stock selection and allocation

Portfolio Parameters

- 45-55 individual stock positions
- Average position size 1%–5%, with a pre-disposition towards holding a greater number of smaller positions
- Mandated maximum position sizes based upon market capitalization and liquidity
- Cash Position historically 15%-35%

Generally towards the upper end of this range and has been as high as 40% of funds under management.

Achieving high returns with a high cash balance reduces risk through the cycle.

- Significant value added with stock positions outside ASX100

Thematical exposure achieved through ASX100, but additional alpha derived through detailed bottom-up analysis of ex-100

- No gearing applied to the portfolio

Portfolio Construction

Processes

Flexibility with Accountability

Our goal is to combine the contrasting investment skills and personalities to encourage freedom to act within a framework of accountability and overall control, that favors capital preservation.

Flexibility

We provide our PM's with the 'freedom' to look at anything anytime anywhere. Whether it is an emerging healthcare roll-up in Sydney, an infrastructure/service provider in the Pilbara or a rapidly growing financial services firm in Melbourne. Each PM has the flexibility to research and investigate any opportunity at any time anywhere.

Each PM may work collaboratively with other PM(s) to harness their experience and skillset. Alternatively the PM may work extensively with external advisers and analysis.

Each PM has complete freedom in terms of how they allocate their time and the analysis they undertake.

At Katana, our goal is to de-clutter the PM's and free them up to locate above average investment opportunities.

Accountability

Each company must have a 'champion' who presents the case for investment to the Investment Committee (IC).

Every sizeable investment decision must be referred to an Investment Committee Meeting (ICM).

The IC ultimately makes all sizeable decisions.

However, the individual PM is responsible for the ultimate performance of each and every investment that they champion.

It is also the responsibility of the individual PM to ensure that they remain fully versed with all aspects of the investment on an ongoing basis until such time as it is realized.

Capital Preservation

Each PM has a mandated maximum number of active positions permitted at any given time. This adds to the investment rigor by forcing a PM to choose between competing opportunities.

The IC affords an overriding 'power of veto' to each individual PM. A single PM may override the decision of the majority. By implementing the ability for an individual PM to veto any investment, Katana gives true effect to the overriding aim of preserving capital ahead of making a profit.

Once a position is active, a mandatory stop loss review process is triggered if the stock price falls by certain specified thresholds. The PM is required to re-assess and re-submit the investment case to the IC.

Portfolio Construction

Typical portfolio

Consistent Characteristics:

Top 2 portfolio holdings in ASX20

6 of the top 10 portfolio holdings in ASX50

Blue chip companies form the largest holdings, providing safety and liquidity

Additional value added through emerging/high growth stocks; overall a good blend of safety + performance

3 of the top 10 stocks outside of the S&P ASX300

These stocks require intensive and in-depth stock research

They offer above benchmark returns and contribute to long term out-performance

Top 10 companies consistently make up ~35% of portfolio

Remaining holdings consistently 35-40% of Portfolio

Employ a larger number of smaller positions to mitigate risk

Ordinarily 25-35 companies

Encompasses stocks in the accumulation or selling phases

Includes trading positions which are a fraction of the size of core investment holdings

High Proportion of Cash

Cash is consistently within the 20-35% band

A high cash balance provides a lower risk profile over time

Top 10 Investments

Percentage of Portfolio Valuation as at 30/6/14

National Australia Bank Ltd	6.0%
Crown Resorts Ltd	5.1%
Insurance Australia Group Ltd	3.9%
Perpetual Ltd	3.3%
Computershare Ltd	2.8%
Global Construction Services Ltd	2.7%
AMP Ltd	2.6%
Automotive Holdings Ltd	2.4%
National Storage REIT	2.1%
Yellow Brick Road Holdings Ltd	2.0%
Top 10 Equity Investments	32.9%
Remaining Equities	40.3%
Cash and Cash Equivalents	26.8%
TOTAL	100.0%

Source: Katana Capital Ltd ASX Release
30/6/2014

Portfolio Construction

Typical portfolio

Active 'Weightings' Away from Index Benchmarks

Comfortable to be substantially overweight high conviction sectors

Currently Financial Services

Comfortable to substantially underweight sectors

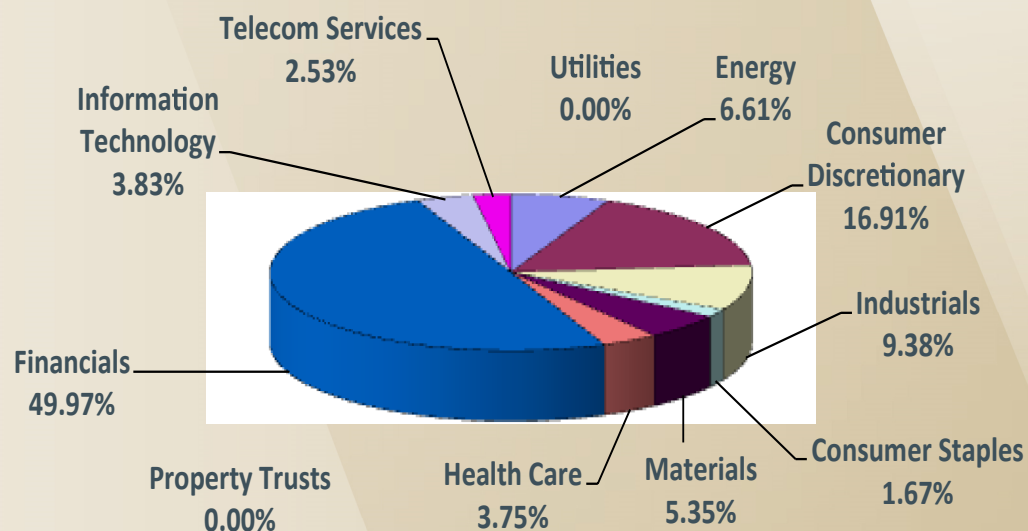
For example, as at 30th June KAM instigated a NIL weighting in BHP & RIO.

Combined these 2 stocks equate to ~10% of the index.

This represents a substantial deviation from the index; something other funds may be hesitant or unable to do.

Portfolio Holdings By GICS

30th June 2014



Source: Katana Asset Management

Performance History

vs Benchmark

Strong performance record over ALL timeframes

Short, medium and long term.

Importantly, while many funds theorize about 'potential' returns, Katana has a proven 9-year track record that demonstrates our actual capabilities.

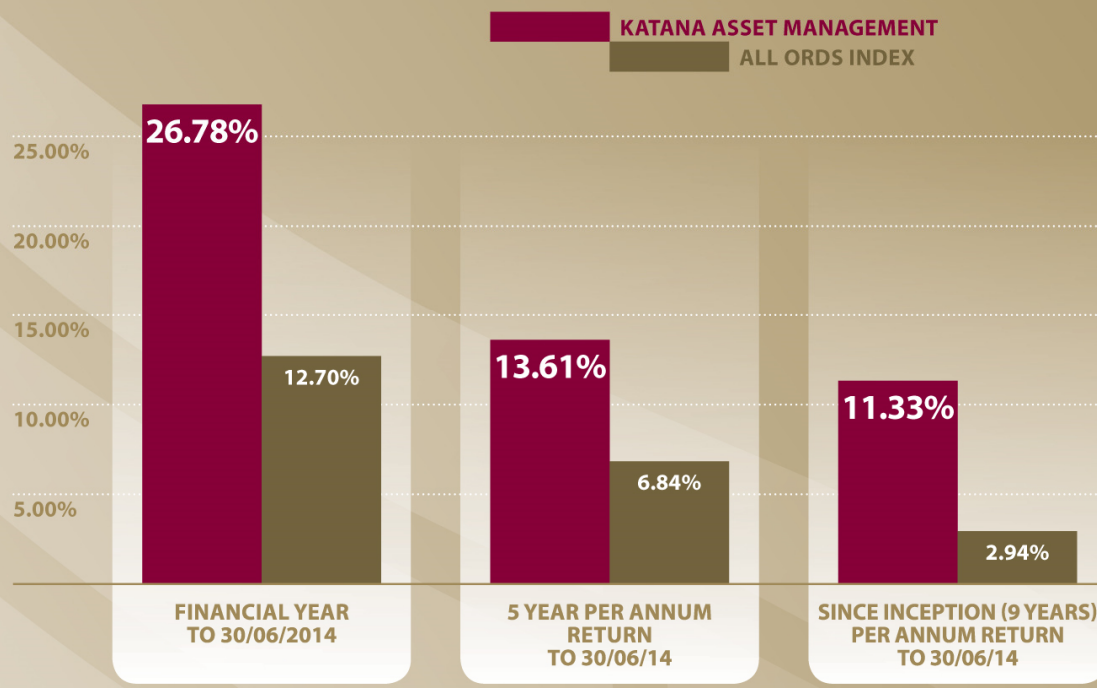
Forged in Fire

Katana's track record has been forged during one of the most challenging periods in the ASX's long history

Many funds imploded during the GFC, or closed and re-listed post this time (to establish a new track record!).

Katana survived the most challenging period in modern investment history, and has the experience and discipline to take on future challenges.

Katana versus All Ords Index Per Annum Comparison



Note:

- 1 Past performance is not necessarily indicative of future performance
- 2 All investment returns quoted above are pre-tax and pre-fees and calculated on an annualized basis

Source: Katana Capital Ltd ASX Releases 8

Performance History

Significant Out-Performance

Significant Out-Performance

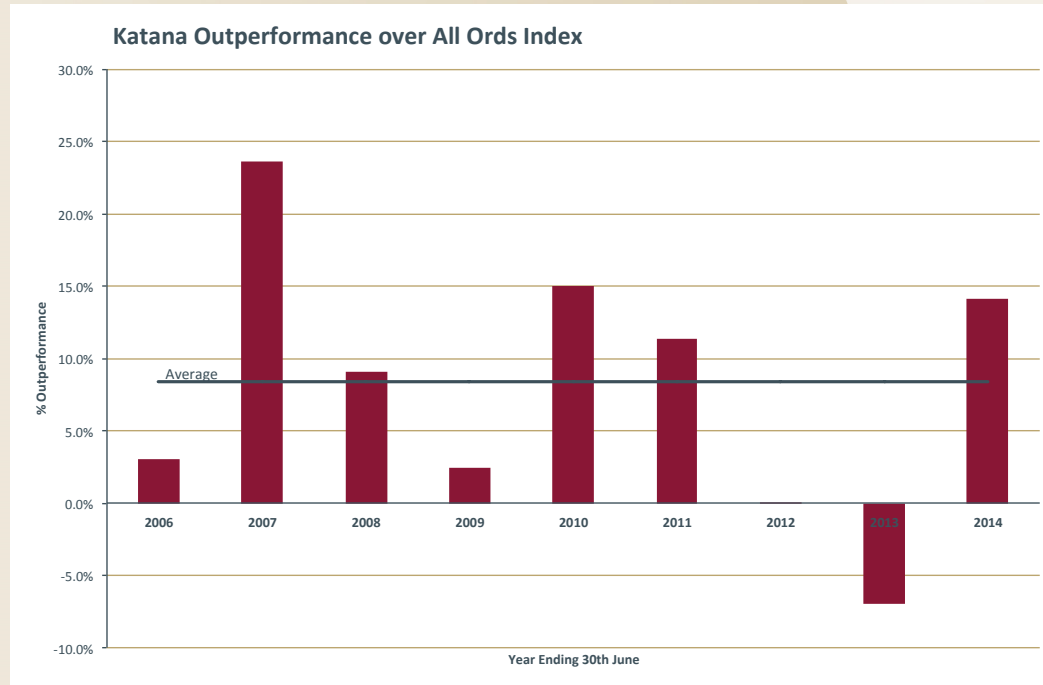
Since listing in December 2005, Katana Capital Ltd has **out-performed the general market by 8.39% per annum**

This is a significant level of out-performance

Consistent Out-Performance

Katana Capital Ltd has out-performed its benchmark the All Ordinaries Index **8 out of 9 years.**

This equates to an impressive 89% record of out-performing the All Ords index



Note:

- 1 Past performance is not necessarily indicative of future performance
- 2 All investment returns quoted above are pre-tax and pre-fees and calculated on an annualized basis

Source: Katana Capital Ltd ASX Releases

Dividends

Historical & Current

Dividend History

Katana Capital Ltd has paid dividends every year since listing

Currently paying quarterly dividends

This provides added convenience and cash flow for yield conscious investors

'Smart' Dividend Reinvestment Plan (DPR) in place

Under the DPR, the company steps into the market and purchases shares each quarter to satisfy demand under the DPR.

The shares are issued to shareholders free of brokerage at the average purchase price.

In addition to providing the opportunity to add to long term holdings without incurring brokerage, this DPR has 3 advantages:

- 1. Shareholders receive the shares generally at a cheaper price than if the company issued them at NTA*
- 2. Non-dilutive: no new shares are issued: existing shares are purchased on-market and distributed*
- 3. Adds liquidity to the market for shareholders looking to exit*

Current Dividends

Katana has paid 5.5c over the past 12 months. 3 dividends were fully franked and the most recent was partially franked.

Future Dividends

Katana has committed to paying a MINIMUM of 1.5c for the next 4 quarters and franking is expected to be between 50% and 100%; on a share price of 93c, this equates to 6.45% franked

*Including the benefit of the tax credits, this is a **gross yield of between 7.8% to 9.2%** depending on the level of franking*

Dividends

Comparative Yields

Katana Dividend Yield vs 10 Largest LICs

Katana has a strong and growing yield with the **lowest payout ratio** (except MFF which didn't pay a dividend for 6 years)

*Katana's payout ratio on its stated MINIMUM of 6c for the 2015 FY is a low **34%***

*The average payout ratio for the peer group is **82.1%***

Some of the peer group have high payout ratios

	Div Yield	Franking	Payout Ratio
KAT 2015 Forecast	6.45%	50-100%	34.0%
AFI	3.53%	100%	92.3%
ARG	3.47%	100%	90.6%
MLT	3.55%	100%	88.9%
DJW*	5.34%	100%	139.0%
AUI	3.56%	100%	84.7%
BKI	4.09%	100%	93.2%
CIN	3.30%	100%	73.6%
WAM	6.35%	100%	59.2%
DUI	3.75%	100%	94.0%
MFF	1.35%	0%	5.1%
Average	3.83%	90.0%	82.1%

SOURCE: IRESS

*Unrealized capital gains not reflected in P&L

Net Asset Backing

Comparative Discounts / Premiums

Katana NTA vs 10 Largest LICs

Katana is one of an increasingly small number of LICs that continue to trade at a discount to its After Tax Net Asset Backing

Over time, it is logical that 'the market' may move to narrow this gap

Additionally Katana has implemented 3 strategies directly to narrow this gap:

1. *Company Buyback where NTA steps out of line by ~10% which may change over time*
2. *Quarterly on-market DRP buybacks at up to a 2.5% discount to NTA*
3. *Active Investor marketing*

	NTA as at 31/7/14 (After Tax)	Share Price 31/7/2014	Premium / (Discount) (%)
KAT	\$1.028	\$0.93*	(-9.5%)*
AFI	\$5.11	\$6.18	20.9%
ARG	\$6.67	\$7.76	16.3%
MLT	\$3.96	\$4.64	17.2%
DJW	\$3.76	\$4.95	31.6%
AUI	\$7.65	\$8.68	13.5%
BKI	\$1.56	\$1.70	9.0%
CIN	\$26.24	\$29.08	10.8%
WAM	\$1.77	\$2.02	14.1%
DUI	\$3.39	\$3.75	10.6%
MFF	\$1.34	\$1.515	13.1%
Average			15.7%

SOURCE: IRES

*KAT Price refers to proposed placement price of 93cS

Summary

1. Company

Right Size

Katana has built its track record during one of the greatest financial crises of modern history and is the 'right size' to deliver meaningful performance moving forward

Right Approach

We have a sustainable investment philosophy that does not limit your performance by restricting what we can invest in nor refrain from a high cash balance where appropriate

Strong Experience

The portfolio managers have a combined investment experience of 100+ years

9 Year Performance History

Strong track record : we have out-performed the All Ords Index 8 out of 9 years and by an average of 8.39% pa (pre-tax and pre-fees)

Respect for Shareholders

We respect our shareholders and evidence this by investing alongside your hard earned money
(more than 20% of the total funds under management)

Summary

2. Pricing

High Dividend Yield

Katana is trading on a (forecast) dividend yield of 6.45% versus the average of the largest 10 LICs being 3.83%

Low Payout Ratio

Katana's payout ratio is 34% versus 82.1% for the 10 largest LICs

Discount to NTA

At 93c, Katana is at a 9.5% DISCOUNT to NTA after tax versus the 10 largest LICs which are trading at an average PREMIUM of 15.7% to NTA after tax

Thank you

&

**Additional Information
(Following)**

www.katanaasset.com



Long Term Equity Returns

Superior Asset Class

For more than 6 decades, equities have shown themselves to be the best performing asset class

1/1/1950 – 1/1/2014	GROSS RETURN	REAL RETURN
CPI	5.26%	
Cash	6.67%	1.41%
Long Term Bonds	7.56%	2.30%
Australian Shares	12.30%	7.04%

SOURCE: Andex Australia

Long term, cash and bonds have barely protected against inflation

Equities have:

- ✓ added 'real' returns
- ✓ tax effectively
- ✓ with liquidity and
- ✓ transparency and
- ✓ ease of transacting

Over time, the out-performance is significantly more pronounced...

"In the end, there is only one trend."

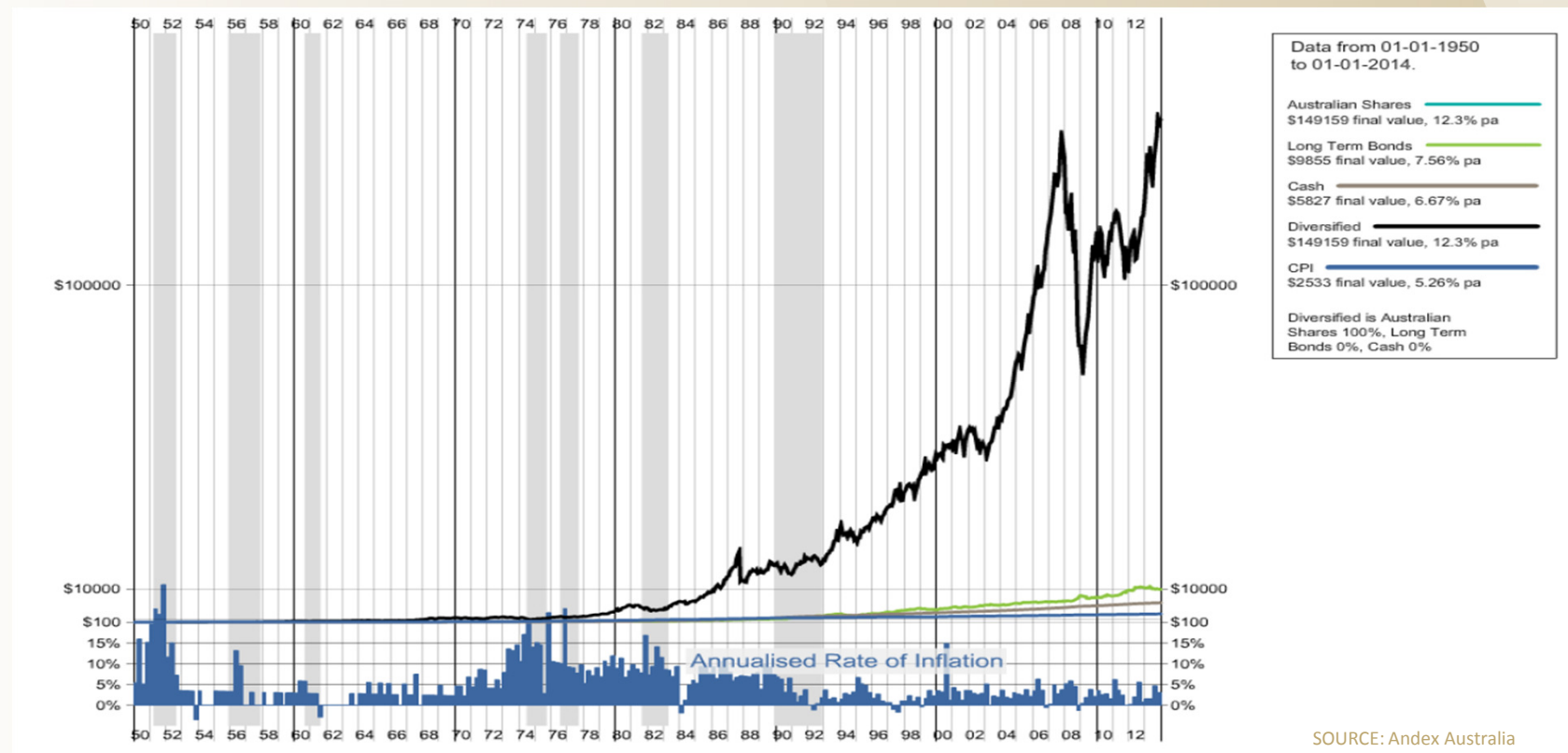
Long Term Equity Returns

Impact of Compounding

The impact of compounding is considerably underappreciated.

If we take the average cash rate of 6.67% pa and compound it for 64 years, we achieve an ‘impressive’ **5,700%** return on our principal amount.

However, compounding the 12.30% pa return from equities yields a **149,000%** return – ie more than **26 times the return attained by holding cash.**



"The most powerful force in the universe is compound interest." Albert Einstein

Long Term Equity Returns

The last decade in perspective

Even during the **2nd worst period in the history of the ASX**, equities have yielded an 'average' return of **9.06%** return on an annualized basis.



SOURCE: IRESS

However, in terms of the compound rate, this equates to **6.02% pa** - ie less than half the average rate of **12.3% pa over the past 64 years**.

From an historical context, it is more probable that a period of out-performance is ahead.

This is further confirmed by the record low interest rates which amplify the net yield attainable through dividend paying companies. From a simple historical and statistical perspective, one would expect that if the average return over 64 years was 12.3%, then the return during periods of sustained low interest rates would be substantially above the long term average and vice versa.

"If you look carefully, almost all 'Old Money' secrets can be traced to a single source: a longer term outlook." Bill Bonner

Personnel

Support Staff & Service Providers



General	Address	AMP Building, Level 16, 140 St Georges Terrace, Perth
	Administration	Michelle Butler (Manager) Stephanie Taverniti
	Compliance	Jacqui Stewart, GRC Essentials
	Custodian	JP Morgan
	Banker	JP Morgan
Katana Capital Limited	Auditors	Ernst & Young
	Share Registry	Computershare
	Legal Advisors	McMahon Clarke Legal
	Board of Directors	Dalton Gooding (Chairman) Peter Wallace Giuliano Sala Tenna
	Company Secretary	Gabriel Chiappini

Portfolio Construction

Processes

Decision Making

At the core of the decision making process is the recognition that there are only 2 ways to make superior decisions:

1. **Better information**

This may come in the form of better research, wider reading, more detailed field work etc. This may also include intangible information, such as the level of confidence that management may exude: something that can only be garnered from constant interaction.

2. **Better assessment of the available information**

Hence the need for emotional stability, objectivity, evolution of investment rules and constant review of individual decisions and the portfolio as a whole. Timeliness and the ability to make decisions regularly with imperfect data are also a constant focus.

Decision Making Process

Rigorous and Confrontational

Due to the inherent differences in experiences, investment styles and professional backgrounds, the Investment Committee (IC) typically generates additional insights and angles on a submission. It is commonplace for there to exist differing viewpoints. Each PM is encouraged to play a 'devils advocate' role and ask 'what if'?

This is seen as healthy and a pre-cursor to better decisions.

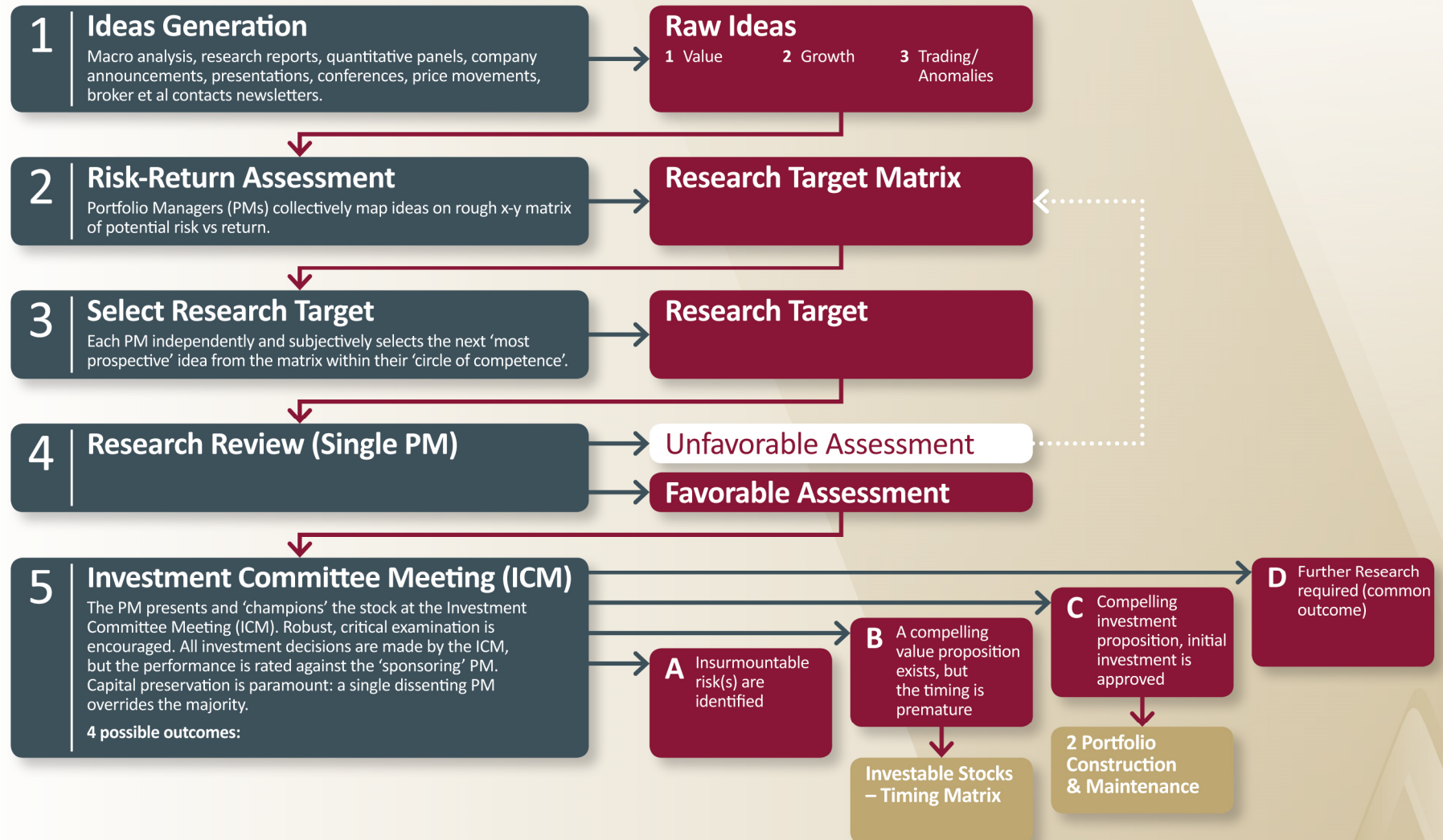
A summary of the decision making process appears on the next slide.

Additional Documents available under Confidentiality Agreement:

1. **Investment Philosophy & Policies (v5.5)**
2. **Portfolio Construction & Maintenance Flowchart**

Portfolio Construction

Processes



Performance History

Advantages of a Listed Investment Company (LIC)

Advantages

Ease of transacting

Shares in an LIC can be bought and sold quickly and easily without the need for manually completing an extensive application or redemption notice.

Additionally, settlement is within 3 working days as opposed to monthly (common practice for many unlisted funds).

Transparency

Being listed on the ASX, an LIC must adhere to the continuous disclosure provisions. At the very minimum an LIC is required to update the market monthly. On a like for like basis, LICs generally provide a greater and more consistent level of communication than unlisted managed funds.

Fully franked dividends

Closed Ended Investment

This is clearly the greatest advantage of an LIC. As a closed ended vehicle, the Manager does not need to facilitate redemptions during distressed times. It is not uncommon for an unlisted fund to be forced into selling good companies at below fair valuations during distressed times to handle redemptions. This impacts the performance for all investors.

Strong Corporate Governance through Board of Directors and ASX Listing Rules

Summary

Solid Foundation

Whilst past performance is no guarantee of future profits, we believe that Katana's long-term out performance has a solid foundation:

People

Experience: 100+ years of combined experience (and mistakes!)

Passion

Diverse blend of training, professional experiences, personalities and investment orientation

Relentless desire to improve

Relentless desire to succeed: our team owns in excess of 20% of the funds under management

And we continue to invest our profits and more alongside you

Strong information and corporate networks

Structure

Flexibility to invest irrespective of size, sector or thematic – at both an individual and group level

We are not tied to an index; our goal is to look at anything anywhere anytime

Accountability and strong overall risk framework

Robust and 'confrontational' decision making process

A definable, sustainable investment process

Right size

Katana's funds are not too large such that it is impossible to deliver ongoing meaningful out-performance

Flexible investment structures tailored to individual investment needs