Katana Capital Limited

ASX CODE KAT

AGM PRESENTATION

NOVEMBER 2020

www.katanaasset.com

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CAPITAL LIMITED

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Overview

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Key Metrics

Katana Profile – Personnel

Investment Approach

Fund Performance & Outlook

Key Metrics

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FY20 Performance

- Gross Investment Return of **9.30%** vs Benchmark (All Ords Index) **-10.42%**
  - Exceptional out-performance **of 19.72%** / 2nd highest since inception

In Context – 15 Year Performance vs Benchmark

- Outperformed the benchmark in 11 out of 15 years

Dividends

- Paid 3x quarterly dividends totalling 1.75c per share
- Dividends all fully franked

FY21 Strong Start

- Katana Capital has generated a Gross Investment Return for the financial year (to date) of approximately 15% versus 11% for the All Ordinaries Index.

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Investment Staff

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Manager – Skills and Experience

- Combined direct investment experience of >80 years
- Across 3 stock market cycles
- Professional Qualifications - economics, business, accounting, investment analysis
- Diverse Backgrounds – domestic, international
- Results Focused
- Strong Processes - rigorous decision-making
- Media Recognition - regular contributions to all forms of media
- Aligned Interests - managers personally own ~29% of FUM

Support Staff & Service Providers

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General Katana Asset Management	**Address**	Level 9, The Quadrant Building, 1 William Street, Perth
	Administration	Christine Fernandez Rebecca Zaubzer
	Compliance	Jacqui Stewart - GRC Essentials
	Custodian	One Investment Group
	Banker	Macquarie Bank Limited
Katana Capital Limited	**Auditors**	Ernst & Young
	Share Registry	Computershare
	Legal Advisors	Steinerpreis Paganin
	Board of Directors	Dalton Gooding (Chairman) Peter Wallace Giuliano Sala Tenna
	Company Secretary	Gabriel Chiappini

Philosophy

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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

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

Fund Parameters

Portfolio Overview

- **Long only**
- **ASX** listed securities
- **Benchmark 'Unaware'** – i.e. flexibility to maximise returns without constraints on market capitalisation, sector or theme.

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

Top Down Macro Overlay with Bottom Up Stock Analysis

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

Portfolio Parameters

- **50-60** 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 mandate range is 0 – 80%; historically **15%-35%**

  Generally towards the upper end of this range and has been as high as 50% of funds under management

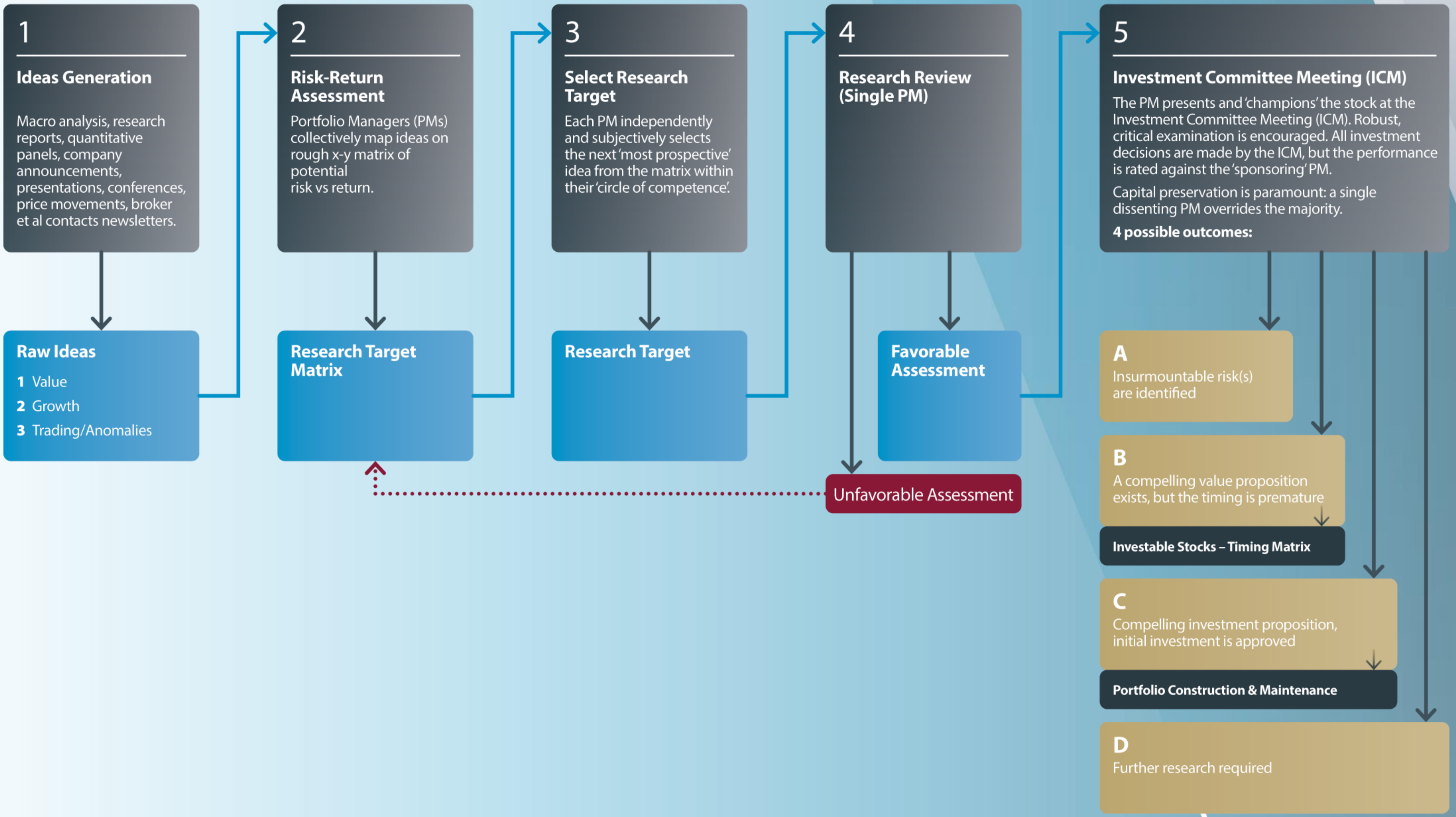
  Achieving high returns with a high cash balance reduces risk through the cycle
- Significant value added with stock positions outside ASX100

  Thematic exposure achieved through ASX100, but additional alpha derived through detailed bottom-up analysis of ex-100
- **No gearing or shorting** applied in the portfolio

"Performance. Process. People. Passion."

Investment Approach

Decision Process



Typical portfolio – "All-Opportunity"

Historical Characteristics:

~ 5 of the top 10 portfolio holdings in ASX50

2-3 of the top 10 portfolio holdings in ASX100

2-3 of the top 10 portfolio holdings in ASX300

1-2 of the top 10 portfolio holdings ex ASX300

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

Top 10 companies regularly make up ~ 20 - 35% of portfolio and remaining holdings usually ~ 40 - 50% of Portfolio

- **Employ a larger number of smaller positions to mitigate risk whilst still being high conviction.**
- *Ordinarily 50 - 60 companies*
- Encompasses stocks in the accumulation or selling phases as well as trading positions

High 'through-the-cycle' balance of Cash

- ***Cash through the cycle is typically within the 15 - 35% band.***
- A high cash balance provides a lower risk profile over time and a buffet to market volatility.

Top 10 Investments (KAT) Percentage of Portfolio Valuation as at 31/10/2020	
MINERAL RESOURCES LTD	4.1%
COMMONWEALTH BANK OF AUSTRALIA	3.0%
SCENTRE GROUP	2.7%
LENDLEASE GROUP	2.6%
SANTOS LTD	2.4%
INGENIA COMMUNITIES	2.3%
WESFARMERS LTD	2.3%
REGIS RESOURCES LTD	2.3%
NEXTDC LTD	2.3%
AMA GROUP LTD	2.2%
Top 10 Equity Investments	**26.2%**
Remaining Equities	56.7%
Cash and Equivalents	17.1%
Total	**100.0%**

Source: KAT
*For most recent Katana Capital Top10 and NTA, please refer to the Katana website.

Investment Returns

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Out-Performance Since Inception

Year Ending	Katana Gross Investment Return	All Ords Index	Outperformance
2006	9.20%	6.91%	2.29%
2007	49.05%	25.36%	23.69%
2008	-6.41%	-15.49%	9.08%
2009	-23.57%	-25.97%	2.40%
2010	24.54%	9.55%	14.99%
2011	19.10%	7.75%	11.35%
2012	-11.19%	-11.25%	0.07%
2013	8.84%	15.47%	-6.63%
2014	26.78%	12.70%	14.07%
2015	-1.57%	1.28%	-2.85%
2016	4.98%	-2.58%	7.56%
2017	6.23%	8.54%	-2.31%
2018	26.27%	9.12%	17.15%
2019	-0.43%	6.51%	-6.94%
2020	9.30%	-10.42%	19.72%
Average	**9.41%**	**2.50%**	**6.91%**

1. Inception date Katana Capital January 2006. Returns quoted are gross investment returns for the fund.
2. Past performance is not necessarily indicative of future performance.

Source: Katana Asset Management Ltd; IRESS

Investment Returns

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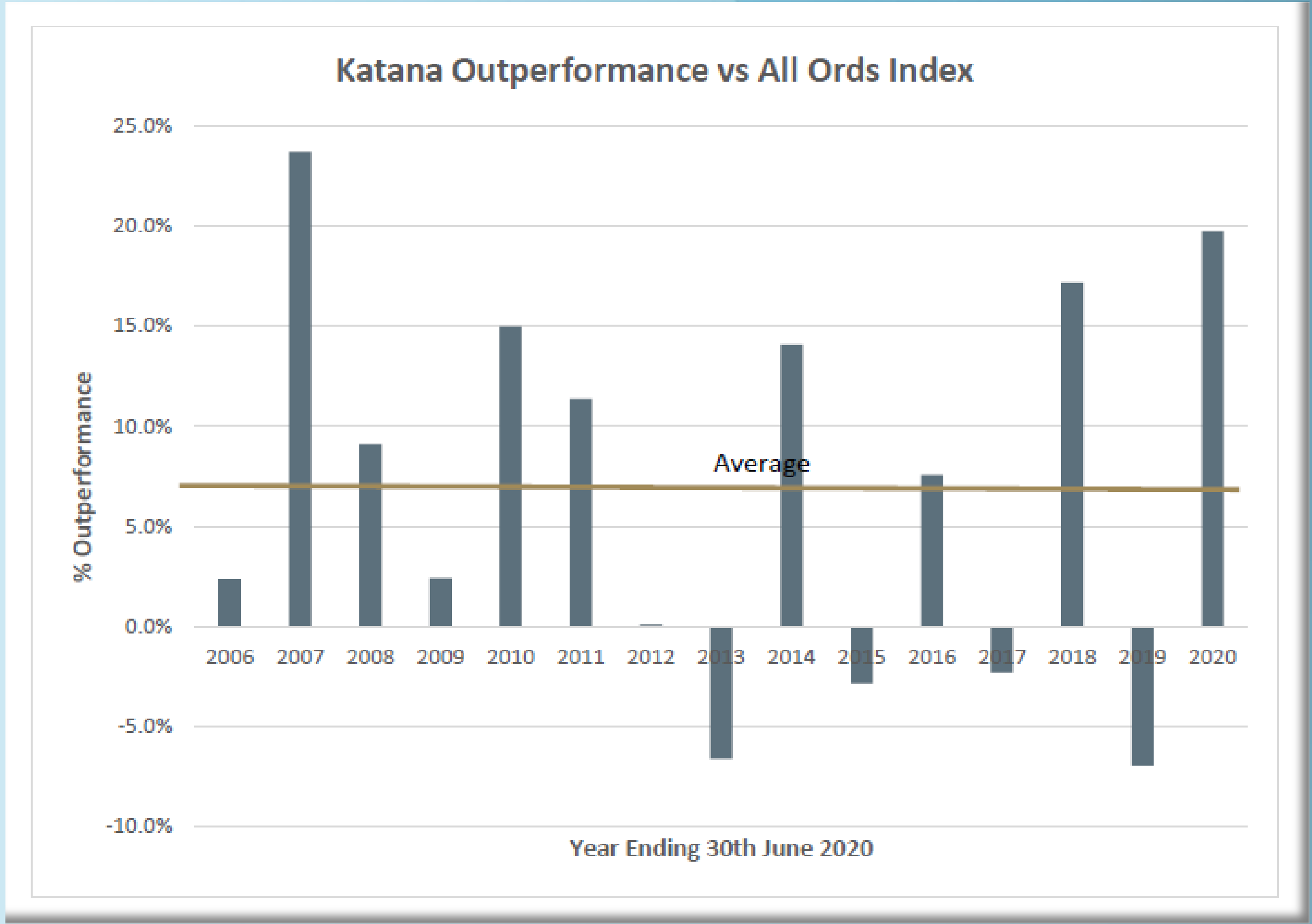
Consistent and Strong Out-Performance

Since inception, Katana Capital's Gross Investment Return has out-performed the All Ords Index by **6.91%** per annum.



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Dividends

Dividend History

- Paid dividends every year since listing
- Quarterly dividends provide regular cash flow to yield conscious investors
- Dividend Reinvestment Plan - company purchases shares on market so no dilution

Future Dividends

- Katana Capital has had a strong start to the FY and holds surplus franking credits. Subject to ongoing market conditions, the company is well positioned to increase dividends in the coming year.

Market Outlook

There are a host of reasons as to why the ASX ***could*** fall in the coming 12 months, including but not limited to…

Virus Related
Covid-19 infections are still accelerating (globally)
The economic impact is enormous and as yet only partially quantified. Government and central bank stimulus have insulated investors to this point, but in time we will see widespread bankruptcies, corporate failures and at the very least a collapse in corporate earnings.
2nd Wave infections are now progressing through countries and regions that were previously 'under control'
Despite the rhetoric, countries are less able to cope with a 2nd wave as re-closing an economy is not a realistic policy option in all but extreme circumstances
Effective treatments may prove more elusive than current expectations
US Related
US policy (both domestic and foreign) is more erratic and potentially damaging than at any time in the modern era.
US- China trade rhetoric has escalated further and relations have regressed considerably
Record corporate debt at a time of the lowest interest rates on record
Approaching record Government debt as a percentage of GDP
US driven Nationalism is escalating and if left unchecked will detract from global trade, growth and synergies/efficiencies.
'Robinhood' / day trading bubble
Tech mega cap stocks (FAANGM) are up 500% in 7 years and now represent 24% of the total market capitalization of the S&P500
Stock / Market
Valuations are not cheap across the board and over-inflated in some sectors
Genuine earnings growth is rarer than at any point in our careers (hence the tsunami of money that has overrun the technology and healthcare sectors).
Australia
There may be increasing anxiety and volatility as we approach the rollover for: • Mortgage and SME Interest and capital repayments • Jobkeeper/seeker subsidies.

Market Outlook

…yet despite all of these (valid) concerns, our base case remains that **equities will continue to rise in the coming months and years**

This is predicated on the dual themes of

1. Liquidity

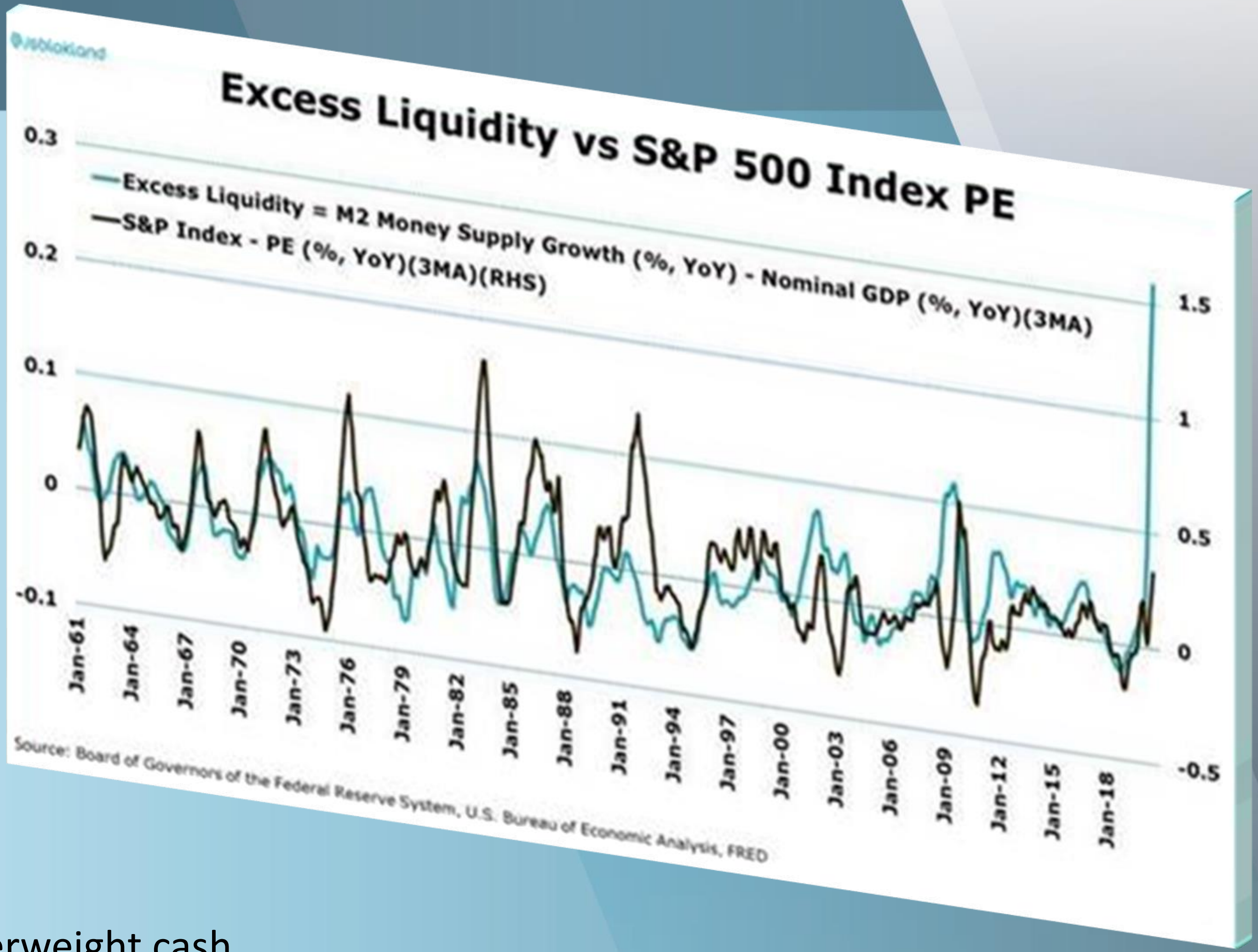
   and

2. Necessity

Market Outlook

Liquidity

- Central Banks globally have ‘printed’ more money more rapidly than at any time in history
- The velocity of money is still low, but will increase as confidence returns
- An ever increasing supply of money will inflate finite assets such as property and equities
- Traditional (monetary) policy will have less scope to reduce liquidity versus previous cycles



Added to this:

- Investors remain underweight equities and overweight cash
- The tsunami of all flows is about to reverse as the **37 year bond bull market ends** = equity funds receive greater weightings versus bond funds

Market Outlook

Necessity

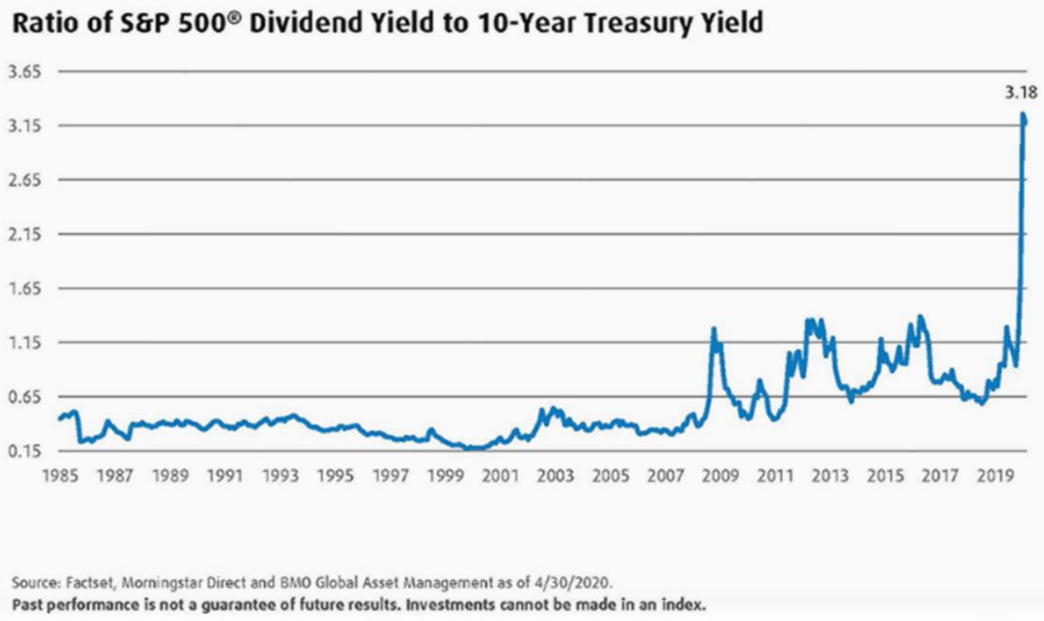
Relative

- The differential between cash rates/bond yields and equity yields is the highest on record
- This differential far exceeds any rational application of equity risk premium
- In a *relative* sense, advisers and investors alike have no alternative but to increasingly allocate to equities on a risk-adjusted basis

Absolute

- Term deposits in Australia are the lowest on record with rates at ~0.4% and declining
- After deducting tax and inflation the yield is in the order of negative 2%
- Advisers and investors alike will be forced to take on more risk – reluctantly at first but inevitably in the end

Ratio of S&P 500® Dividend Yield to 10-Year Treasury Yield



If you would like

more information

Please email

enquiries@katanaasset.com

Thankyou

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