



Katana Capital Limited

30 June 2025 Investment Report

Overview

Katana Asset Management Ltd ('The Manager') has completed a report on the performance of Katana Capital Limited's (Katana) portfolio for the 12 months to 30 June 2025. The Manager is pleased to announce the fund generated a gross investment return of 10.63% versus 9.47% for the All Ordinaries index. This represented a gross investment out-performance of **+1.16%** (before expenses).

Year Ending	Katana Gross Investment Return	All Ords Index
2006	9.20%	6.91%
2007	49.05%	25.36%
2008	-6.41%	-15.49%
2009	-23.57%	-25.97%
2010	24.54%	9.55%
2011	19.10%	7.75%
2012	-11.19%	-11.25%
2013	8.84%	15.47%
2014	26.78%	12.70%
2015	-1.57%	1.28%
2016	4.98%	-2.58%
2017	6.23%	8.54%
2018	26.27%	9.12%
2019	-0.43%	6.51%
2020	9.30%	-10.42%
2021	32.82%	26.39%
2022	1.13%	-11.06%
2023	19.42%	9.71%
2024	9.21%	8.27%
2025	10.63%	9.47%
Average	10.73%	4.01%

2025 Financial Year Review

The 2025 financial year was marked by significant macroeconomic shifts, with global markets navigating the aftershocks of elevated inflation, aggressive interest rate tightening cycles, and renewed geopolitical tensions. Investors faced a volatile landscape, defined by uneven sectoral performance, mixed corporate earnings, and fluctuating commodity prices. Despite these headwinds, the Fund demonstrated resilience through active portfolio management and an investment philosophy that emphasized valuation discipline, capital preservation, and long-term thematic alignment.

At the start of FY2025, the global economy was contending with the lag effects of previous rate hikes, particularly in developed economies such as the US and Australia. Inflation, though easing, remained stubborn in key categories like services and energy. This led central banks to maintain a hawkish stance, further suppressing risk appetite in the early months. Australian equity markets, in particular, experienced rotations away from interest-sensitive sectors including real estate, consumer discretionary, and technology.

The Fund entered the year with a defensive tilt, favouring high-quality, cash-generative companies across sectors such as resources, infrastructure, and communications. This positioning provided some downside protection during periods of risk-off sentiment. As inflation data began to normalise and forward-looking indicators suggested a peak in interest rates, market sentiment gradually turned more constructive. The Fund tactically adjusted its exposures in anticipation of this shift, enabling it to benefit from the recovery in late FY2025.

Throughout the year of course the main driver of the Australian equity market was the PER expansion in the big four banks. Whilst earnings growth remained subdued, a combination of passive industry super flows and momentum investing drove the large banks considerably higher. CBA reached a previously unimaginable valuation, trading on a PER of >30x and a price to book value of >3.4x. The extraordinary rise in its share price accounted for 33% of the total return of the ASX200 Benchmark index in the 2025FY. For the 2nd year in succession, the major 4 banks accounted for ~50% of the total increase in the valuation of this index. This is an unprecedented contribution for the banking sector, and all at a time when earnings growth was subdued.

The largest Australian industry super fund now manages in excess of \$300bn. The Top 4 account for ~\$700bn. This scale effectively limits the investment landscape and funnels a disproportionate amount into large capitalization companies – such as the banks. Given that this is a permanent structural change in the Australian investment landscape, there is a case to argue that large capitalized companies will henceforth trade on structurally higher valuations. This is currently being built into our thinking and investment process. However, this has run well beyond what is sustainable, and as we wrote throughout the year, we expect history to label this period a *'bank bubble'*. On the flipside, value, quality and small and mid-cap stocks continued to trade at significant discounts to historical averages, creating strong opportunities for patient capital.

The Fund's strategy of avoiding short-term market noise and focusing on intrinsic value played a critical role in navigating these turbulent conditions. Its exposure to inflation-linked assets, particularly in the resources sector, and avoidance of speculative growth names, insulated it from some of the more aggressive market drawdowns. Moreover, the Fund's relatively low portfolio turnover underscored its high conviction approach, avoiding the temptation to chase fleeting market trends and instead positioning for sustainable long-term outperformance. During the final 2 months of FY25, this patience began to pay off. As bank and other momentum stocks began to wane, investors re-focused on value, quality and companies with actual growth. As a result, market breadth expanded notably as investors rotated capital into other sectors and mid-caps.

Top Contributors for FY2025

In FY2025, the top five contributors to the Fund's performance were **Technology One (TNE)**, **Life360 (360)**, **Electro Optic Systems (EOS)**, **GenusPlus Group (GNP)**, and **ResMed (RMD)**. Each of these businesses was selected based on deep fundamental analysis, strong alignment with secular trends, and a clear valuation upside at the time of investment.

Technology One (TNE) delivered a standout performance, driven by its continued dominance in enterprise SaaS within the government and education sectors. The Fund initiated a position due to TNE's high recurring revenue base, exceptional client retention, and accelerating cloud transition. Strong contract wins, margin expansion, and multiple earnings upgrades throughout the year underpinned its share price appreciation. The company's ability to consistently deliver operational leverage and exceed market expectations highlighted its quality, even in a challenging macro environment.

Life360 (360) benefited from structural growth in consumer safety tech and location-based services. We identified the business some years prior, based on its sticky user base, global scale, and underappreciated monetisation potential through premium offerings. During the year, Life360 posted record revenue growth, driven by subscriber expansion and geographic penetration. The market rewarded its path toward profitability and disciplined capital management, with the stock rerating significantly as confidence increased.

Electro Optic Systems (EOS) represented a high-conviction contrarian play. After a lengthy and detailed site visit, the Fund took the view that its core defence technology had long-term strategic relevance, particularly given the rising global demand for advanced weapons systems. As geopolitical tensions escalated, EOS secured new defence contracts and successfully executed a corporate restructure and recapitalisation. These developments restored investor confidence and drove a sharp recovery in its share price from deeply depressed levels.

GenusPlus Group (GNP) was well placed to benefit from Australia's multi-decade energy transition, particularly in grid expansion and transmission infrastructure. The Fund's investment was based on its unique exposure to this national priority, combined with disciplined project execution and strong client relationships. During FY2025, GenusPlus secured several major contract wins, expanded margins, and outperformed expectations. The market began to price in its role as a structural enabler of decarbonisation, supporting a strong rerating.

ResMed (RMD) rebounded strongly after concerns over the potential impact of GLP-1 weight-loss drugs caused a selloff in sleep apnoea treatment providers. The Fund viewed this as a temporary market mispricing and maintained its position, confident in the long-term demand for sleep health solutions and RMD's leadership in cloud-connected medical devices. As earnings proved resilient and software revenue grew, sentiment normalised and the stock regained momentum, delivering robust capital gains for the Fund.

Together, these five positions reflect the Fund's core principles: investing with conviction, focusing on valuation and quality, and staying patient through market misperceptions. Each contributed materially to FY2025 outperformance and continues to offer long-term optionality.

Main Detractors for FY2025

On the flipside, the largest detractors were **Mineral Resources (MIN)**, **Whitehaven Coal (WHC)**, **Domino's Pizza Enterprises (DMP)**, **CSL Ltd (CSL)**, and **IPH Ltd (IPH)**.

Mineral Resources (MIN) underperformed as sentiment toward lithium deteriorated markedly throughout the year, whilst at the same time the company was funding its (largest ever) Onslow Iron Ore Project (OIOP). Despite the company's diversified exposure across lithium, iron ore, and mining services, falling lithium prices and increasing debt levels weighed heavily on investor appetite. While the long-term thematic around energy transition and battery metals remains intact, short-term oversupply concerns and market volatility triggered a sustained de-rating. The Fund has a long-term record of successfully investing in MIN and retains a high level of conviction that the company will out-perform in the coming months and years.

Whitehaven Coal (WHC) was impacted by a sharp correction in thermal and metallurgical coal prices from the highs of the previous cycle. Having benefited from elevated prices in FY2023, the stock came under pressure as global coal markets normalised and China ramped up domestic production. Although Whitehaven retained strong free cash flow characteristics, its earnings were heavily revised downward. The position's underperformance reflected a broader cyclical retracement in energy markets, and while the Fund saw value at lower levels, the timing of entry proved premature.

Domino's Pizza Enterprises (DMP) faced a challenging year as rising input costs, weaker European performance, and declining franchisee profitability impacted investor confidence. The Fund initiated a position based on a turnaround thesis, believing the market had overreacted to near-term earnings pressure. However, slower-than-expected margin recovery and operational missteps in key international markets led to continued downgrades. Despite its long-term brand value and scale, execution risk proved higher than anticipated, and the position detracted from performance. DMP is trading on a current consensus FY forecast of EPS of \$1.37 per share, yielding a PER of 13.4x. This is the cheapest multiple over the past decade and justifies our ongoing patience. Quick Service Restaurants (QSR) are highly leveraged to topline sales. When the cycle inevitably turns, the operating leverage will drive profits disproportionately higher. In the meantime, the Executive Chairman is also focussed on a cost-out program that aims to better align DMP with its QSR peers.

CSL Ltd (CSL), historically a consistent compounder, delivered a rare underwhelming year. Currency headwinds, rising R&D expenses, and lower-than-expected returns from recent acquisitions weighed on sentiment. The Fund's conviction in CSL's long-term pipeline, global scale, and defensible business model remains intact, but timing and valuation proved challenging in a year when investors rotated away from defensives toward cyclical exposures. The stock's underperformance highlighted the market's elevated expectations and limited tolerance for earnings ambiguity.

IPH Ltd (IPH) struggled amid a more subdued legal services environment in Australia and Asia, with growth momentum slowing across its key IP markets. While its core business remains defensive, the Fund underestimated the revenue drag from foreign exchange movements and substantive delays due to technical issues with the Canadian Government Patents Office. Despite solid fundamentals and yield support, IPH failed to gain investor traction in a market focused on higher-growth or deep-value opportunities.

Collectively, these underperformers reflect a range of cyclical and company-specific challenges. While disappointing in the short term, they serve as important reminders of the need for flexibility, risk calibration, and a readiness to reassess conviction levels as fundamentals evolve. Each of these holdings has been maintained or increased, and the fund remains confident on their medium-term prospects.

Strategic Outlook for FY2026

After navigating through a period marked by interest rate volatility, global conflict, and shifting sector leadership, market conditions are stabilising — but not without nuance.

There is growing consensus among leading domestic investment professionals that inflation has likely peaked, and the Reserve Bank of Australia is now into a monetary easing cycle. This creates a more constructive backdrop for equity valuations, particularly in interest-rate-sensitive sectors such as real estate, consumer discretionary, and technology.

Earnings growth in FY2026 is expected to moderate, with a strong emphasis on **quality and defensiveness**. Companies with robust balance sheets, recurring revenue, and pricing power are likely to outperform as investors pivot from macro-driven trades to fundamentals. Dividend-paying stocks and income strategies remain in demand, especially given Australia's large cohort of SMSF and retiree investors seeking yield with franking benefits.

The resource sector, a long-standing engine of market performance, presents a more mixed picture. Bulk commodities such as iron ore and coal may face headwinds from decelerating Chinese demand and rising supply, though pricing remains above long-term averages. In contrast, the outlook for **critical minerals** — including lithium, copper, and rare earths — remains positive as the global decarbonisation push intensifies. Capital will increasingly flow toward companies enabling the electrification and clean energy transition, though investors are becoming more selective following recent volatility in lithium equities.

Financials are expected to deliver modest, stable returns. Net interest margins remain solid, supported by elevated interest rates, but loan growth is slowing and mortgage stress is creeping higher. We expect CBA and the like to underperform the wider benchmark in FY26, and whilst early, the fund is well positioned to benefit from this relative weakness.

A key theme for FY2026 is the ongoing **rotation toward operational resilience and cash flow visibility**. Investors are rewarding businesses that can maintain margins, manage supply chains, and deliver consistent earnings regardless of macro noise. Defensive sectors such as healthcare, infrastructure, and consumer staples are well positioned in this context.

Geopolitically, risk remains elevated. Tensions in the Asia-Pacific, Middle East, Ukraine and ongoing trade realignment are all capable of injecting volatility. However, these developments also present opportunities. Australia's role as a stable supplier of energy, food, and critical resources makes it increasingly attractive to global capital.

In terms of style, the market has largely moved past the binary growth vs. value vs quality debate. Instead, there is increasing focus on **valuation discipline, cash flow durability, and capital efficiency**. Active managers with the ability to identify overlooked opportunities — particularly in mid-cap industrials and selective small caps — are likely to outperform in the year ahead.

In summary, while the macroeconomic landscape remains complex, FY2026 offers fertile ground for selective equity investors. Those willing to look beyond headline volatility, remain grounded in valuation, and invest with discipline will find ample opportunities to generate alpha in an environment that increasingly rewards fundamentals over momentum.

Importantly, the Fund is entering FY2026 from a position of strength. Its existing portfolio is well diversified across sectors and factors, with meaningful exposure to inflation hedges, domestic resilience, and global growth proxies. The investment team is focused on maintaining balance while staying true to its core process of fundamental valuation, patient capital deployment, and long-term thematic conviction.

Closing Comment

The 2025 financial year validated the Fund's core philosophy: that disciplined, process-driven investing can deliver attractive outcomes, even in volatile environments. By avoiding momentum traps and focusing on companies with intrinsic value and strategic positioning, the Fund has once again been able to generate outperformance relative to its benchmark.

As markets continue to digest a complex array of macro variables, the Fund remains committed to its core process. The coming year presents opportunities and risks, but with a strong research foundation, a patient mindset, and a clear thematic focus, the Fund is well placed to navigate what lies ahead.

Corporate

Katana Capital Ltd finished FY25 with 30,730,341 shares on issue. During the period from 1 July 2024 to 30 June 2025, 1,177,570 shares were bought back on market and were subsequently cancelled. The shares were acquired at an average price of \$1.21 with the price ranging from \$1.17 to \$1.235 per share. The buyback also provided liquidity and increased the underlying net asset backing for all existing shareholders.

Katana paid four quarterly dividends, totaling two cents during FY25. Once again, the dividends were all fully franked.

The Manager remains committed to outperforming its benchmark and rewarding shareholders with solid dividends. The Company has declared and paid a 0.5 cents fully franked dividend subsequent to the year end.

On behalf of all of the staff at Katana Asset Management, we take this opportunity to once again thank Katana Capital's valued shareholders for your support.

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Katana Asset Management Limited