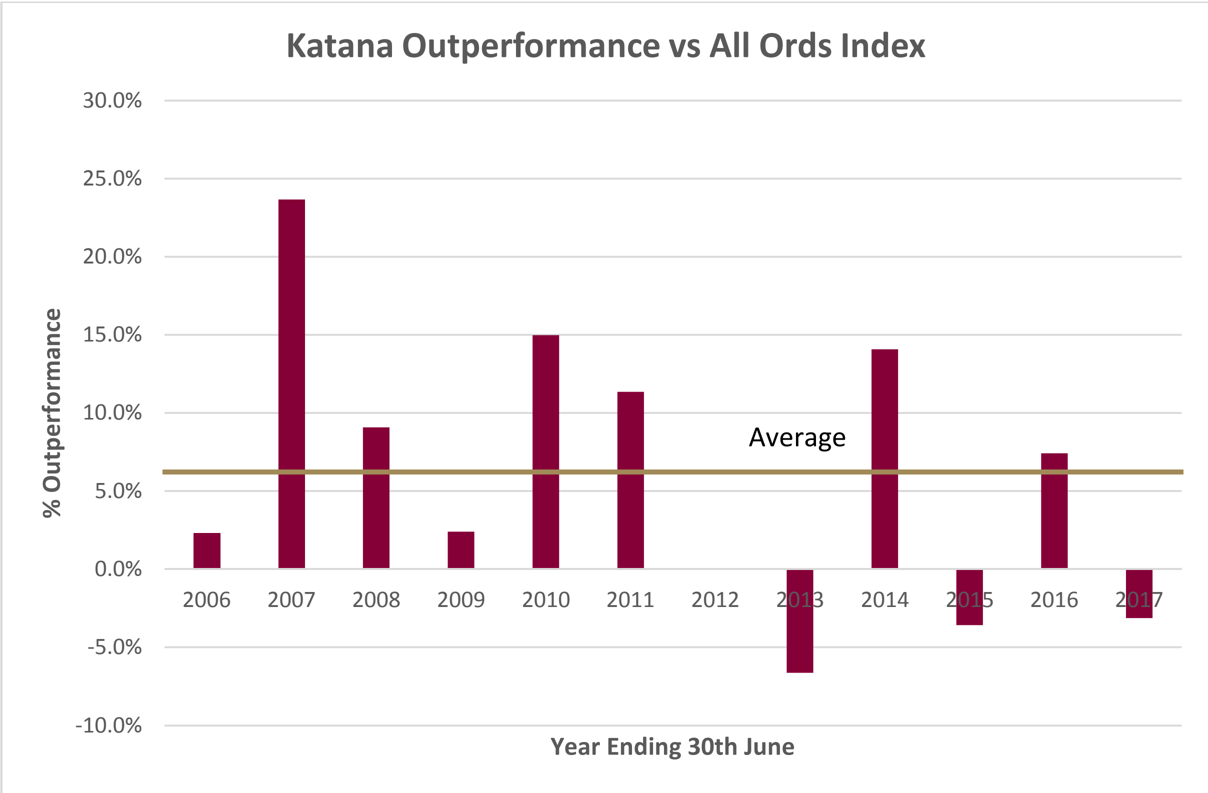
Katana Capital Limited
30 June 2017 Investment Report

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 2017.

FY17 Financial Year Review
The All Ordinaries Index started FY17 at 5,310.4 points and increased by 8.54% during the course of the year to close at 5,764.0 points on 30 June 2017. The market rallied after D. Trump was elected as president of the US in November 2016 and peaked at 5,976.4 points in April 2017. This was due to high expectations that Trump's proposed new infrastructure spending and tax cuts would boost global growth; improve corporate profitability; and further lower the risk of deflation. Although, the global economy continues to improve, Trump's policies have so far failed to gain support and this combined with low profit growth in Australia, resulted in a decline in the share market in the final two months of the year. Overall, FY17 was another year of low global growth, although there are signs that a broader recovery is underway as many of the major developed economies are expanding. Katana slightly underperformed its benchmark with a positive (gross) return of 5.14%. A summary of the Fund's returns compared to the All Ords Index over the past 12 years is shown in the table below.

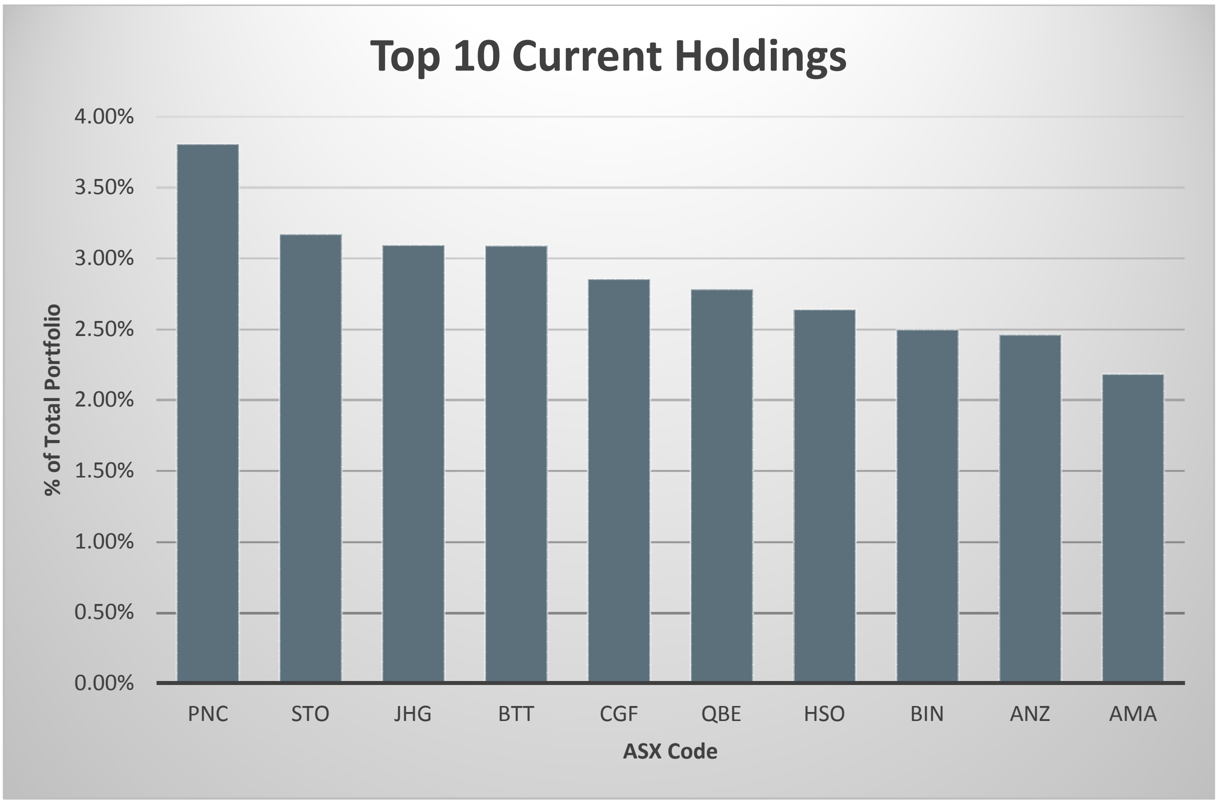
Year Ending	Katana Gross Investment Return	All Ords Index	Outperformance
2006	9.20%	6.90%	2.30%
2007	49.03%	25.36%	23.67%
2008	-6.41%	-15.49%	9.08%
2009	-23.57%	-25.97%	2.40%
2010	24.54%	9.55%	14.99%
2011	19.10%	7.75%	11.35%
2012	-11.19%	-11.25%	0.06%
2013	8.84%	15.47%	-6.63%
2014	26.79%	12.70%	14.09%
2015	-2.28%	1.29%	-3.57%
2016	4.85%	-2.58%	7.43%
2017	5.41%	8.54%	-3.13%
Average	**8.69%**	**2.69%**	**6.00%**

The Manager continued to average between 50-60 individual stock positions and a high level of cash throughout FY17. The Manager is committed to maintaining a diversified portfolio, which it believes provides better risk adjusted returns compared to achieving that same outcome with a concentrated portfolio.



The bar chart above illustrates the Manager's track record of outperformance in each of the past twelve years together with its average level of outperformance over this period.

Katana's top 10 holdings as at 30 June 2017 are shown below. The Manager increased the Fund's holdings in listed fund management companies, which are leveraged to an improving economy. The Manager also added to its holdings in quality small and mid-cap industrials, which it believes have more potential upside than many larger cap stocks. These stocks have strong balance sheets and produce robust cash flows. The Manager's top 10 also includes three out-of-favour stocks, which it believes were excessively sold down and are expected to recover over the medium term.



Outlook

The Manager believes that global growth should continue to improve in FY18. Growth has now picked up in most of the developed countries including the US and Europe; and China continues to expand, albeit at a slower rate. Unemployment continues to decline and corporate profits have started to improve. Growth in consumer spending appears to be rebasing at a lower level, partly due to elevated household debt levels. This means the recovery is likely to occur more slowly, but over potentially a longer timeframe than normal. Although most central banks in developed economies have either begun to tighten policy or have at least commenced to discuss this, inflation remains below most central bank targets and the Manager expects that interest rates will ultimately peak below traditional levels.

Australia is in its 25th year of growth without a recession, although this is currently at sub-trend pace. The mining investment boom has largely unwound and housing construction now appears to be peaking. Growth should, however, be maintained as investment is increasing in infrastructure, particularly road and rail in NSW and Victoria. South Australia should also benefit from increased naval defence expenditure. Tourism, education and healthcare continue to grow and the country's natural resources including liquefied natural gas; iron ore; coal and other minerals; as well as food and services, should underpin export growth. Australia is well positioned to meet increasing demand for many of these products from China and other Asian countries, which contain around 40% of the world's population.

Strategy

The Manager believes that the stock market will continue to move higher in FY18 and provide reasonable total shareholder returns, as corporate profitability continues to increase and interest rates remain supportive.

The Manager has positioned a part of its portfolio to benefit from the ageing population trend as well as increasing consumption growth in many developing nations as more of their populations enter the middle class. These trends will continue for many years.

The Manager has maintained its overweight exposure to listed fund managers, which should continue to perform well as the superannuation pool and annuities continue to expand. It has also increased the Fund's holdings in quality small and mid-cap companies that are able to grow earnings and dividends despite being in a low growth environment. The portfolio is underweight large cap stocks, which may struggle in an increasingly competitive environment and could potentially lead to further dividend cuts. However, dividends will continue to form a large part of total shareholder returns in this low growth environment. The Manager believes that the share market will continue to experience periods of volatility due to tightening monetary policy in major economies and geopolitical events. This should provide opportunities to add to its holdings in weak periods when it considers the risk/return equation to be favourable.

Corporate

Katana Capital Ltd finished FY17 with 44.3m shares on issue. During the period from 1 July 2016 to 30 June 2017, 371,216 shares were bought back on market and were subsequently cancelled. The shares were acquired at an average price of $0.72 with the price ranging from $0.70 to $0.76 per share. The buyback also provided liquidity and increased the underlying net asset backing for all existing shareholders.

Katana paid four quarterly dividends, totalling three cents ($0.03) during FY17. Three of the dividends totalling 2.5c were 50% franked and one of 0.5c was fully franked.

The Manager remains committed to outperforming its benchmark and rewarding shareholders with solid dividends.

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.

Brad Shallard Romano Sala Tenna

Investment Managers
Katana Asset Management Limited