

Katana Capital Limited

ASX CODE KAT

AGM PRESENTATION

NOVEMBER 2018

www.katanaasset.com

Performance. Process. People. Passion.



KATANA

ASSET MANAGEMENT LTD

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Overview

Key Metrics

Katana Profile – Personnel

Investment Approach

Fund Performance & Outlook

FY18 Strong Out-Performance

- Gross Investment Return of 26.27% vs Benchmark (All Ords Index) +9.12%

In Context - 13 Year Performance vs Benchmark

- Outperformed the benchmark in 10 out of 13 years

Dividends

- Paid 4x quarterly dividends totalling 3c per share (Average ~80% franked)
- Dividends increased on prior year and with a higher level of franking

FY19 Volatile Start

- Strong cash weighting (~35%) heading into new financial year has provided a partial buffer, however ongoing weakness is impacting returns (Refer to 'Outlook' on slide 12)

Manager – Skills and Experience

- Combined direct investment experience of >100 years
- Covers 4 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 ~22% of FUM

Support Staff & Service Providers

General Katana Asset Management	Address	AMP Building, Level 16, 140 St Georges Terrace, Perth
	Administration	Christine Fernandez Stephanie Taverniti Niesha Hammond
	Compliance	Jacqui Stewart - GRC Essentials
	Custodian	JP Morgan and Link Markets
	Banker	JP Morgan
Katana Capital Limited	Auditors	Ernst & Young
	Share Registry	Computershare
	Legal Advisors	Steinepreis Paganin
	Board of Directors	Dalton Gooding (Chairman) Peter Wallace Giuliano Sala Tenna
	Company Secretary	Gabriel Chiappini

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

Investment Approach

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

- **45-60 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.

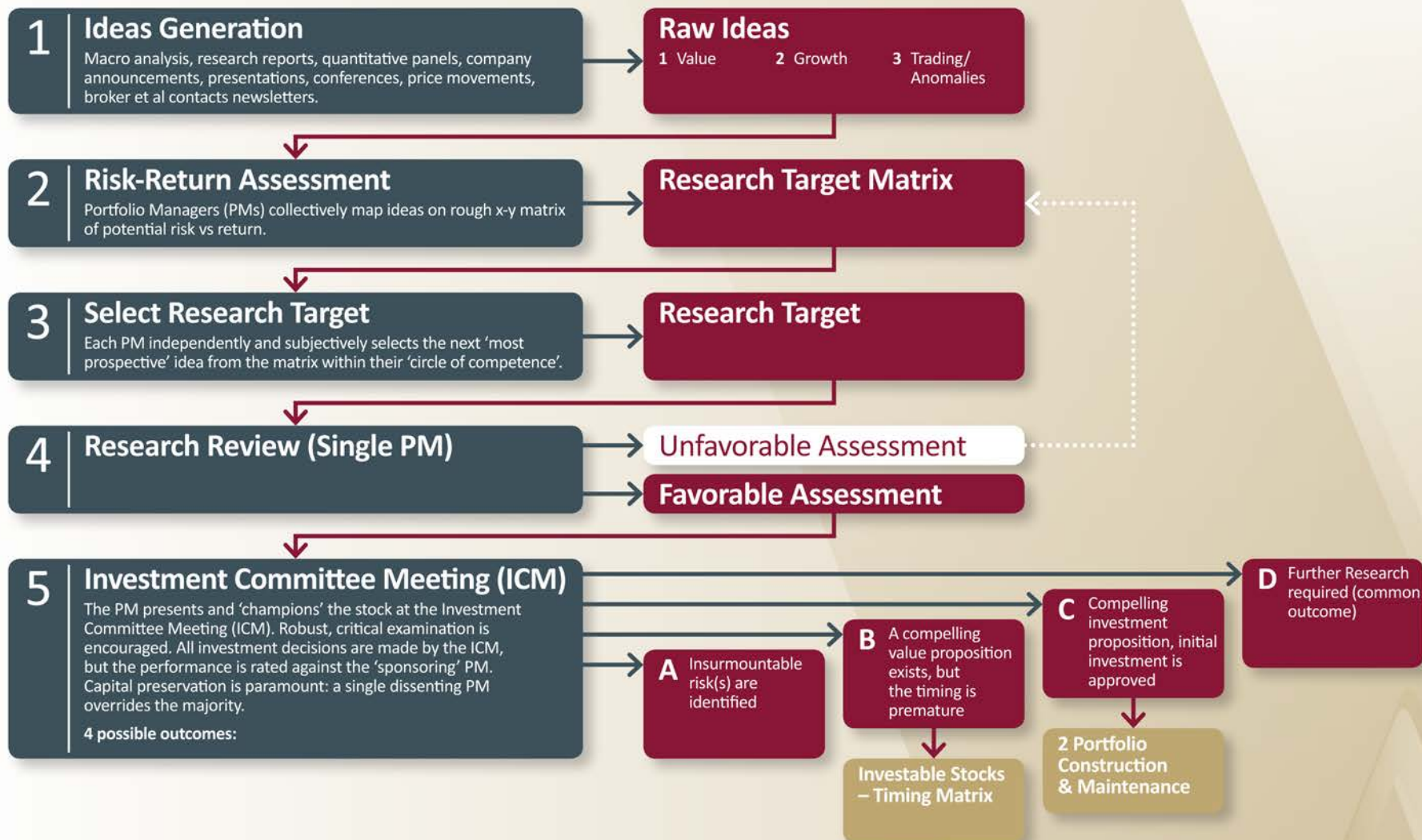
- Significant value added with stock positions outside ASX100

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

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 ~ 30 - 40% of Portfolio

- **Employ a larger number of smaller positions to mitigate risk whilst still being high conviction.**
- *Ordinarily 45 - 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 (KAEF)

Percentage of Portfolio Valuation as at 31/10/2018

MINERAL RESOURCES LTD	7.44%
PIONEER CREDIT LTD	4.67%
MACQUARIE GROUP LTD	4.59%
NATIONAL AUSTRALIA BANK	4.00%
WOODSIDE PETROLEUM LTD	3.66%
VIVA ENERGY GROUP LTD	3.32%
BHP BILLITON LTD	3.03%
CSL LTD	2.94%
AUSTRALIA & NEW ZEALAND BANKING GROUP	2.70%
TRANSURBAN GROUP	2.68%
Top 10 Equity Investments	38.62%
Remaining Equities	46.11%
Cash and Equivalents	15.27%
Total	100.0%

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

Fund Performance and Outlook

Investment Returns

Ongoing Out-Performance Since Inception

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	-1.57%	1.29%	-3.57%
2016	4.85%	-2.58%	7.43%
2017	5.41%	8.54%	-3.13%
2018	26.27%	9.12%	17.15%
Average	10.10%	3.18%	6.86%

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.

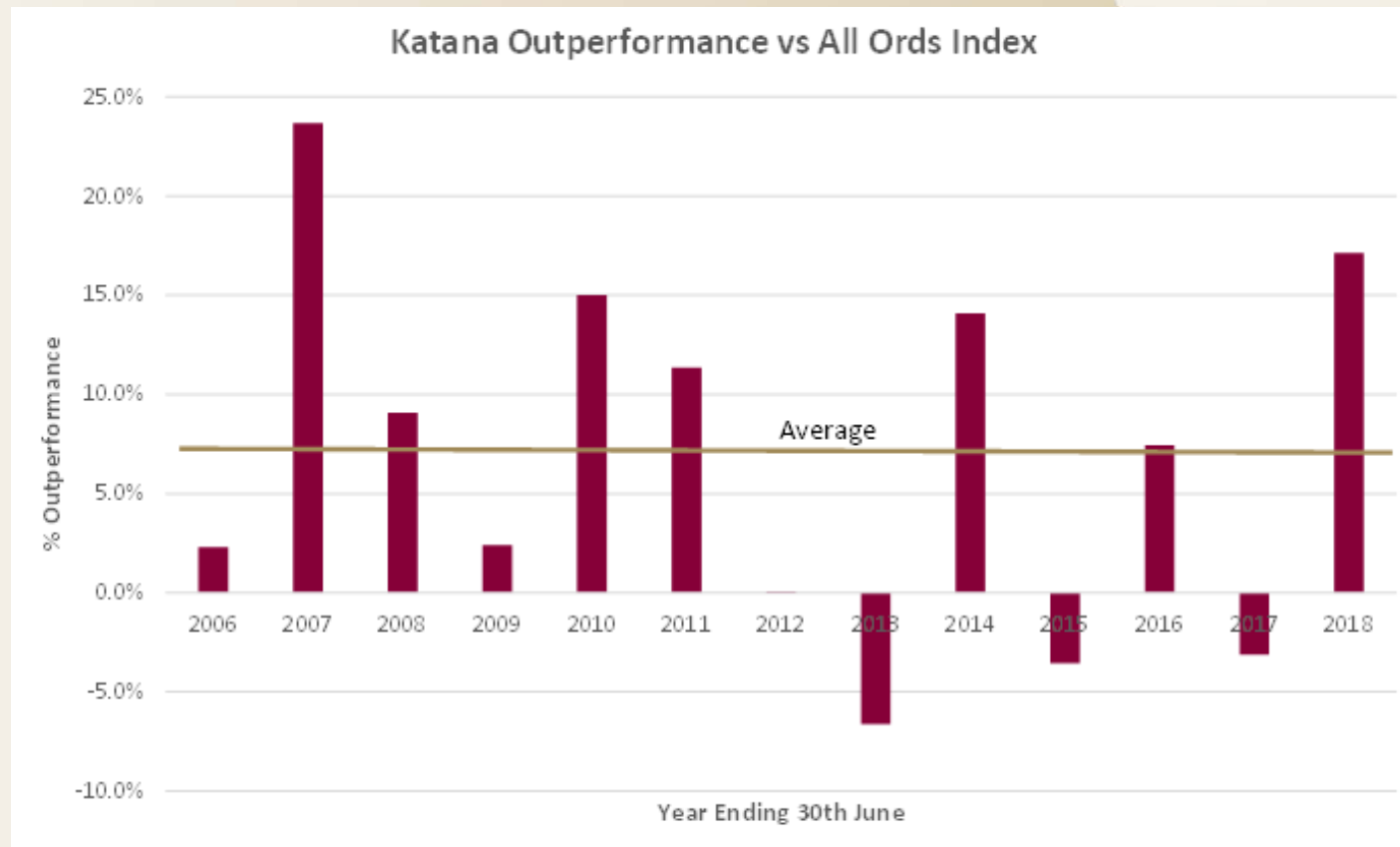
Source: Katana Asset Management Ltd; IRESS

Fund Performance and Outlook

Investment Returns

Consistent and Strong Out- Performance

Since inception, KAEF has outperformed the All Ords Index by **6.86%** per annum on a gross basis.



1. Inception date Katana Capital January 2006. Returns quoted are gross investment returns for the fund.
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Source: Katana Asset Management Ltd; IRESS

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

- Subject to market conditions, dividends are likely to contain a higher level of franking in the coming financial year

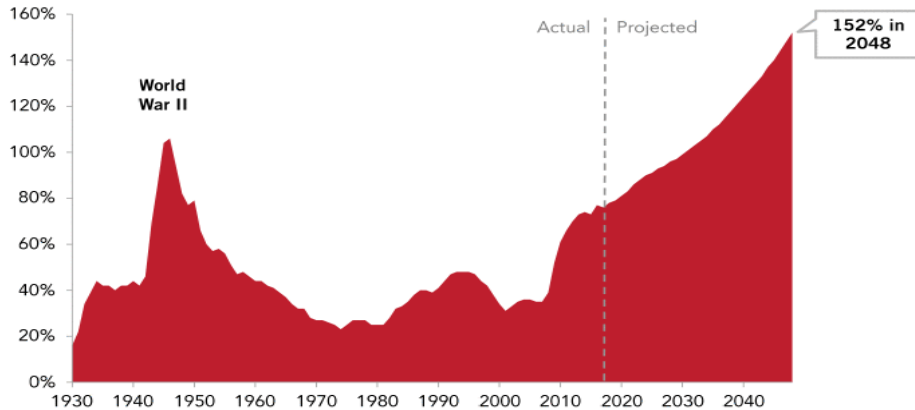
Fund Performance and Outlook

DEBT **DEBT** DEBT



The national debt is on an unsustainable path

DEBT HELD BY THE PUBLIC (% OF GDP)

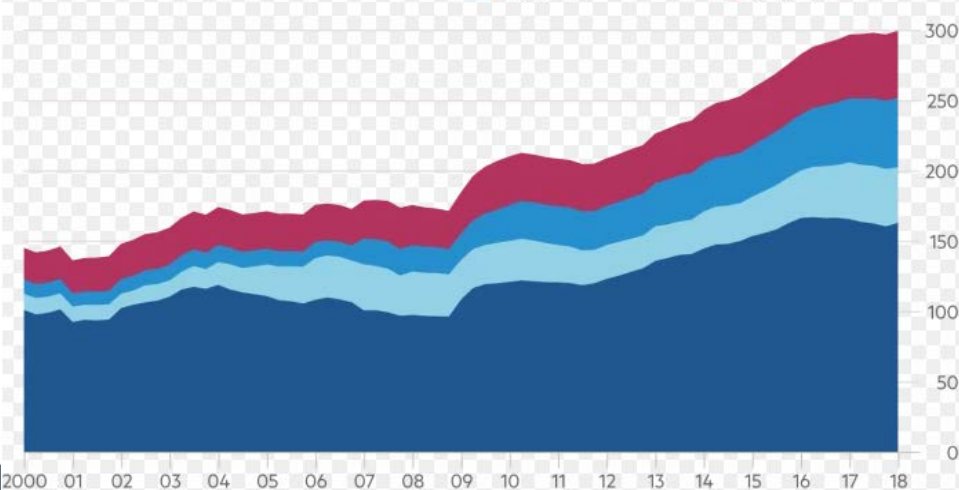


SOURCE: Congressional Budget Office, The 2018 Long-Term Budget Outlook, June 2018. Compiled by PGPF.
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PGPF.ORG

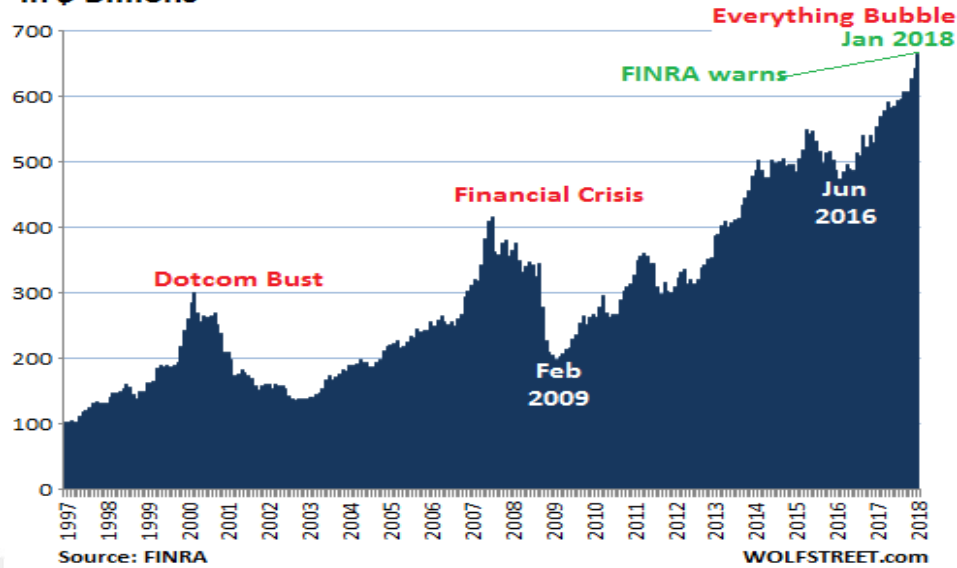
Chinese debt, by sector (% of GDP)

Non-financial corporate Financial corporate
 Household Government

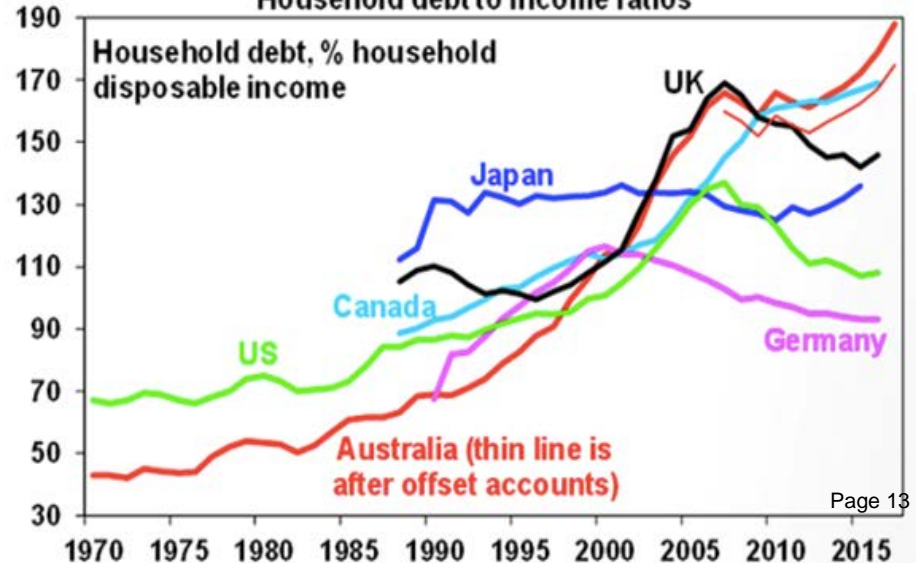


Source: IIF
 © FT

Stock Market Margin Debt
 In \$ Billions



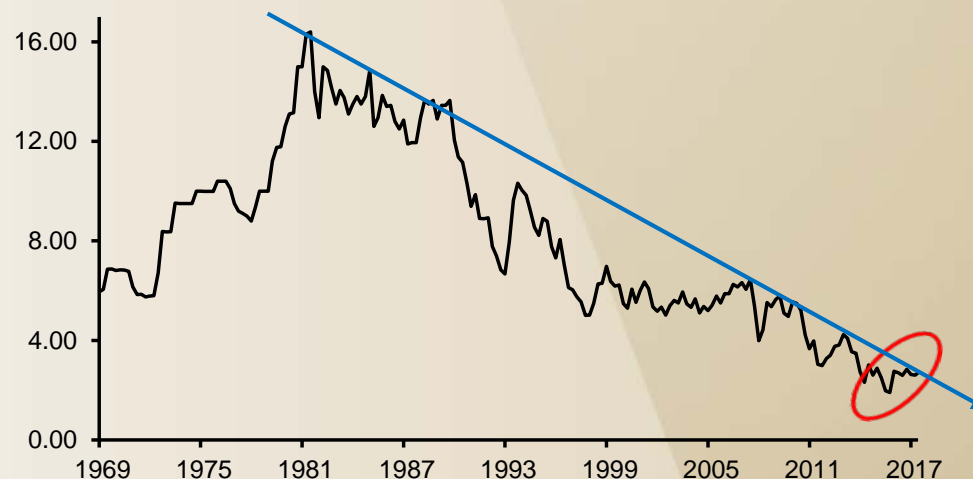
Household debt to income ratios



Financial Markets

- Late cycle bull market – have we witnessed ‘*euphoric*’ phase?
- US Earnings ‘*perfect*’ – outlook less robust
- Response to normalisation of central bank controlled interest rate & rising bond yields may not be smooth

**Australian
10-year bond
yield (%)**



Fund Performance and Outlook

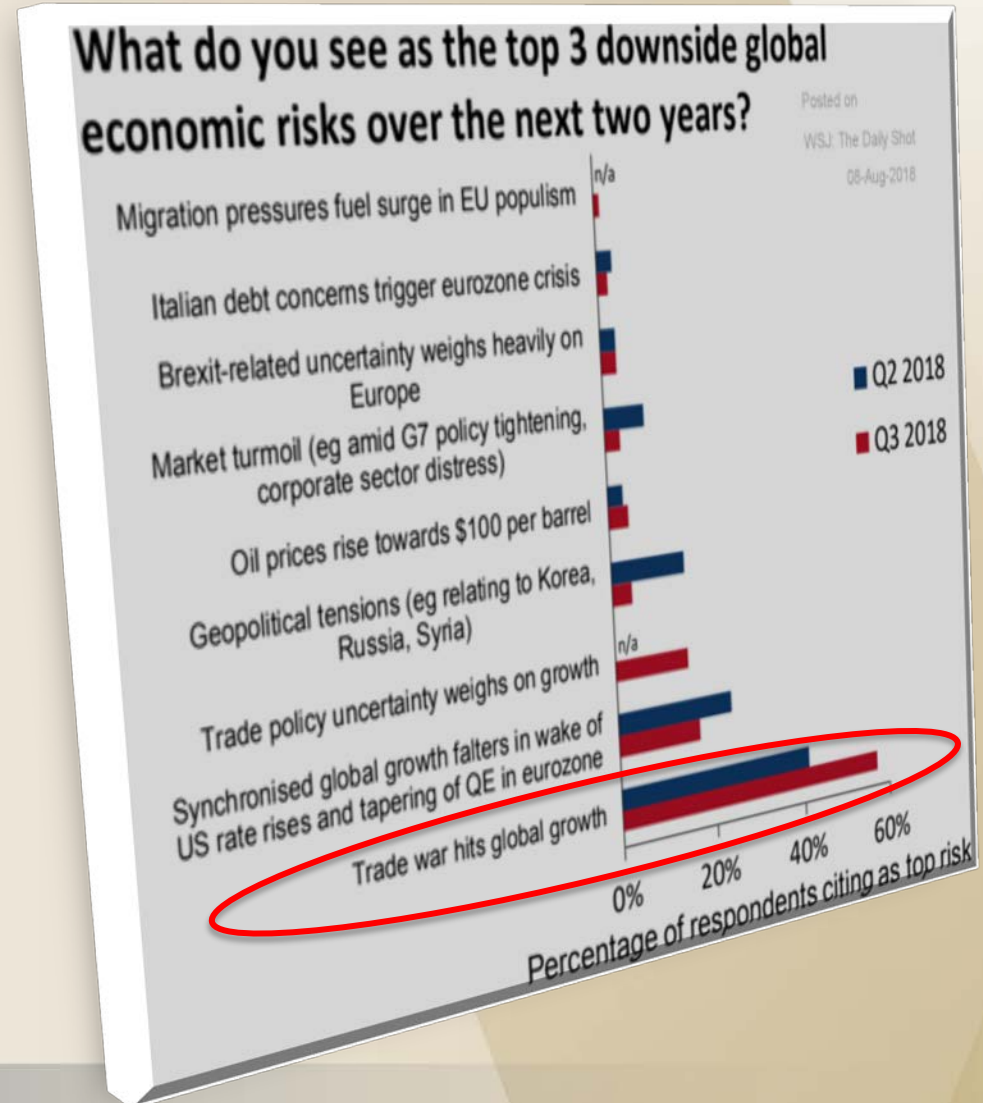
Other Risks – Trade War?

Geopolitical challenges

- Italy may destabilize Eurozone
- Emerging market risk increasing – eg Turkey, Argentina, Venezuela
- US/ Iran tensions / Middle East / North Korea

Trumponomics

- Volatile economic and foreign policies
- Escalating USA/ China trade war



If you would like a
more information

Please email
enquiries@katanaasset.com

Thankyou

www.katanaasset.com



KATANA

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