



# Katana Capital Limited

## 30 June 2015 Investment Report

### Overview

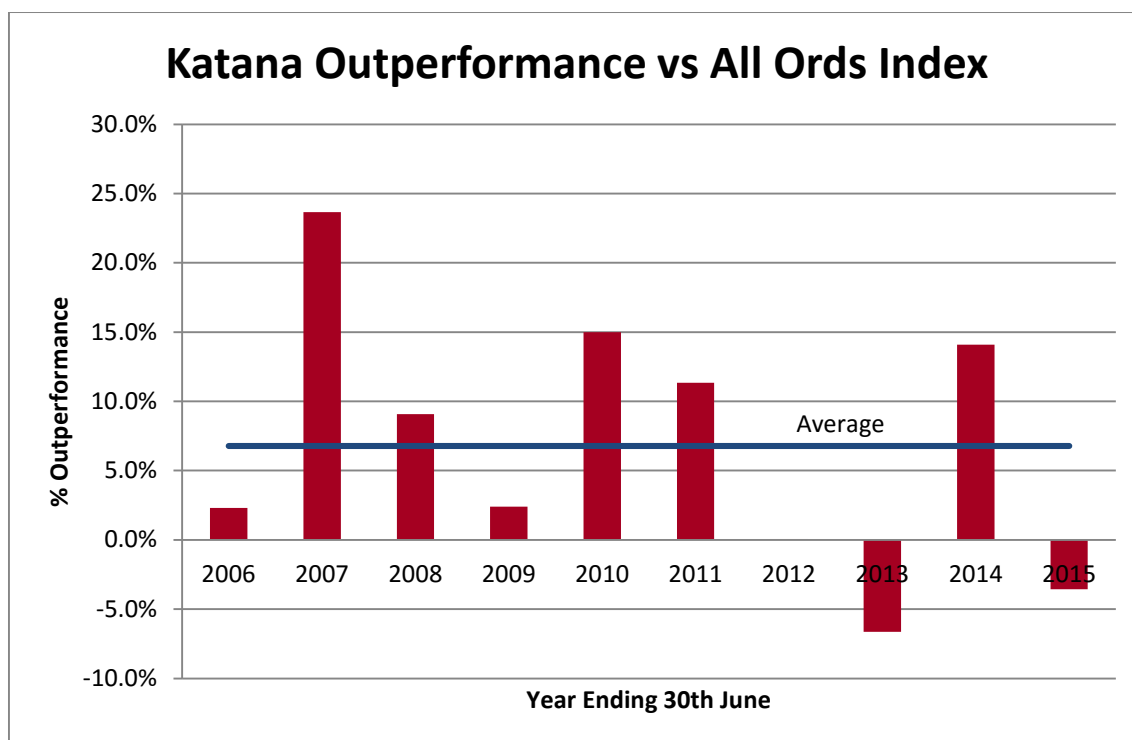
Katana Asset Management Ltd ('The Manager') has completed a report on the performance of Katana Capital Limited's portfolio for the 12 months to 30 June 2015.

### FY15 Financial Year Review

The All Ordinaries Index was broadly flat over the course of FY15, starting at 5,382 points as at 1 July 2014 and ending at 5,451.2 points, representing a gain of 1.29%. The index 'range traded' between approximately 5,200 points and 5,800 points over this period. After significantly outperforming its benchmark in FY14 with a 26.79% return verses the All Ords Index of 12.7% and a track record of outperformance in eight of the past nine years, the Manager unfortunately under-performed its benchmark in FY15, generating a negative gross investment return (before fees and taxes) of -2.28%. A summary of returns delivered by the Manager compared to the All Ords Index is shown in the table below.

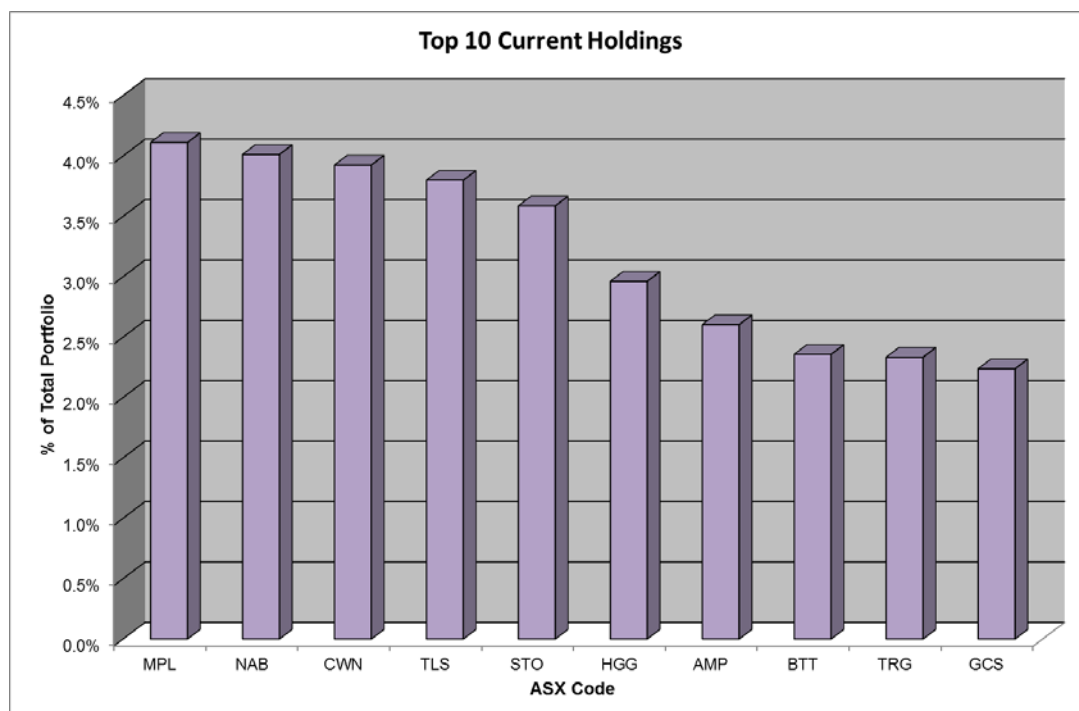
Katana Gross			
Year Ending	Investment Return	All Ords Index	Outperformance
2006	9.20%	6.90%	2.30%
2007	49.03%	25.36%	23.67%
2008	-6.41%	-15.49%	9.08%
2009	-23.57%	-25.97%	2.40%
2010	24.54%	9.55%	14.99%
2011	19.10%	7.75%	11.35%
2012	-11.19%	-11.25%	0.06%
2013	8.84%	15.47%	-6.63%
2014	26.79%	12.70%	14.09%
2015	-2.28%	1.29%	-3.57%
<b>Average</b>	<b>9.41%</b>	<b>2.63%</b>	<b>6.77%</b>

The Manager continued to hold between 50-60 individual stock positions as well as a reasonable level of cash over FY15. The Manager remains committed to maintaining a diversified portfolio, which it believes, provides a better risk adjusted outcome compared to achieving that same level of return via a concentrated portfolio.



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

The Top 10 holdings of the Fund as at 30 June 2015 are shown below. There is a strong emphasis on and bias towards quality large and emerging industrial and diversified financial services companies. Several of these companies have international operations and virtually all have strong balance sheets and produce robust cash flows.



## Outlook

Seven years on from the Global Financial Crisis (GFC) and we remain in a low global growth environment despite having the lowest interest rates in our lifetimes. We expect improvements in future growth to continue to be more gradual than in past recoveries. This is due to a combination of factors including debt deleveraging; ongoing structural changes in economies; and a general lack of demand growth in many countries, partly attributable to ageing populations. However, the global economy is improving and will benefit from extremely loose monetary policies as well as lower oil prices, which will reduce corporate input costs and increase net incomes. In addition, growth, particularly in the US and UK, is recovering and we expect both countries to begin to normalise interest rates over the next six months.

There is a continuing gradual recovery in the euro area, supported by very accommodative monetary policy and despite imposed austerity measures. Unemployment is gradually declining and as inflation remains well below the European Central Bank's (ECB) target, monetary stimulus will continue for some while yet. Growth in China has moderated as it rebalances its economy away from fixed asset investment and towards consumer demand. The Chinese authorities are seeking to engineer a 'soft landing' by increasing a range of liquidity measures.

Australia continues to grow at a sub-trend pace as it transitions away from the past mining investment boom and towards growth in other, non-mining sectors. Interest rates are now at historically low levels, supporting strong growth in housing and to a lesser extent, consumption. The lower Australian dollar is assisting key export industries to become more internationally competitive. This includes tourism and education, which is now Australia's fourth largest export. Financial, business and healthcare services are also showing robust growth. In the medium term, Australia remains well positioned for growth as China and other Asian economies continue to develop their economies. This region contains some 40% of the world's population and will continue to demand Australian products and services ranging from LNG to insurance. Demand for Australian agricultural products are being driven by the emerging Asian middle class and already, seven of the top 10 sources of Australian inbound tourism are from Asia.

## Strategy

The Manager believes the stock market will move higher and provide modest total shareholder returns in FY16, boosted by the lower Australian dollar, low interest rates and a gradual improvement in global economic growth. Despite this, there will be periods of volatility, particularly as interest rates normalise in the US and as expectations regarding the local and global economic outlook fluctuate.

The Manager has positioned the portfolio to benefit from the low and depreciating Australian dollar by selectively increasing its exposure to companies with international operations. It has also increased its holdings in domestic companies that offer solid and sustainable dividend yields as these should perform well in the low Australian interest rate environment. The Manager believes that dividends will form a greater part of total shareholder returns in this low growth environment. The portfolio also contains some high quality mid-cap companies that should deliver high levels of profitable growth and ultimately outperform the broader market. The portfolio remains very underweight in resource and associated stocks. The Manager expects the share market to experience periods of volatility and will use any weak periods to add to holdings. This may result in it holding higher cash balances from time to time as it will only invest valuable shareholder funds when it considers the risk/return equation to be favourable

## Corporate

Katana Capital Ltd issued a total of 11.8m new shares, raising \$10.95m (before transaction costs of \$0.2m) in FY15. Of this amount, 8.4m shares were issued in a placement to professional and sophisticated investors at 93 cents per share. The placement raised \$7.8m and was over-subscribed. The balance of \$3.15m was completed via a 1-for-8 non renounceable pro-rata rights issue at the same price.

The company bought back 780,780 shares in FY15 at an average price of 88 cents per share. In addition to providing liquidity to existing shareholders, the buyback increased the underlying net asset backing for all existing and remaining shareholders.

In November, shareholders received one free bonus option for every ordinary share held. The options are exercisable at \$1.00 each and have an expiry date of 1 March 2016.

Katana paid four quarterly dividends totalling six cents (\$0.06) during FY15 of which three cents (\$0.03) were fully franked. This represented an increase of 20% over FY14.

In order to reduce the overall cost of running Katana Capital Ltd and provide a better conversion from gross investment returns to net shareholder returns, the Manager voluntarily reduced the management and performance fees by approximately 20%. (This was reported to the ASX on 26 September 2014). This will directly benefit all shareholders. In addition the Manager has further reduced some transaction costs and is working with the Board to review all costs in order to maximise the conversion of gross returns to net returns.

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 and belief throughout FY15 and beyond.

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Romano Sala Tenna

Investment Managers  
Katana Asset Management Limited