

Katana Australian Equity Fund

The Katana Australian Equity Fund (KAEF) is a long-only, actively managed investment fund that invests in a range of Australian listed companies.

Katana focuses on generating returns through unique insights into investment ideas while striving to act in unison with the market. Flexibility within the boundaries of our risk framework and rigorous investment process allows us to maximise investor returns without constraint on size, sector or thematic.

Our fund has an overarching preoccupation with protecting your investment. We are comfortable to remain weighted in cash for extended periods until the right opportunities arise.

Invest in
a meeting
today

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Please be aware that investing in (any asset) involves the risk of capital loss, and that past performance is not necessarily indicative of future performance.

All investment returns quoted are pre-tax and pre-fees and calculated on an annualised basis.

Performance – Annual Review For Period Ended 30 June 2019

Top 10 Investments:

Mineral Resources Ltd	4.72%
Macquarie Group Ltd	3.22%
Pioneer Credit Ltd	3.15%
South32 Ltd	2.60%
Synlait Milk Ltd	2.18%
CSL Ltd	2.01%
Orora Ltd	1.89%
Pacific Smiles Ltd	1.77%
Premier Investments Ltd	1.77%
Janus Henderson Group	1.77%
Top 10 Equity Investments	25.07%
Remaining Equities	37.85%
Cash and Equivalents	37.09%
Total	100.00%

The 2019 financial year was a challenging one for our team of portfolio managers. As it has been well documented, momentum investing overpowered all attempts to rationally value stocks in the technology sector. Share prices of the soon to be infamous 'WAAAX' stocks (Wisetech, Appen, Afterpay, Altium and Xero) nearly doubled in price despite their already lofty valuations. As one simple example of this, Wisetech Global Ltd (WTC) will be trading on a PER of 112x earnings if it is able to meet the extraordinary feat of growing its earnings at 43% this year. And this is one of the cheaper alternatives!

Of course this is madness and of course we have seen this before. When we set out in our careers in the early 1990's, momentum trading was also known as greater fool theory, because it relied on a greater fool paying an even higher price for the stock to be able to appreciate. Between 1998 and 2000, we watched in awe (and yes more than a little envy), as the then bellwether company Davnet (DVT) ran from 1.2c to \$6. By the end of 2001, Davnet's share price had returned to 3.9c.

Of course we are not suggesting that these companies will retrace to the same extent, as they do hold considerably more promise. But we are in the most certain of terms, highlighting that these companies are heavily overvalued and in the fullness of time, will retrace significantly from the current levels. Indeed, as it has recently been reported, Australia now has the highest priced tech sector in the world, and hence it is no coincidence that vendors are coming from as far away as Israel to list on our bourse.

Accordingly, our team has worked hard to remain true to label and more importantly true to what we know works over the longer term. More than 20% of the money we manage, belongs to our team. Our goal is first and foremost to preserve our capital. If we do this, then in time the broader market will recognise the inherent quality in the companies we own and the winners will bubble to the surface.

Outlook

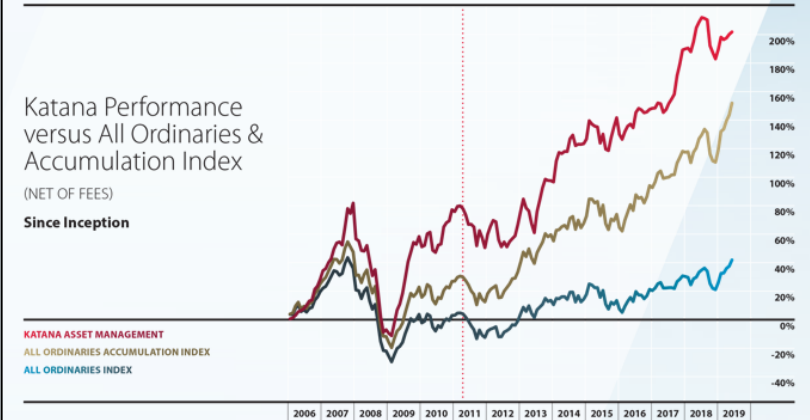
Since establishing our first fund in 2006, our team has under-performed our benchmark on 4 occasions (including the current financial year). On the prior 3 occasions, we have bounced back strongly the following financial year. Investors who have been with us for more than a little while, will have seen this first hand. In the 2017 FY, our fund generated a NET investment return (after ALL fees and charges) of 5.41% versus the All Ordinaries Accumulation index of 13.11%. Once again we remained true to our philosophy and approach. In the subsequent year (the 2018 FY), we generated a return of 24.89% (NET) versus our benchmark of 13.7%.

Whilst history cannot be any guarantee of future returns, what it (hopefully) can do is confirm to investors that our team is being true to our approach, and that –more importantly – in the fullness of time the market will recognise the inherent value in many of the companies that we have chosen to invest in.

Since Jan 2006, the Katana fund has returned **202.2%** vs **42.2%** for the All Ordinaries Index and **152.3%** for the Accumulation Index.

Katana Performance
versus All Ordinaries &
Accumulation Index

(NET OF FEES)
Since Inception



1 Inception date: Katana Capital January 2006. Returns quoted net of fees pre-tax. From 1st July 2011 performance data Katana Australian Equity Fund Vehicle.

2 Past performance is not necessarily indicative of future performance.

Source: Katana Asset Management Ltd; IRESS