

▼
the
professional
investor



THE BOUTIQUE FUND MANAGER HAS BURST ONTO THE DOMESTIC INVESTMENT SCENE WITH ITS “NO HOLDS BARRED” PHILOSOPHY, AS ONE OF THE TOP TWO PERFORMERS AMONG THOSE SURVEYED BY THE RATINGS SPECIALIST MERCER INVESTMENT CONSULTING. WE TALK TO ONE OF ITS FOUNDERS TO SEE WHETHER IT CAN CONTINUE TO OUTPERFORM.



KATANA ASSET MANAGEMENT

Romano Sala Tenna - Katana Asset Management

NOT PLAYING BY THE RULES

Investment markets are filled with funds trying to prove themselves as great “value” managers, who specialise in hunting deeply undervalued stocks, or superb “growth” managers, looking for momentum in earnings appreciation. Then there are the technical traders.

Why not try to be all things to all people? This is the strategy of the broker come funds manager Romano Sala Tenna and his team of four other fund managers based out of Perth, Western Australia. So far the tactic appears to be working, having been vindicated by being rated as one of the two top performed funds among those surveyed by the ratings specialist Mercer Investment Consulting.

The question is, of course, whether the team can continue to deliver strong returns. So far they their fund has produced 13.2% for the 12 months to 31 December, and an average of 14.1% a year for the past three years. Like most brokers and money managers Sala Tenna exudes confidence in his fund’s outlook, principally because of his team’s work ethic:

“We take the time to walk through an organisation. You can fake good management but it’s hard to fake corporate culture. In the case of (the financial planning group) Yellow Brick Road, we know more than 10 key managers.”

60 CRITERIA!

Starting with good management, Katana says it utilises as many as 60 criteria (that’s right, SIXTY) to determine whether or not to invest in stocks, both big and small. Its other key criteria include the business model; and the company’s valuation. But it doesn’t base its stock selection on a strict formula of whether it is undervalued or has a strong growth outlook. Rather, Katana’s overriding concern is whether it thinks it shares will go up, and then, keep going up.

Sala Tenna says its investment in the property trust [National Storage \(NSR\)](#) highlights its flexible philosophy: *“It’s definitely getting to be fully valued. It’s a great business, but we’re happy to let the market deliver higher prices.*

“We’re not simply a value player; we’re happy to let companies run above their fundamental value if we think the trend is in tact, which is the case with National Storage.”

The fund initially purchased units early last year on the basis of its strong and stable income from its portfolio of self-storage centres. Since then, NSR’s units have climbed more than 50%, driven mainly by the hunt for yield. The stock is no longer cheap, but remains a part of Katana’s portfolio.

THE PERTH EDGE

He says that the company’s Perth base gives it a competitive edge in discovering small caps located on that side of Australia.

The Perth based scaffolder and building services provider [Global Construction Services \(GCS\)](#) is one that it has been holding onto for a while. *This has been a recent Under the Radar Report tip because of the recent addition of a cornerstone shareholder in the giant North American based construction company Brookfield Multiplex.*

TOP 10 INVESTMENTS

PERCENTAGE OF PORTFOLIO VALUATION
AS AT 31 JANUARY 2015

NAME	CODE	% OF FUND
Crown Resorts	CWN	4.4
QBE Insurance Group	QBE	3.3
Medibank Private	MPL	3.3
Computershare	CPU	2.7
Global Construction Services	GCS	2.4
Santos	STO	2.1
National Storage	NSR	2.0
Affinity Education Group	AFJ	1.8
Macquarie Bank	MQG	1.8
Pacific Smiles Group	PSQ	1.7
Top 10 Equity Investments		25.5
Remaining Equities		40.3
Cash and Equivalents		34.2
Total		100.0

Says Sala Tenna: "GCS has just been awarded the first package of what could be the largest concreting job in Perth's history, with a \$30m contract for the concreting formwork in the new Perth stadium. It's the start of at least two and a half year's work. Brookfield likes that GCS is a diversified operation that can do the formworking, the scaffolding, the plant hire etc. It's a one stop shop and there will be more opportunities on the East and West coast."

The stock trades on a FY16 multiple of 6 times on Katana's numbers and the team is confident GCS will start paying out dividends by the year's end.

BUILDING UP A PORTFOLIO OF SMALL CAPS

One it has been buying most recently is the Perth and Brisbane centred car dealership group [Automotive Holdings \(AHE\)](#). "This is simply a yield play (it's on 6% fully franked). It's been expanding and now has economies of scale, which means it'll be able to continue to generate solid profit margins. We like management and the company is the best in breed for its size."

The team has found some of the only small cap financial services operations left in a highly concentrated sector, which it thinks will shoot the lights out. On [Yellow Brick Road \(YBR\)](#): "No one else is growing a national wealth management brand in Australia. It has critical mass now to extract maximum profit growth." It has to start making profits first, but Sala Tenna is positive that this will happen following the group's first quarter of being cash flow positive.

[Pioneer Credit \(PCO\)](#) is one whose stock is moving in the right direction. It is a debt collector and capitalising on the growing shadow banking market. Sala Tenna calls its managing director Keith John a "hard working visionary who has instilled an entrepreneurial culture in his work force".

SELLING FINANCIAL SERVICES AND LOOKING TO BUY OIL

Across its bigger holdings in financial services, Katana has been busy selling. These stocks have been benefiting from record low interest rates, and including fund managers Perpetual, Henderson, Treasury Group, as well as Macquarie Bank.

What it is looking to do with these profits provides another indicator that Katana is not bound to follow any particular strategy. It is looking to increase its investment in the oil sector, having recently purchased a small amount in an oil ETF following that commodity's rout. Sala Tenna says his team intends to increase its exposure as it gains more certainty about upward movements in the oil price. It is also looking to get back into [Woodside \(WPL\)](#) and is holding onto its position in [Santos \(STO\)](#).

Not adhering to a strict formula obviously gives you more licence to think outside the box. ■