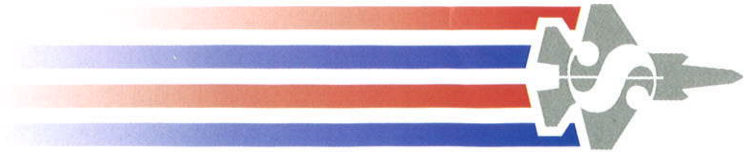

The hotshots of tomorrow?

■ You may not have heard of them yet, but should Auscap Asset Management and Katana continue their winning ways, it won't be too long before everyone has.

Both Auscap and Katana achieved outstanding results for 2013-14 with different strategies that saw them more than double the returns of the S&P/ASX 300.

Smart Investor is not aware of any fund that came close to equalling the return produced by Auscap portfolio managers Tim Carleton and Matthew Parker, who delivered a whopping 46.01 per cent return to June 30.

The two former Goldman Sachs traders received a nice tailwind when they launched their fund in December 2011 but benign market conditions can't even begin to account for such a stunning debut.

Auscap runs a long/short fund from offices in Sydney which, as the name suggests, utilises both long and short positions alongside leverage to achieve returns.

Despite this seemingly complex mix of strategies, Auscap co-founder Carleton cites traditional investing gurus such as Warren Buffett and Peter Lynch as key influences.

"We are long biased and we expect to remain so," Carleton says.

"We gravitate towards large- and mid-cap stocks. Analysis of 100 years of data suggests that's where the best risk-adjusted return is found."

Auscap won't divulge portfolio positions. However, the team does admit to having a current bias towards the consumer discretionary sector, a function of overly pessimistic projections that flowed from the budget.

Meanwhile, on the other side of the country in Perth, portfolio manager Romano Sala Tenna has been enjoying similar success with the Katana Benchmark Unaware Fund which returned 35.5 per cent to June 30.

Sala Tenna also articulates a love of classic investment texts, citing Edwin Lefèvre's 1923 memoir *Reminiscences of a Stock Operator* as one of many favourites.

"It doesn't matter how many times you may have read a book by one of the great investment minds, it's worth going back and re-reading them just to remind yourself what the key messages are," Sala Tenna says.

The Katana team has a strict policy of revisiting the investment case for a position if a stock falls by 15 per cent, an idea *Smart Investor* readers would do well to adopt.

The fund's largest position at the time of publication is in James Packer's Crown Resorts (CWN), which Sala Tana says he views as less of a gaming stock and more like a global luxury brand. (See D'Amato, p42.) However, Katana portfolio managers do have the freedom to invest up and down the market-cap scale with positions in the micro-cap cyber security outfit PS&C (PSZ) and Yellow Brick Road (YBR), the nascent financial services disruption play from Mark Bouris.

Among the biggest sectoral exposures held by Katana is diversified financials. However, the only big four exposure of any significance to the fund is National Australia Bank (NAB).

Despite the strong performance out of the gates, both fund managers are keen to play down the possibility of repeat performances well into the future.

Auscap's Tim Carleton says the fund isn't targeting outsized returns and he has been in the market long enough to know that those sort of returns aren't normal. "From our perspective we are more excited about getting the quick single than swinging for the fences."