

# Katana Capital Limited

ASX CODE KAT

## AGM PRESENTATION

NOVEMBER 2018

[www.katanaasset.com](http://www.katanaasset.com)



**KATANA**

ASSET MANAGEMENT LTD

*Performance. Process. People. Passion.*

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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

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

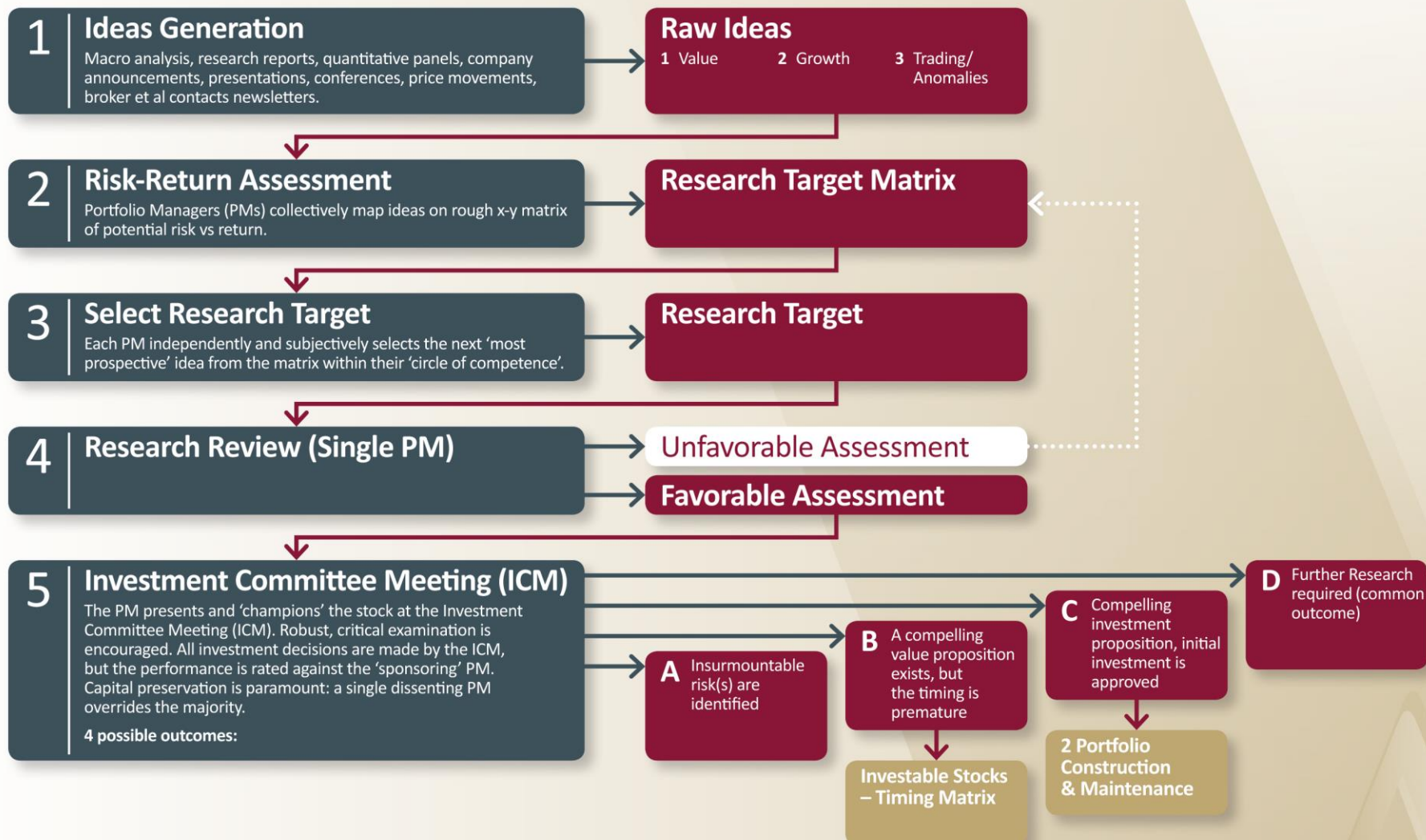
*Thematic exposure achieved through ASX100, but additional alpha derived through detailed bottom-up analysis of ex-100*

- **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%
<b>Top 10 Equity Investments</b>	<b>38.62%</b>
Remaining Equities	46.11%
Cash and Equivalents	15.27%
<b>Total</b>	<b>100.0%</b>

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%
<b>Average</b>	<b>10.10%</b>	<b>3.18%</b>	<b>6.86%</b>

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.

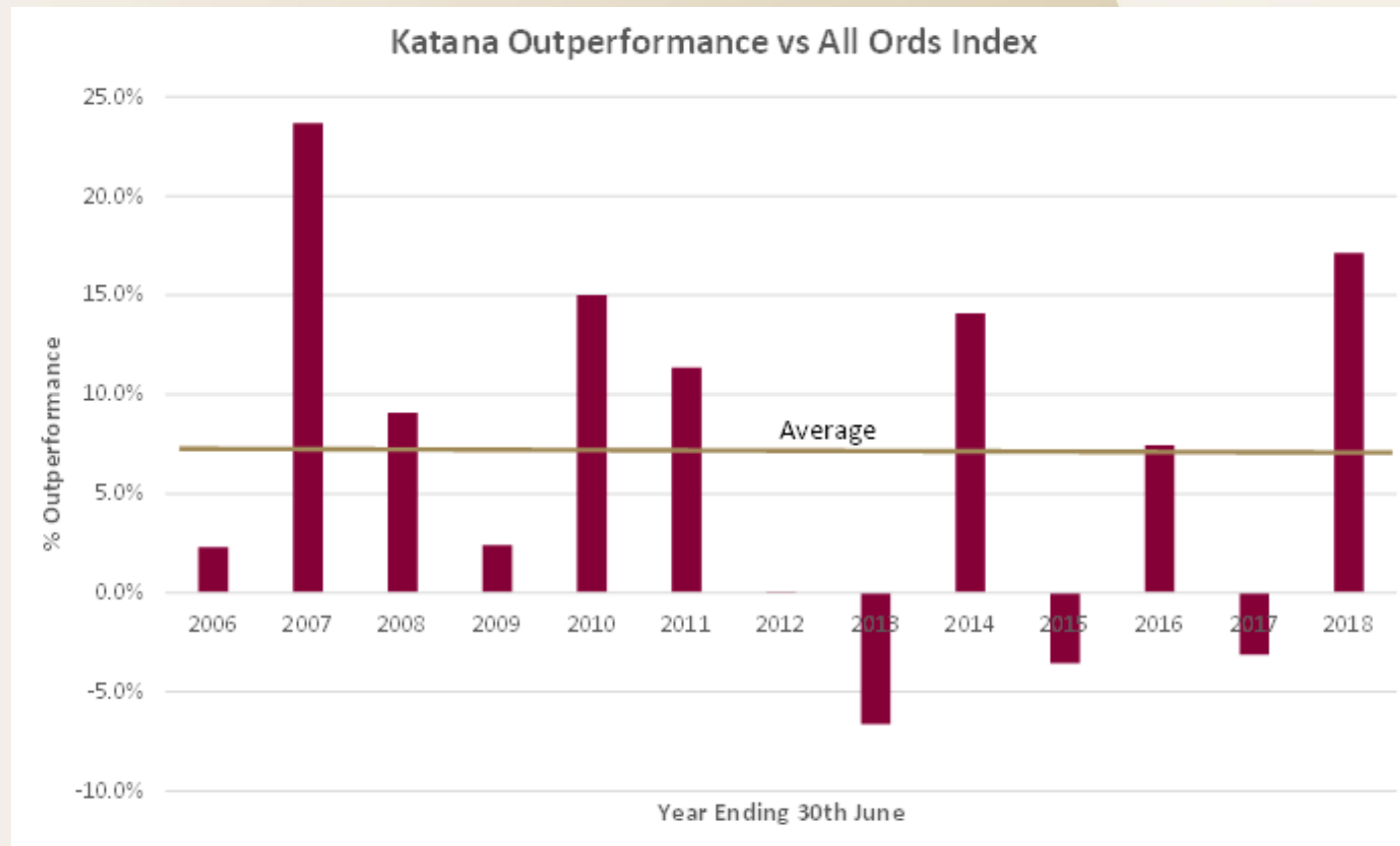
Source: Katana Asset Management Ltd; IRESS

# 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.



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Source: Katana Asset Management Ltd; IRESS

### 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

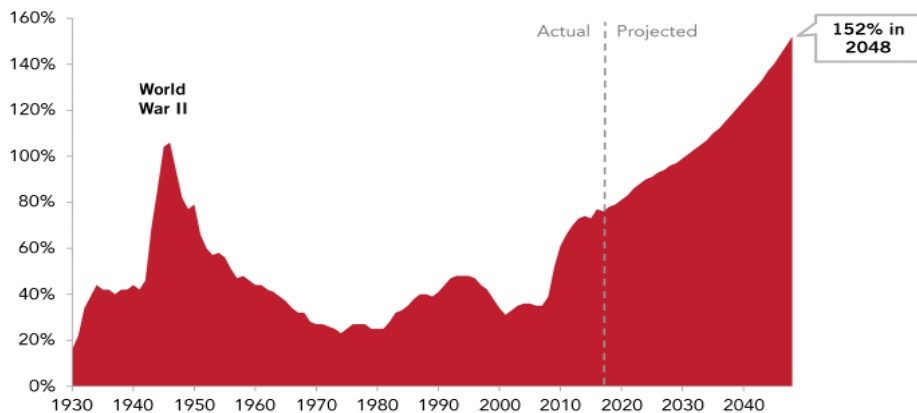
# Fund Performance and Outlook

## DEBT **DEBT** DEBT



The national debt is on an unsustainable path

DEBT HELD BY THE PUBLIC (% OF GDP)

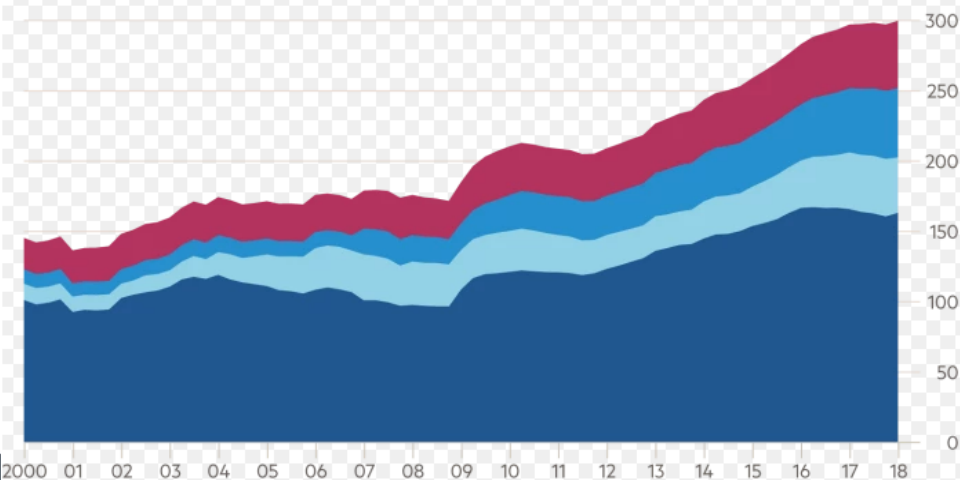


SOURCE: Congressional Budget Office, The 2018 Long-Term Budget Outlook, June 2018. Compiled by PGPF.  
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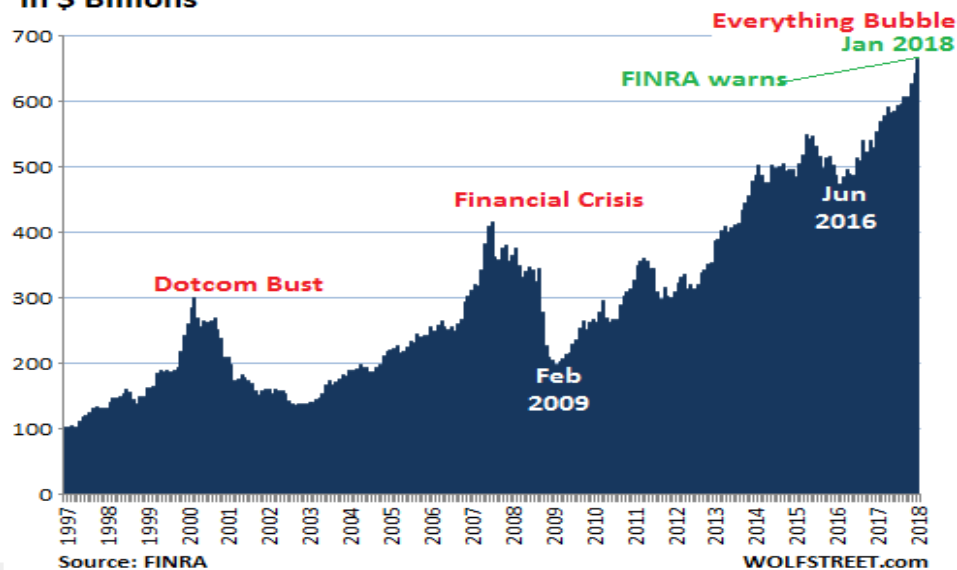
Chinese debt, by sector (% of GDP)

Non-financial corporate  
 Household  
 Financial corporate  
 Government

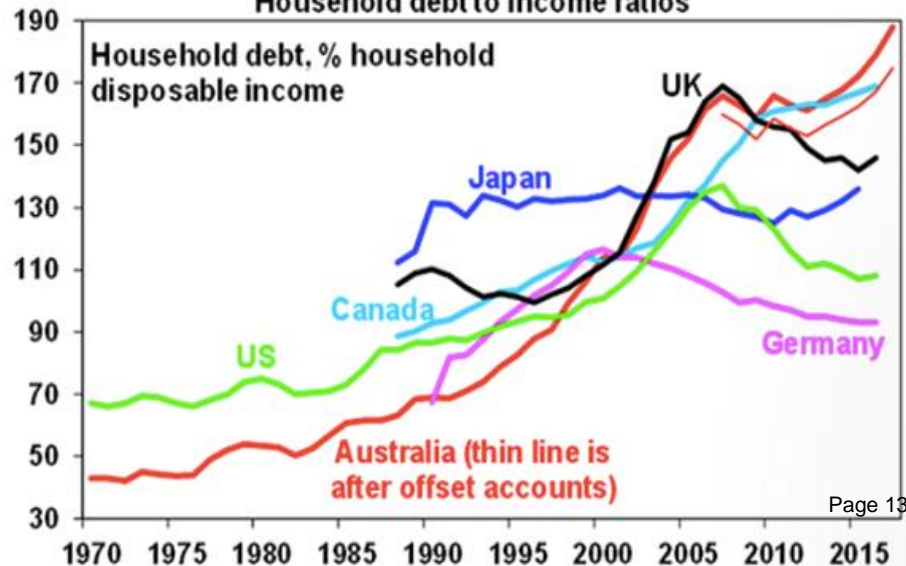


Source: IIF  
© FT

Stock Market Margin Debt  
In \$ Billions



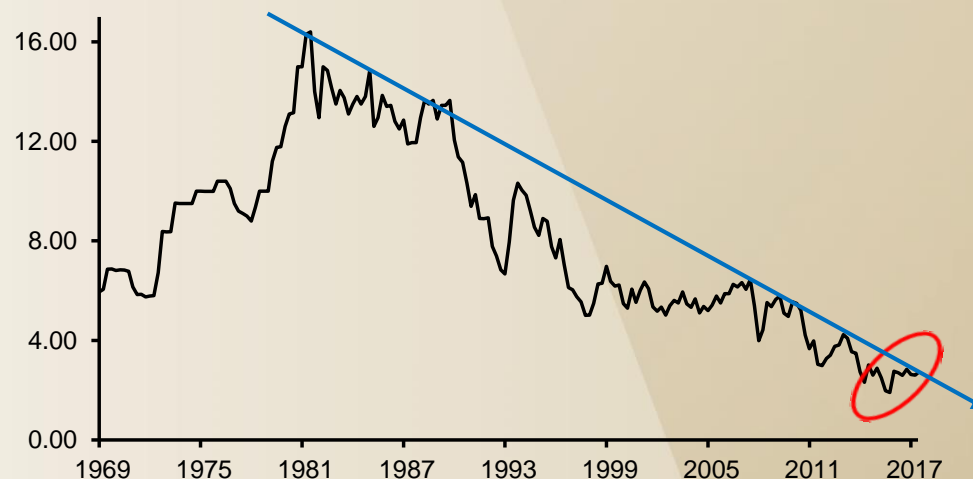
Household debt to income ratios



### 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

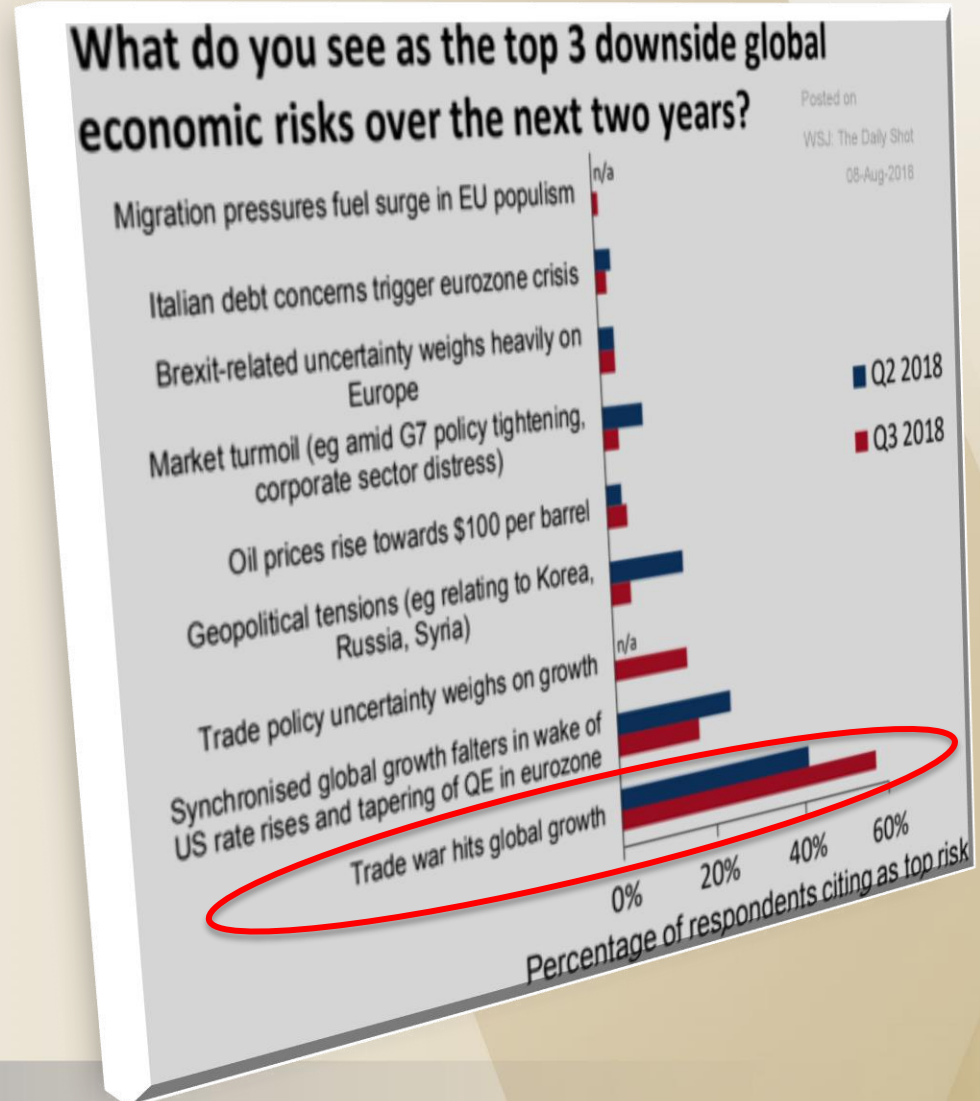
## Other Risks – Trade War?

### 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](mailto:enquiries@katanaasset.com)

Thankyou

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