

Katana Capital Limited

ASX CODE KAT

AGM PRESENTATION

NOVEMBER 2021

www.katanaasset.com



KATANA
CAPITAL LIMITED

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Fund Performance

Katana Profile

Outlook

FY21 Performance

- Gross Investment Return of **32.82%** vs Benchmark (All Ords Index) **26.39%**
 - Continued strong out-performance of **6.43%** on the back of 19.72% out-performance in 2020.

In Context – 16 Year Performance vs Benchmark

- Outperformed the benchmark in 12 out of 16 years (**75.0%** of the time)

Dividends

- Paid 4x quarterly dividends totalling 2.00c per share
- Dividends all fully franked

FY22 Strong Start

- Katana Capital has generated a Gross Investment Return for the financial year to 30th October of approximately 6.5% versus <1% for the All Ordinaries Index.

Out-Performance Since Inception

Year Ending	Katana Gross Investment Return	All Ords Index	Outperformance
2006	9.20%	6.91%	2.29%
2007	49.05%	25.36%	23.69%
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%	0.07%
2013	8.84%	15.47%	-6.63%
2014	26.78%	12.70%	14.07%
2015	-1.57%	1.28%	-2.85%
2016	4.98%	-2.58%	7.56%
2017	6.23%	8.54%	-2.31%
2018	26.27%	9.12%	17.15%
2019	-0.43%	6.51%	-6.94%
2020	9.30%	-10.42%	19.72%
2021	32.82%	26.39%	6.43%
Average	10.87%	3.99%	6.88%

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.

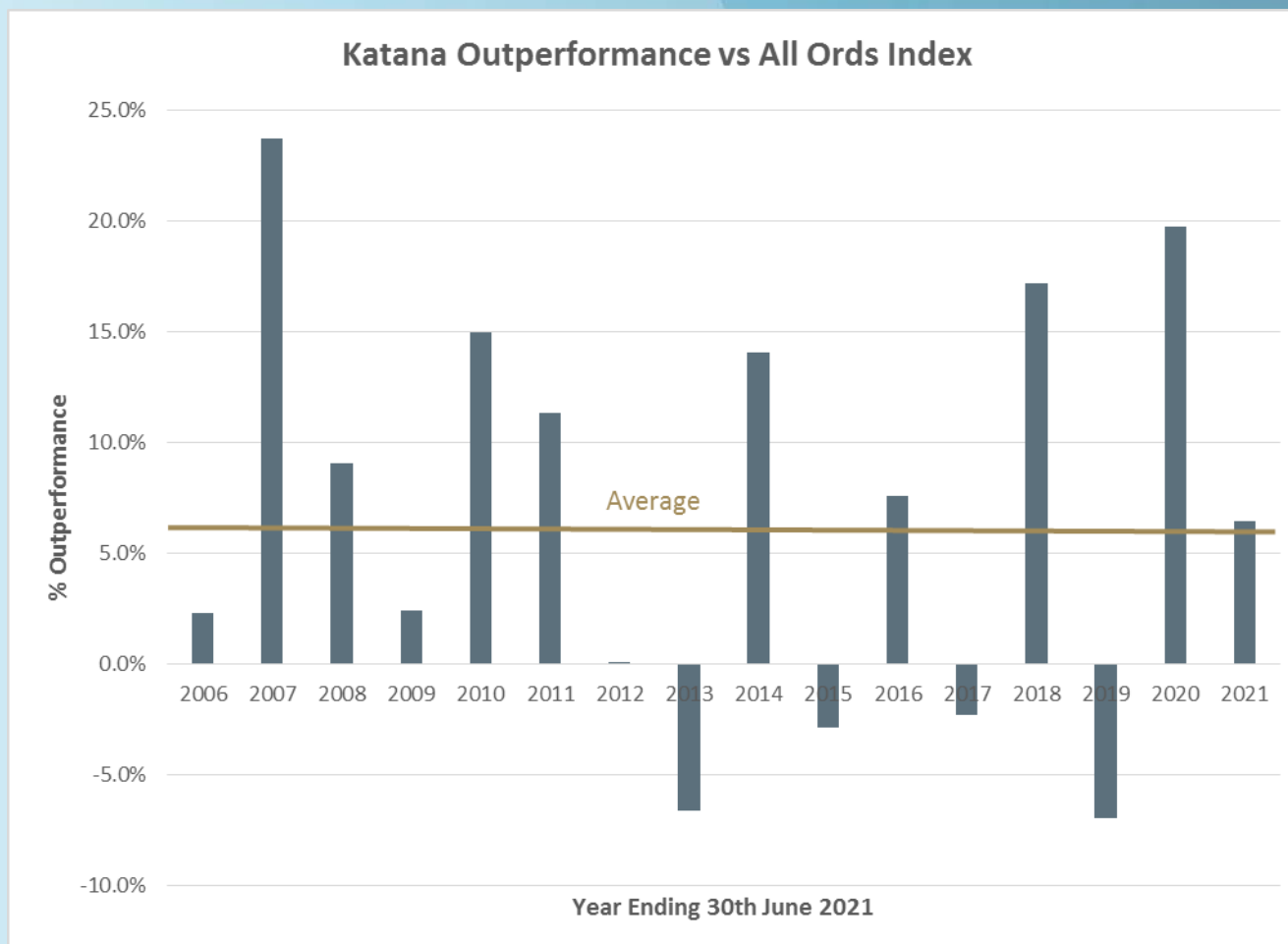
Source: Katana Asset Management Ltd; IRESS

Fund Performance

Annual Investment Returns

Consistent and Strong Out-Performance

Since inception, Katana Capital's Gross Investment Return has out-performed the All Ords Index by **6.88%** per annum.



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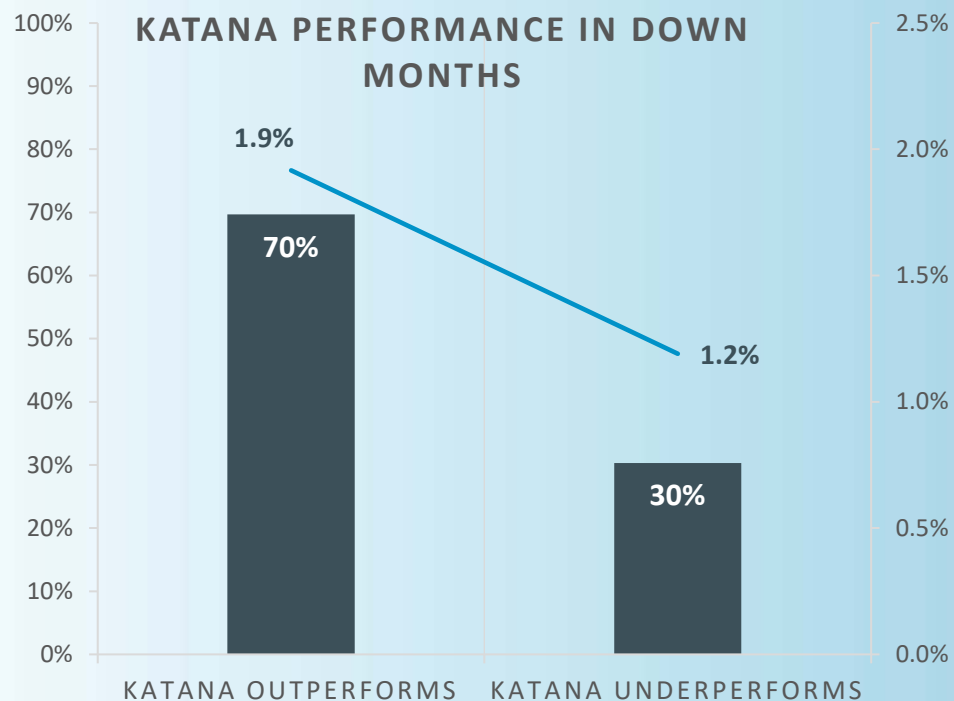
Fund Performance

Downside performance; Critical as returns

Significant Out-Performance since inception

Since inception, the fund has provided resiliency for investors, particularly in down months.

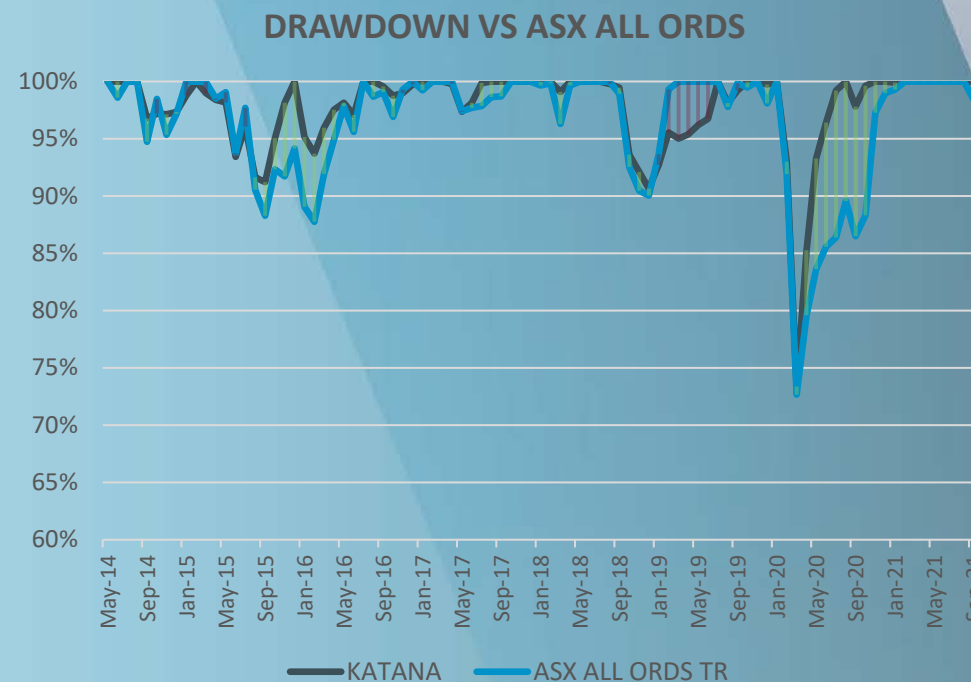
Exceptional outperformance in down months, outperforming the benchmark 69% of the time by an average of 1.9%



Frequency of outperformance (LHS), % out/underperformance (RHS)

Strong performance in sharp drawdowns

The fund has recovered markedly quicker in deep drawdowns than the market



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

- Katana Capital has had a strong start to the FY and holds surplus franking credits. Subject to ongoing market conditions, the company is well positioned to increase dividends in the coming year.

Manager – Skills and Experience

- 4 investment professionals
- Combined direct investment experience of >80 years
- Across 3 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 ~30% of FUM

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

A comprehensive outline of our Investment Philosophy has been provided on our website: www.katanaasset.com

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

- **50-60** 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

Lower Risk Characteristics

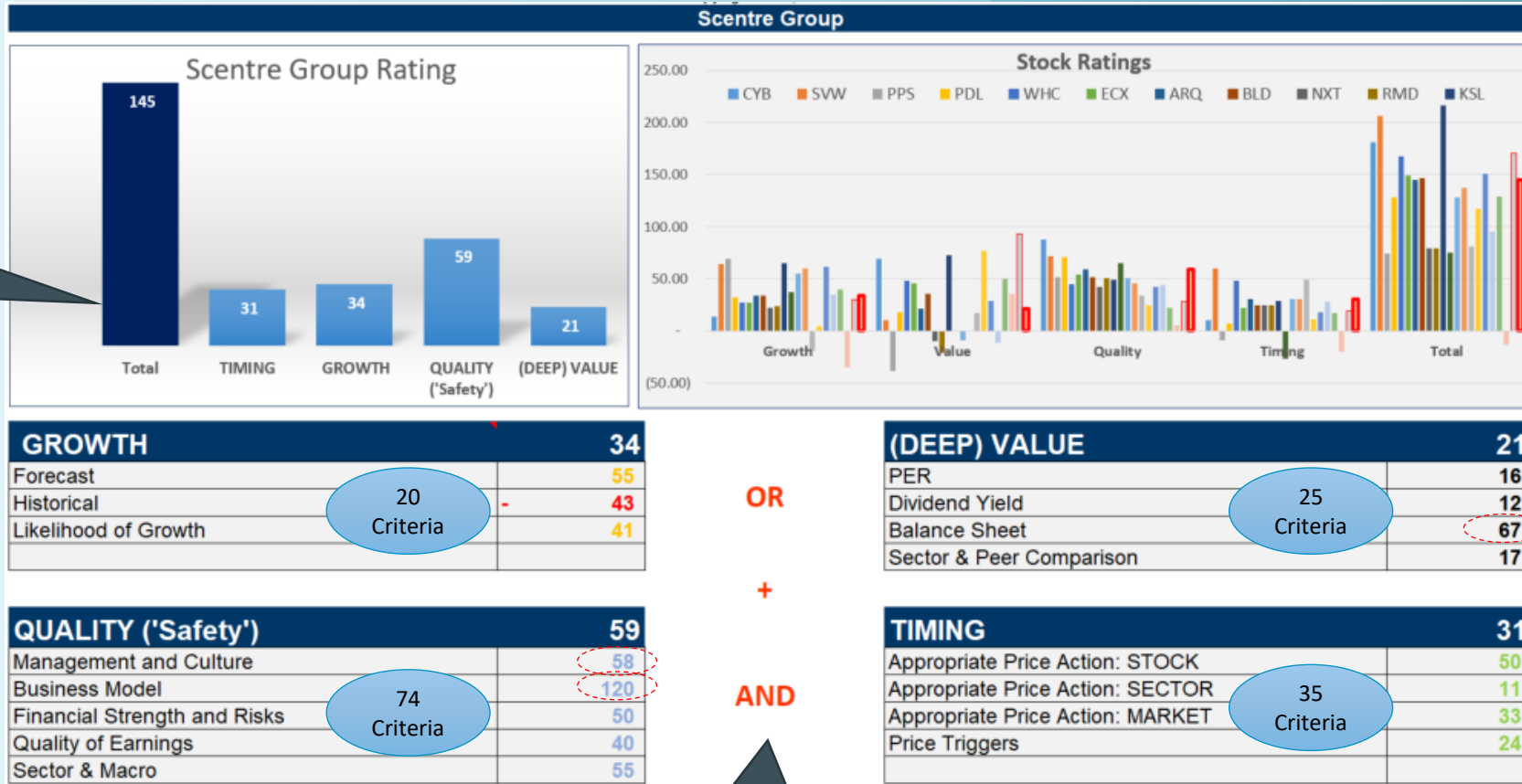
No Gearing	No debt
No Derivatives	No options, warrants, futures contracts or other derivatives
Highly diverse Portfolio	55-65 stocks, rarely exceeding a maximum weighting of 3% per stock
High cash weighting	15-35% through the cycle
High Quality Stocks	Every investment must pass a rigorous checklist that focusses on risk ; especially historical performance, gearing, liquidity and profitability
No currency, commodity or off-shore market risk	Only ASX listed equities
No Short-selling	Long only investor
Highest level of Alignment	Management team own ~30% of Funds under Management; capital preservation is at the forefront of every decision

Katana Profile

Rigorous Investment Profile

Every investment submission must cover off on set criteria in 4 categories across 11 topics.
The total universe of assessable criteria is now in excess of 160 individual attributes.

Total rating based on 160+ different criteria assessed



Comparison against previous assessments

Could be Growth or Value play.. But needs to be Quality & have appropriate price action

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 ~ 40 - 50% of Portfolio

- **Employ a larger number of smaller positions to mitigate risk whilst still being high conviction.**
- *Ordinarily 50 - 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 (KAT) Percentage of Portfolio Valuation as at 31/10/2021	
MINERAL RESOURCES LTD	3.4%
WOODSIDE PETROLEUM LTD	3.0%
UNITI GROUP LTD	2.8%
WESFARMERS LTD	2.6%
MACQUARIE GROUP ORD	2.6%
NEXTDC ORD	2.3%
INGENIA COMMUNITIES UNT	2.2%
CSR ORD	2.2%
WESTPAC BANKING CORPORATION ORD	2.1%
CORONADO GLOBAL RESOURCES	2.1%
Top 10 Equity Investments	25.4%
Remaining Equities	56.6%
Cash and Equivalent	18.0%
Total	100.0%

Source: KAT
*For most recent Katana Capital Top10 and NTA, please refer to the Katana website.



Rotation

- *“Clearly the dominant theme was the dramatic increase in the yield on US 10-year Treasuries from 107 to 143 basis points.”*
- *“Whilst it is still too early to definitively call it, the current rotation from high PER, long duration assets to value and cyclical stocks looks on the balance of probabilities to be passed the inflection point.”*
- *“... we are currently in the process of positioning the portfolio for what we anticipate will be an ongoing (investor) rotation.”*

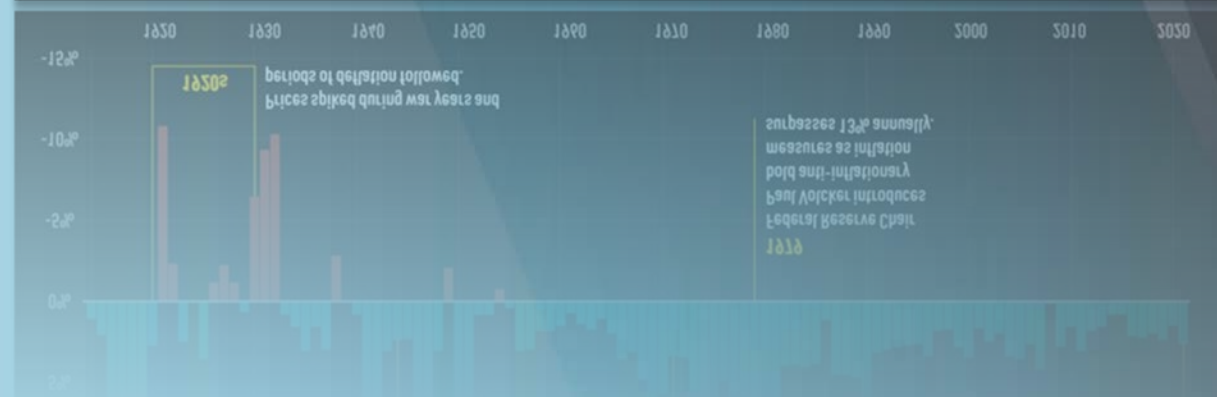
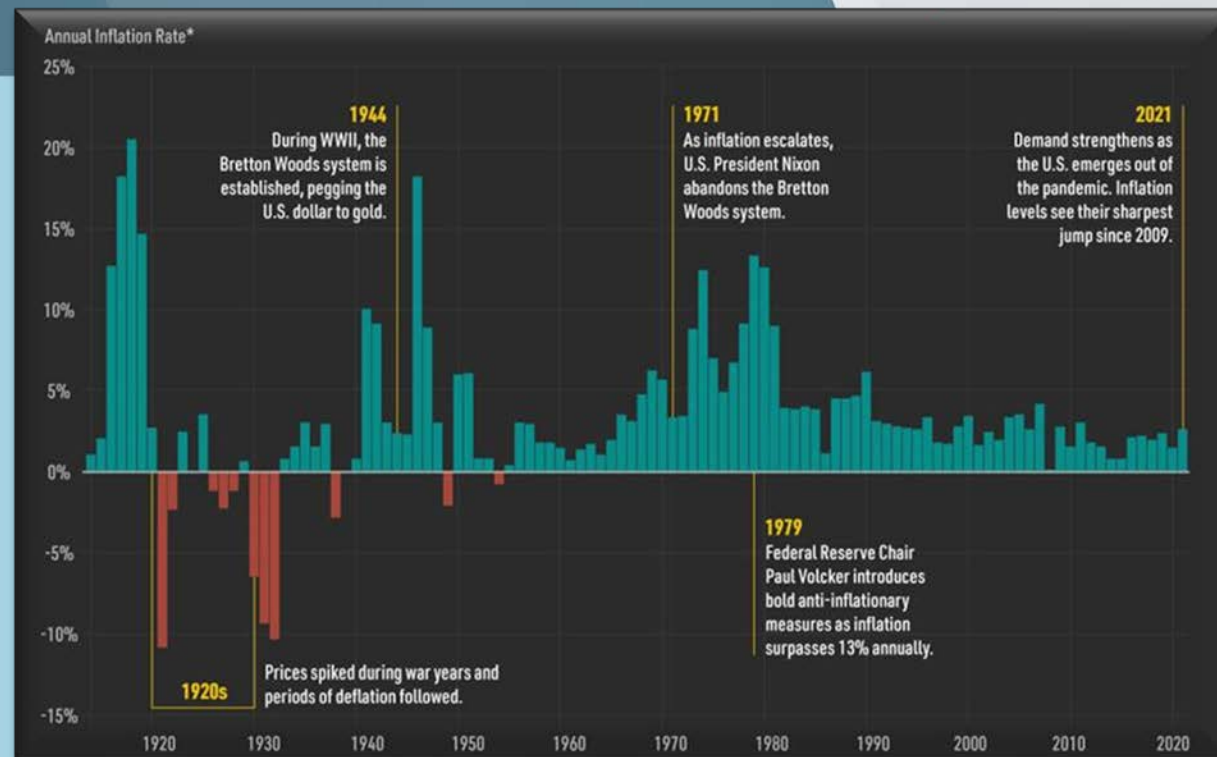


Inflation Clearly on the Rise

- Headline rate @ 13 year high
- Core inflation @ 40 year high based on April/May data

So...Why Are Bond Yields Dropping?

1. Extreme market positioning / ie oversold
2. Relative value of US/Aust. Bonds
3. Lower US Treasury issuance in 2Q
4. Past peak rate of growth (economy)
5. Transitory not structural



Outlook

Current Views 2H 2021

	Positives	Uncertainties
Liquidity	<ul style="list-style-type: none"> • Central bank stimulus • Confidence returning (velocity) • Bond market • Record Cash (US\$17trn) 	<ul style="list-style-type: none"> • Central bank tapering • Complacency / lacking catalysts
Necessity	<ul style="list-style-type: none"> • Relative • Absolute (versus cash) 	<ul style="list-style-type: none"> • Inflation
Earnings	<ul style="list-style-type: none"> • Strong growth (esp. US) 	<ul style="list-style-type: none"> • Past peak earnings growth? • Covid-19 Variants
Long Term Trend	<ul style="list-style-type: none"> • 80.1% of the time the market rises 	
<p>✓ Outlook for equities is more positive than negative</p>		

Expect Bond Yields to Rise (SUBJECT to Covid-19 Variants)	
✗ Long duration	✓ Value
Expect Increased Volatility	
✗ Passive	✓ Active
Best (Structural Growth) Thematic: Electrification / Decarbonisation	
✗ Coal	✓ EV Tech. (Global)
✗ Oil	✓ EV Metals (Aust.)

If you would like
more information
Please email
enquiries@katanaasset.com

Thankyou

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