

# Katana Capital Limited

ASX CODE KAT

## AGM PRESENTATION

NOVEMBER 2022

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



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**Fund Performance**

**Katana Profile**

**Outlook**

## FY22 Performance

- Gross Investment Return of **1.13%** vs Benchmark (All Ords Index) **-11.06%**
  - Continued strong out-performance of **12.19%** on the back of 6.43% out-performance in 2021

## In Context – 16 Year Performance vs Benchmark

- Outperformed the benchmark in 13 out of 17 years (**76%** of the time)

## Dividends

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

## FY23 Strong Start

- Katana Capital has generated a Gross Investment Return for the financial year to 30<sup>th</sup> October of approximately 9% versus 4.5% for the All Ordinaries Index.

# Fund Performance

## Annual Investment Returns

### 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%
2022	1.13%	-11.06%	12.19%
<b>Average</b>	<b>10.30%</b>	<b>3.11%</b>	<b>7.19%</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.

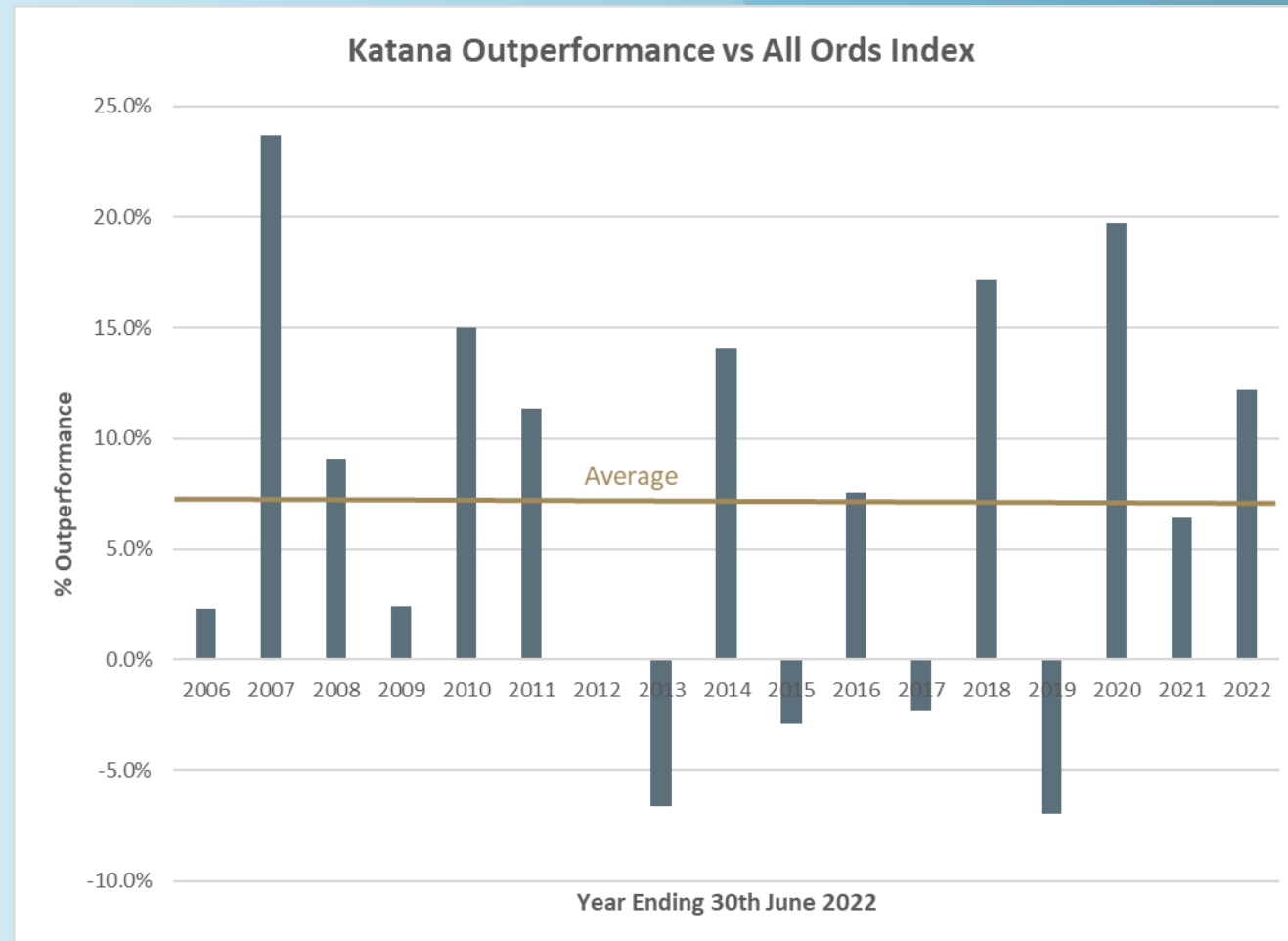
Source: Katana Asset Management Ltd; IRESS

# Fund Performance

## Annual Investment Returns

### Consistent and Strong Out-Performance

Since inception, Katana Capital's Gross Investment Return has out-performed the All Ords Index by **7.19%** per annum.



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Source: Katana Asset Management Ltd; IRESS

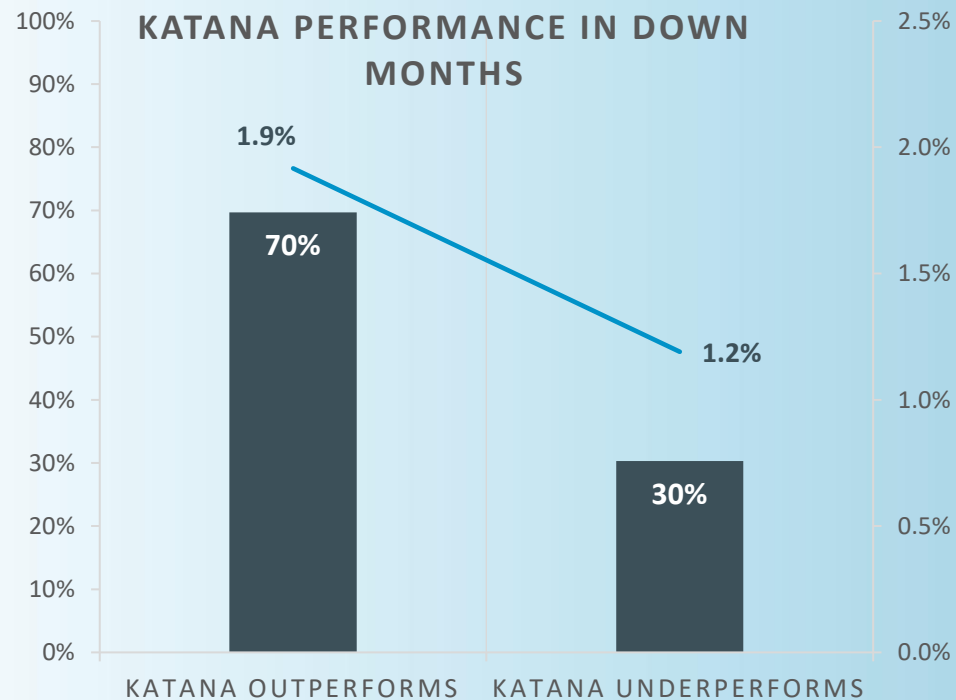
# Fund Performance

## Downside performance; Critical as returns

### Significant Out-Performance since inception

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

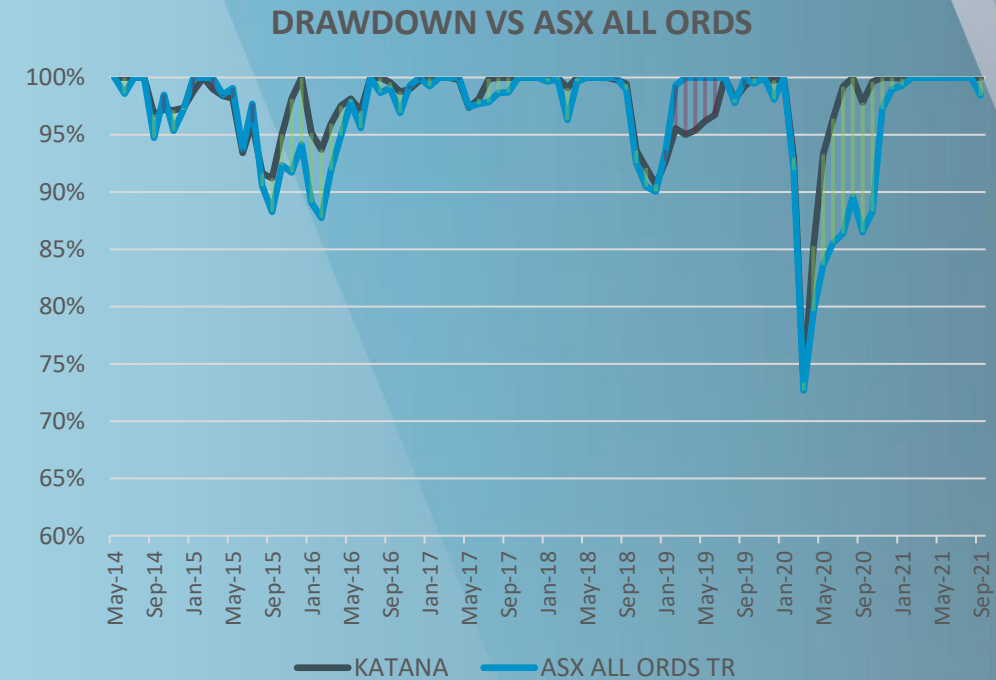
*Exceptional outperformance in down months, outperforming the benchmark 69% of the time by an average of 1.9%*



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 continue to pay at least equivalent dividends in the coming year.



## **Manager – Skills and Experience**

- 4 investment professionals
- Combined direct investment experience of >85 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](http://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

- **55-65** 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

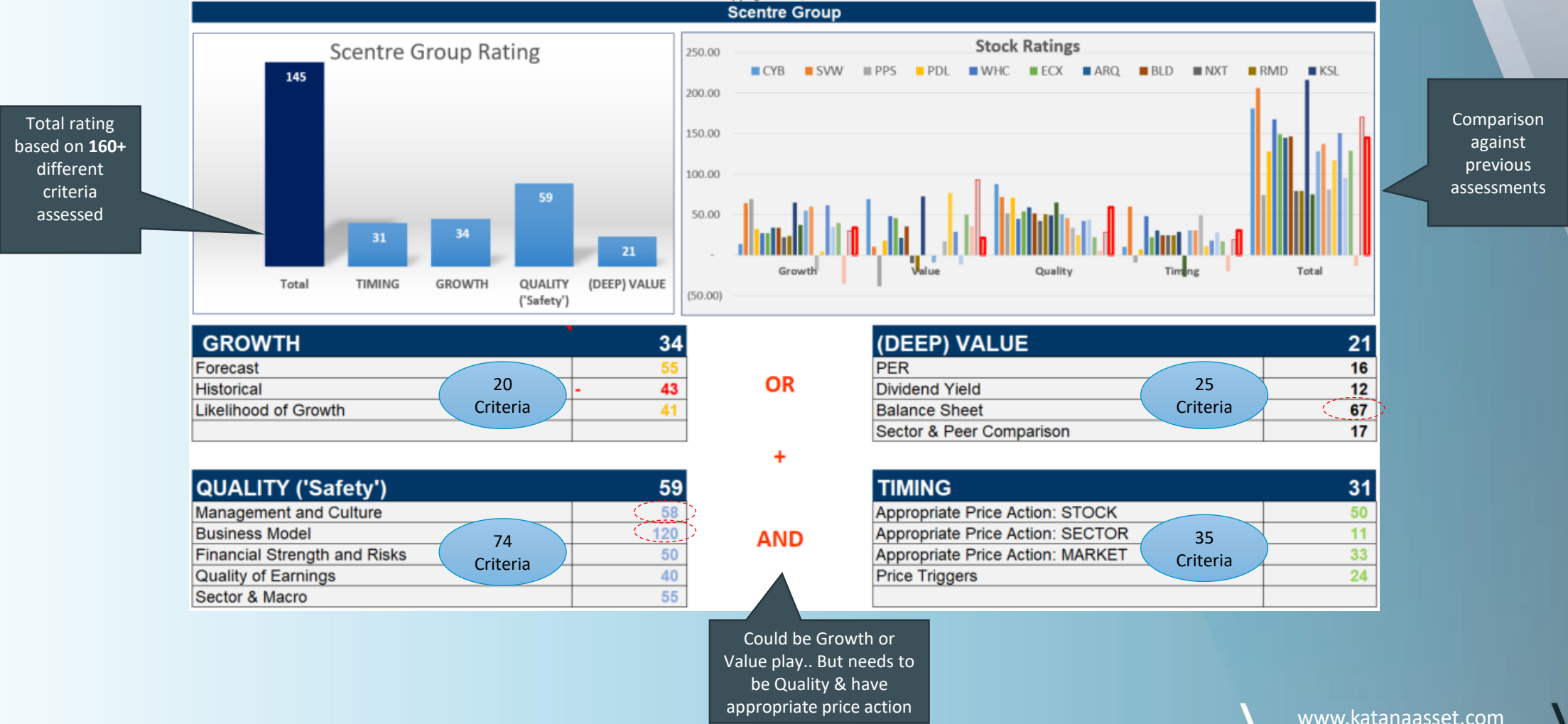
## Lower Risk Characteristics

<b>No Gearing</b>	No debt
<b>No Derivatives</b>	No options, warrants, futures contracts or other derivatives
<b>Highly diverse Portfolio</b>	55-65 stocks, rarely exceeding a maximum weighting of 3% per stock
<b>High cash weighting</b>	15-35% through the cycle
<b>High Quality Stocks</b>	Every investment must pass a rigorous checklist that focusses on <b>risk</b> ; especially historical performance, gearing, liquidity and profitability
<b>No currency, commodity or off-shore market risk</b>	Only ASX listed equities
<b>No Short-selling</b>	Long only investor
<b>Highest level of Alignment</b>	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.



## 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 31/10/2022

MINERAL RESOURCES LTD	7.9%
CSL LTD	4.7%
ARISTOCRAT LEISURE	3.6%
MACQUARIE GROUP ORD	3.3%
SOUTH32 ORD	2.7%
SEVENGROUP HOLDINGS ORD	2.4%
WESFARMERS LTD	2.3%
INDEPENDENCE GROUP ORD	2.2%
CORONADO GLOBAL RESOURCES	2.1%
VANECK VECTORS GLOBAL CLEAN ENERGY	2.1%
<b>Top 10 Equity Investments</b>	<b>33.3%</b>
Remaining Equities	42.4%
Cash and Equivalents	24.3%
<b>Total</b>	<b>100.0%</b>

Source: KAT

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

# Recap – Most of the Positive Drivers Have Reversed

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



	Positives	Negatives
<b>Liquidity shrinking to fight Inflation</b>	<ul style="list-style-type: none"> <li>Near record cash (US\$18trn) albeit peaked May</li> </ul>	<ul style="list-style-type: none"> <li><b>Restrictive Monetary Policy - <i>Don't Fight the Fed</i></b></li> <li><b>Central bank tapering (QT)</b></li> <li>Bond market outflows to reverse</li> <li>Deleveraging – consumers and corporates</li> </ul>
<b>Consumer Spending (50% of GDP)</b>	<ul style="list-style-type: none"> <li>High employment</li> <li>Savings buffer</li> </ul>	<ul style="list-style-type: none"> <li><b>Mortgage/rent costs</b></li> <li>Food Inflation</li> <li><b>Property crash</b> to reduce household wealth/equity</li> <li>Energy – gas/electricity/fuel</li> </ul>
<b>Corporate Earnings</b>		<ul style="list-style-type: none"> <li><b>IR costs to hit profitability</b></li> <li>IR level to reduce growth / M&amp;A</li> <li>Consumer spending to bite</li> </ul>
<b>Other</b>	<ul style="list-style-type: none"> <li><b>Consensus positioning remains negative = partially factored?</b></li> </ul>	<ul style="list-style-type: none"> <li>China lockdowns, stressed property market &amp; increased nationalism</li> </ul>
<b>Comparative Value</b>	<ul style="list-style-type: none"> <li>Average PER 13.1x (11% discount)</li> <li>Dividend yield 4.8% ( 7% premium)</li> </ul>	<ul style="list-style-type: none"> <li><b>US Bonds now provide higher yield</b></li> <li>Deposit rates likely to accelerate</li> </ul>
<b>Long Term Trend</b>	<ul style="list-style-type: none"> <li>80.1% of the time the market rises</li> </ul>	

**x Outlook for equities is more negative than positive**



If you would like  
**more information**

Please email  
[enquiries@katanaasset.com](mailto:enquiries@katanaasset.com)

Thankyou

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

