

flexibility with accountability



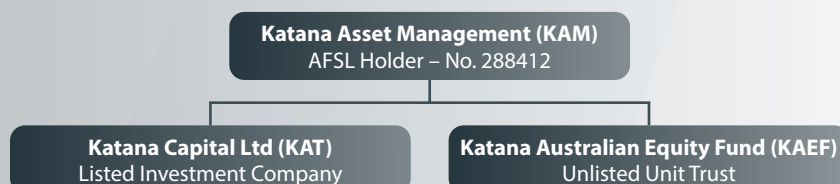
KATANA
ASSET MANAGEMENT LTD

www.katanaasset.com

Katana Asset Management ('KAM') was founded in September 2003 as a boutique investment management firm specialising in Australian Equities. KAM was granted an Australian Financial Services Licence in July 2005.

In September 2005, KAM established its first fund Katana Capital Ltd, which was listed on the ASX in December 2005 (ASX code KAT).

In April 2011 Katana Asset Management launched its second fund - the Katana Australian Equity Fund (KAEF). KAEF is an unlisted version of the first fund and is managed by the same team, employing the same investment philosophy.



Romano Sala Tenna

B.Bus (Distinction), Grad Dip Applied Investment Analysis, ADA 1&2, FFINSIA

Portfolio Manager

27 years experience

Romano commenced at Alcoa as a trainee programmer in 1989 and worked in a variety of roles including Systems Analyst. In 1996, Romano commenced work as a private client adviser at William Noall Ltd.

In 2000 Romano joined Johnson Taylor Potter which was subsequently assumed by Bell Securities to form Bell Potter Securities.

In 2003 Romano co-founded Katana Asset Management.

Romano is a past lead lecturer at FINSIA and the ASX and is regularly quoted in the AFR and a variety of national and local publications.

Skillset & Orientation Bottom-up value investing; small-mid-large caps; fundamentally driven with technical analysis overlay; trend-following contrarian opportunities.

Brad Shallard

B.Bus (Accounting), CPA, Dip of FP, Grad Dip Applied Investment Analysis, ADA 1&2, FFINSIA

Portfolio Manager

28 years experience

Brad commenced as a tax accountant in 1994 and then transitioned into financial planning. In 1995, Brad moved into stockbroking at William Noall Ltd.

In 2001 Brad joined Johnson Taylor Potter which was subsequently assumed by Bell Securities to form Bell Potter Securities.

In 2003 Brad co-founded Katana Asset Management.

Skillset & Orientation Large cap growth (business model and management) and market generated opportunities; high-conviction mid-cap.



Combined experience

Our team have a combined direct investment experience in excess of 90 years.

All of the Portfolio Managers have invested through at least 3 boom-bust cycles. In the world of professional investing, there can be no substitute for experience. And in terms of experience, the very best type is attained during times of crises.

During the 2008-2010 GFC, the KAM team fine tuned its philosophy, processes and culture. The KAM team has emerged with a strong track record and confirmation that their robust processes and conservative approach are able to survive the most trying of market gyrations.

Through both the GFC and COVID-19 crises, the KAM team's processes and culture have been confirmed, with robust and thriving performance. This performance track record is based on a disciplined and conservative investment approach.

Importantly, KAM has also built a stable team, with the 3 founding portfolio managers remaining at the firm.

Particular expertise

Each of the Managers has specific post-graduate training in investment theory and analysis.

In addition the team has specific undergraduate or post-graduate training in economics, business, accounting, finance and information systems.

The Portfolio Managers hail from diverse backgrounds in terms of geography, training and profession. Combining this diversity has led to a stronger and more rigorous decision-making process.

Aligned interests

As at December 2022, the Managers owned approximately one quarter of the funds under management.

Giuliano Sala Tenna

B.Bus (Distinction),
Grad Dip Applied Investment Analysis, GAICD

Investment Manager

25 years experience
Commenced January 2010

Giuliano has worked in the Finance Industry for over 25 years in various fields including Credit, Business Development, Product Structuring, Funds Management, Investment and Corporate Advisory.

He has completed a Bachelor of Commerce degree at Curtin University of Technology with a double major in Economics and Finance (With Distinctions). Giuliano has also completed the Graduate Diploma in Financial Planning at the Securities Institute of Australia, the Company Directors Course at the Australian Institute of Company Directors and is an ASX Derivatives Accredited Adviser.

Giuliano is regularly quoted in the AFR alongside appearing on the ABC News and Business Program.

Skillset & Orientation Macro top-down, mid / large cap growth companies especially financial services and technology.

Hendrik Bothma

B.Comm (Accounting & Banking),
Chartered Accountant, Dip.FP

Junior Equity Analyst

11 years experience

Hendrik is a Corporate Finance professional with 11 years experience working on large scale transactions, building bespoke financial models and conducting in depth research.

In February 2020 Hendrik joined Katana Asset Management as a Junior Equity Analyst supporting the Portfolio Managers in investment research and evaluation.

Prior to joining, Hendrik held various positions within the Finance Industry including working on large debt restructure and capital raisings within the resource sector, Credit Analyst at Macquarie Bank and originally started his career as an Accountant at Ernst & Young.

Skillset & Orientation Fundamentally driven bottom-up modelling and analysis.



Investment approach

The team at Katana Asset Management (KAM) strive to 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 Dislocation and Reversion to Mean**

KAM have an overriding pre-occupation with capital preservation and are comfortable to remain weighted in cash for extended periods.

Portfolio construction

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.

It doesn't make sense to eliminate potential opportunities, yet many fund managers do so to enable themselves to be categorised.

We are not concerned about whether we fit neatly into an asset category; we are concerned about maximising the financial return for all Katana investors, including management.

With our team of portfolio managers, we have endeavoured to create an environment that emphasises flexibility within a strong overlying framework of accountability & risk management.

We recognise that companies are imperfect; our lot is therefore to choose the 'less imperfect' by clearly defining and prioritising investment criteria.

What we avoid

By definition, as a buyer of a company, we are backing that we are 'better guided' than the seller. We hence look for companies inside our 'circle of competence' and 'network of newsflow'.

Additionally, we generally avoid companies that lack cashflow; in particular:

- Technology / start-up
- Biotech, esp. pre-product release
- Greenfields exploration and except in exceptional circumstances brownfields/ pre-production.

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 prospectively 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 is historically 15% - 30%.
- 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.

Key Metrics

Key criteria that we seek (in approximate order of preference):

1 Management & Organisational Culture (‘Corporate Culture’)	Ultimately, inside a company there are innumerable decisions that arise each and every day. How management respond to each of those decisions will – when collated over a period of time – determine the ultimate success [or failure] of our investment. Specifically we look for management that are: <ol style="list-style-type: none">TrustworthyCompetentShareholder focussed (put shareholders ahead of a building an empire)PassionateVisionary
2 Robust business model (short-medium term advantage) & Sustainable Competitive Advantage (medium to long term advantage)	Above average long term returns require one or more sustainable competitive advantages. We think of competitive advantages in terms of: <ol style="list-style-type: none">Intellectual property, patents or brandRegulatory / legislativeCost and/or ‘effort’ of switchingNetwork effect: more buyers creates more sellers creates more buyersCost advantage (including economies of scale or cost of capital)First mover advantage and/or ‘pole position’Geographical / physical / infrastructure constraintsManagement and corporate culture
3 Low Price Earnings Growth (PEG) ratio -or- Low PER & high sustainable dividend yield	The PEG ratio measures how attractive the company’s growth is when compared to its current price. If a company is low growth, then it is only attractive where the dividend yield is well above market, sustainable and (preferably) contains upside potential.
4 Positive macro outlook / tailwinds	Macro factors such as population and industrialisation demographics, sector growth, ‘step-change’ technology and the phase within the economic cycle, can provide a ‘free kick’ and overcome a multitude of investment sins.
5 Appropriate price action We seek to move ‘in harmony’ with the greater market. Technical analysis provides insights into investor sentiment	An investor can be absolutely right fundamentally, but wrong on timing. Once we have identified a potential investment, we resist the urge to purchase until the stock price turns our way. In doing so we save both capital [‘cheap’ stocks getting cheaper], time and emotional quotient.
6 Strong balance sheet indicating safety, prudent management and flexibility	In addition to providing a snapshot of a company’s capacity to survive, the balance sheet also provides an insight into what capacity the company has to: <ul style="list-style-type: none">maintain or increase dividendsimplement a buyback or capital returngrow organically or by acquisition. It also provides a valuable insight into management’s state of mind: a ‘reckless’ balance sheet may indicate reckless management. The opposite is also likely to be true.
7 Quality of Earnings	<ol style="list-style-type: none">Structurally sound sector<ol style="list-style-type: none">Pricing power : clients vs suppliersIndustry concentrationRational competitorsConsistency & certainty of earningsClient concentration (large # of small clients vs small # of large clients)% of recurring revenueDeterminants inside or outside of Management controlHigh gross and net margins
8 High Operating Cash Flow (OCF) & High Free Cash Flow (FCF) FCF = OCF less major expenditures	The very best businesses exhibit a high FCF and by extrapolation low annual capex. A company that converts a high proportion of its net profit after tax [NPAT] into tangible cash without the need to constantly reinvest, is considerably less likely to run into financial difficulty. But even more importantly, high FCF provides the capacity to payout an above average portion to shareholders in the usual forms.
9 Return on Equity (ROE), Return on Price Equity (ROPE) & Return on Assets (ROA) To assess effect of gearing on ROE	ROE measures the return that management have generated on shareholder’s funds. ROPE attempts to link the level of equity to the current market capitalisation. By connecting the ROE to the market price, we are able to assess the ROE based on the current stock valuation. ROA takes into account the impact that gearing has on ROE – eg has the high ROE been ‘manufactured’ by a high level of gearing?
10 Liquidity and Size	Liquidity is considerably more important than the average investor expects or respects. Invariably some investment decisions will be wrong. A lack of liquidity considerably impacts the ‘cost’ at which one is able to enter or exit a company – if indeed these actions can be achieved at all.

Processes

Our goal is to combine the contrasting investment skills and personalities to encourage freedom to act within a framework of accountability and overall control, that favors capital preservation.

Flexibility

We provide our Portfolio Managers (PMs) with the 'freedom' to look at anything any time anywhere. Whether it is an emerging healthcare roll-up in Sydney, an infrastructure/service provider in the Pilbara or a rapidly growing financial services firm in Melbourne. Each PM has the flexibility to research and investigate any opportunity.

Each PM may work collaboratively with other PM(s) to harness their experience and skillset. Alternatively the PM may work extensively with external advisers and analysis.

At Katana, our goal is to locate above average investment opportunities.

Accountability

Each company must have a 'champion' who presents the case for investment to the Investment Committee (IC).

Every sizeable investment decision must be referred to an Investment Committee Meeting (ICM).

The IC ultimately makes all sizeable decisions.

However, the individual PM is responsible for the ultimate performance of each and every investment that they champion.

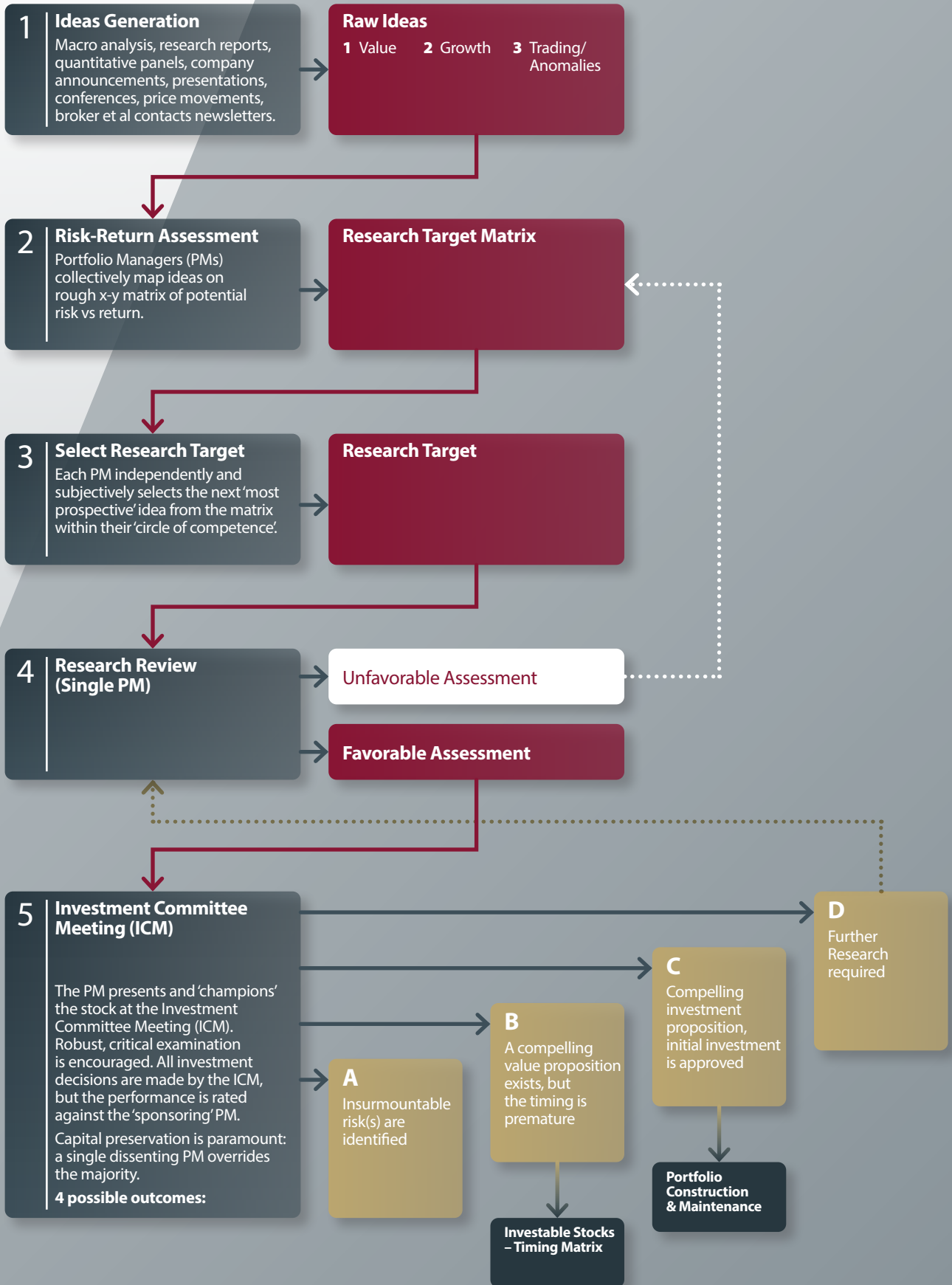
It is also the responsibility of the individual PM to ensure that they remain fully versed with all aspects of the investment on an ongoing basis until such time as it is realized.

Capital preservation

Each PM has a mandated maximum number of active positions permitted at any given time. This adds to the investment rigor by forcing a PM to choose between competing opportunities.

Once a position is active, a mandatory stop loss review process is triggered if the stock price falls by certain specified thresholds. The PM is required to re-assess and re-submit the investment case to the IC.

Investment process





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Important Information

The information provided in this brochure is of a general nature only. Investors should consider the relevant disclosure documents and market information before investing.

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	COMPLIANCE	Jacqui Stewart, GRC Essentials
	BANKER	Macquarie Bank
	BOARD OF DIRECTORS	Romano Sala Tenna Brad Shallard Christine Fernandez
	AUDITORS	Charles Foti Business Services
Katana Capital Limited	AUDITORS	BDO
	SHARE REGISTRY	Computershare
	LEGAL ADVISORS	McMahon Clarke Legal
	BOARD OF DIRECTORS	Dalton Gooding (Chairman) Benjamin Laird Giuliano Sala Tenna
	COMPANY SECRETARY	Baden Bowen
Katana Australian Equity Fund	CUSTODIAN	One Managed Investment Funds Limited
	BANKER	One Managed Investment Funds Limited
	SCHEME AUDITORS	Regency Audit