



Katana Australian Equity Fund

This report has been prepared for financial advisers only



Superior

December 2023

INTRODUCTION

Key Principles

SQM Research considers (but is not restricted to) the following key review elements within its assessment:

1. Business profile - product strategies and future direction
2. Marketing strategies and capabilities, market access
3. Executive Management / Oversight of the investment management firm
4. Corporate Governance / fund compliance / risk management
5. Investment team and investment process
6. Fund performance, investment style, market conditions, investment market outlook
7. Recent material portfolio changes
8. Investment liquidity
9. Investment risks
10. Fund/Trust fees and expenses

Currency of Reports

This Research Report is current as at the date on the report until it is replaced, updated or withdrawn. SQM Research reports are generally valid for a term of approximately 12 months but may be replaced, withdrawn or changed at any time as judged appropriate by SQM Research.

Star Rating*

Investment products are awarded a star rating out of a possible five stars and placed on the following website:
www.sqmresearch.com.au

Star Rating*	Description	Definition	
4½ stars and above	Outstanding	Highly suitable for inclusion on APLs <i>SQM Research believes the Fund has considerable potential to outperform over the medium-to-long term. Past returns have typically been quite strong. Product disclosure statement (PDS) compliance processes are of a high-calibre. There are no corporate governance concerns. Management is extremely experienced, highly skilled and has access to significant resources.</i>	High Investment grade
4¼ stars	Superior	Suitable for inclusion on most APLs <i>SQM Research considers the Fund has substantial potential to outperform over the medium-to-long term. Past returns have tended to be strong. PDS compliance processes are high-quality. There are no material corporate governance concerns. Management is of a very high calibre.</i>	High Investment grade
4 stars	Superior	Suitable for inclusion on most APLs <i>In SQM Research's view, the Fund has an appreciable potential to outperform over the medium-to-long term. Historical performance has tended to be meaningful. PDS compliance processes are strong. There are very little to no corporate governance concerns. Management is of a high calibre.</i>	High Investment grade
3¾ stars	Favourable	Consider for APL inclusion <i>SQM Research concludes the Fund has a moderate potential to outperform over the medium-to-long term. Past performance has tended to be reasonable. Management is experienced and displays investment-grade quality. There are no corporate governance concerns, or they are of a minor nature.</i>	Approved
3½ stars	Acceptable	Consider for APL inclusion <i>In SQM Research's view, the potential for future outperformance in the medium-to-long term is somewhat uncertain. Historical performance has tended to be modest or patchy. Management is generally experienced and capable. SQM Research has identified weaknesses which need addressing in order to improve confidence in the Manager.</i>	Low Investment grade
3¼ stars	Caution Required	Not suitable for most APLs <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is very uncertain. Historical returns have tended to be disappointing or materially below expectations. PDS compliance processes are potential substandard. There are possible corporate governance concerns. Management quality is not of investment-grade standard.</i>	Unapproved
3 stars	Strong Caution Required	Not suitable for most APLs <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is unlikely. Historical performance has tended to be unacceptable. There may be some material corporate governance concerns. SQM Research has a number of concerns regarding management.</i>	Unapproved
Below 3 stars	Avoid or redeem	Not suitable for most APL inclusion	Unapproved

Event-driven Rating	Definition
Hold	<i>Rating is suspended until SQM Research receives further information. A rating is typically put on hold for a period of two days to four weeks.</i>
Withdrawn	<i>Rating no longer applies. Significant issues have arisen since the last report date. Investors should consider avoiding or redeeming units in the fund.</i>

* The definitions in the table above are not all encompassing and not all individual items mentioned will necessarily be relevant to the rated Fund. Users should read the current rating report for a comprehensive assessment.

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Report Date: 4 December 2023

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SQM Rating ★★★★★

Superior. Suitable for inclusion on most APLs.

Fund Description	
Fund Name	Katana Australian Equity Fund
APIR code	KTA0002AU
Asset Class	Australian Equities
Management and Service Providers	
Fund Manager	Katana Asset Management Ltd
Responsible Entity	Katana Asset Management Ltd
Fund Information	
Fund Inception Date	December 2005 transitioned unlisted April 2011
Fund Size	\$66.1 Million (October 2023)
Return Objective (per PDS/IM)	To maximise risk-adjusted returns to investors.
Internal Return Objective	To maximise risk-adjusted returns to investors.
Risk Level (per PDS/IM)	It may suit investors who are willing to accept higher risk in exchange for greater returns.
Internal Risk Objective	Focus on capital preservation
Benchmark	S&P/ASX All Ordinaries Accumulation Index
Number of stocks/positions	Typically, 45-60
Fund Leverage	Nil
Portfolio Turnover	96% for the twelve months that ended Jun-23
Top 10 Holdings Weight	26.1% (Jun-23)
Investor Information	
Management Fee	1.10%
TCR (Total Cost Ratio)	1.35%
Buy Spread	0.20%
Sell Spread	0.20%
Performance Fee Rate	10.00%
Minimum Application	\$25,000
Redemption Policy	Daily
Distribution Frequency	Annually
Investment Horizon	3-5 years
Currency Hedging Policy	N/A

SUMMARY

Fund Summary

Description

The **Katana Australian Equity Fund** (the Fund) is a long-only, benchmark-unaware, style-agnostic, actively managed fund that invests in a range of Australian listed companies. Katana focuses on generating returns through unique insights into the fundamentals of a stock coupled with a macro-overlay. Flexibility within the boundaries of the risk framework and a rigorous investment process is applied to the goal of maximising investor returns without taking higher risk than the index. The Fund has no constraints on size (market cap), sector or themes. The process focuses on outperforming the bench while protecting clients' capital and is comfortable holding material cash levels for extended periods until the right opportunities arise.

The Fund is structured as an open-ended unlisted registered managed investment scheme.

Fund Rating

The Fund has achieved the following rating:

Star Rating	Description	Definition	Investment Grading
4.25 stars	Superior	Suitable for inclusion on most APLs	High Investment Grade

Previous Rating: 4.25 stars (Issued November 2022)

SQM Research's Review & Key Observations

About the Manager

Katana Asset Management Ltd was established in September 2003 and is led by experienced investment advisers Romano Sala Tenna, Brad Shallard, and Giuliano Sala Tenna. Katana Capital Ltd is a listed investment company (LIC) managed by Katana Asset Management Ltd (AFS License Number 288412). KAT was listed on the Australian Stock Exchange (ASX) in December 2005.

Investment Team

The Katana Asset Management (KAM) investment team consists of three portfolio managers and an analyst with nearly 90 years of combined experience, all contributing to a robust decision-making process.

Both Mr Brad Shallard and Mr Romano Sala Tenna operate as joint Managing Directors. This duplication ensures that KAM will continue to be led seamlessly if either person is unable to work in the business. Mr Shallard and Mr Sala Tenna have been in partnership

since the early 2000s and have an ongoing enthusiasm for growing KAM for the next 15+ years. Mr Giuliano Sala Tenna commenced working as a PM with the team some six year later and together the three PM's account for a very stable portfolio management team. KAM hired Hendrik Bothma in February 2020 to assist the three portfolio managers with their security research analysis.

1. Investment Philosophy and Process

Investable Universe

The Fund casts a wide net when it comes to the investment universe, providing Portfolio Managers with a wide scope when it comes to investment opportunities. The Fund considers equities that are Australian domiciled and ASX listed as its investment universe.

Philosophy / Process / Style

Katana's investment philosophy encompasses the following:

- Employing a low-risk investment strategy that focuses on capital preservation
- Maintaining high cash weightings as a means of further mitigating risk during periods of heightened volatility
- No gearing and avoiding time-dated instruments such as options, warrants and futures

The strategy of the Fund is to look for opportunities across all market capitalisations and sectors in the market. These potential opportunities should generate the best risk-adjusted return possible, with the aim of capital preservation being front of mind. The Fund aims to outperform the All Ordinaries Accumulation Index through flexibility and adaptability within the confines of a strong risk framework.

The investment team focuses on combining the best principles of value investing, growth investing, fundamental, technical analysis and market observation. The Fund aims to be "style agnostic" and not constrained by the constructs of any one approach.

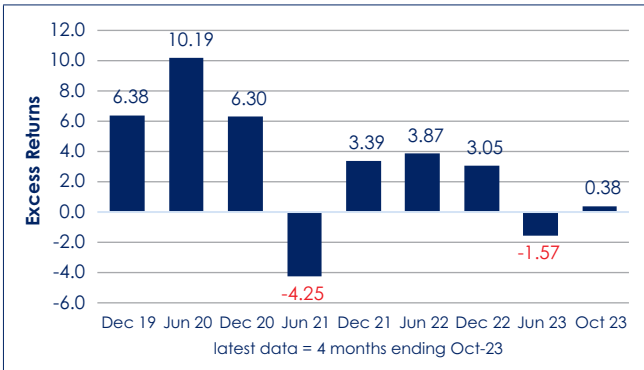
2. Performance & Risk

Return Objective

The return objective stated in the PDS is "to Maximise risk-adjusted returns to investors".

As stated in the PDS, the Fund's benchmark is "the All Ordinaries Accumulation Index".

Fund Excess Returns %: Half-yearly (net of fees)



Length of Track Record

The Fund has a history of 11.5 years (or 138 months).

Observations and analysis of returns will have substantial statistical meaning as a result of the sample size of observations.

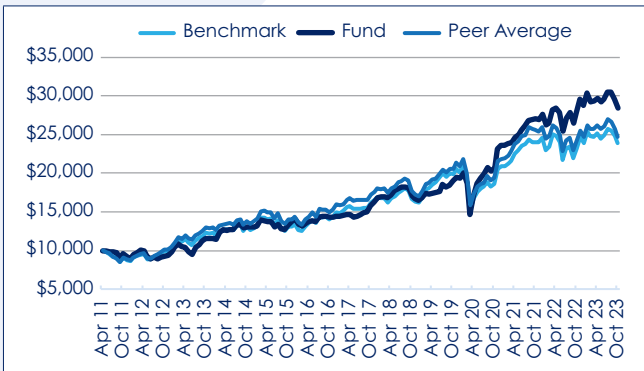
Risk Objective

The Fund's PDS states that the Fund's risk level is "... it may suit investors who are willing to accept higher risk in exchange for the potential opportunity to earn greater returns".

Fund Performance to 31 October 2023 (% p.a.)							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund	-4.04	-6.77	-4.41	1.79	11.24	10.73	8.71
Benchmark	-3.85	-7.26	-5.19	2.89	8.58	7.40	7.21
Peer Average	-4.42	-8.56	-5.97	1.58	8.16	6.62	7.37
Alpha	-0.19	0.49	0.79	-1.10	2.66	3.32	1.50

With dividends reinvested. Returns beyond one year are annualised. Return history starts May-2011
 Benchmark: S&P/ASX All Ordinaries TR

Growth of \$10,000



Strengths of the Fund

- Highly qualified, experienced, and stable portfolio management team.
- The Fund has demonstrated strong performance relative to the benchmark and peers,
- A disciplined risk management process.
- The Fund has displayed strong risk-adjusted returns, as measured by the Sharpe & information ratio, against the peer group over the Fund's life. This is partly due to the relatively low downside capture.

Weaknesses of the Fund

- The performance fee (10.00%) is charged on before-management fee returns over the benchmark. The common practice is to charge a performance fee on net (after fees) excess return.
- The Fund is relatively expensive in periods of outperformance above the prior high watermark because due to the performance fee as most Australian Equity Funds do not charge a performance fee.

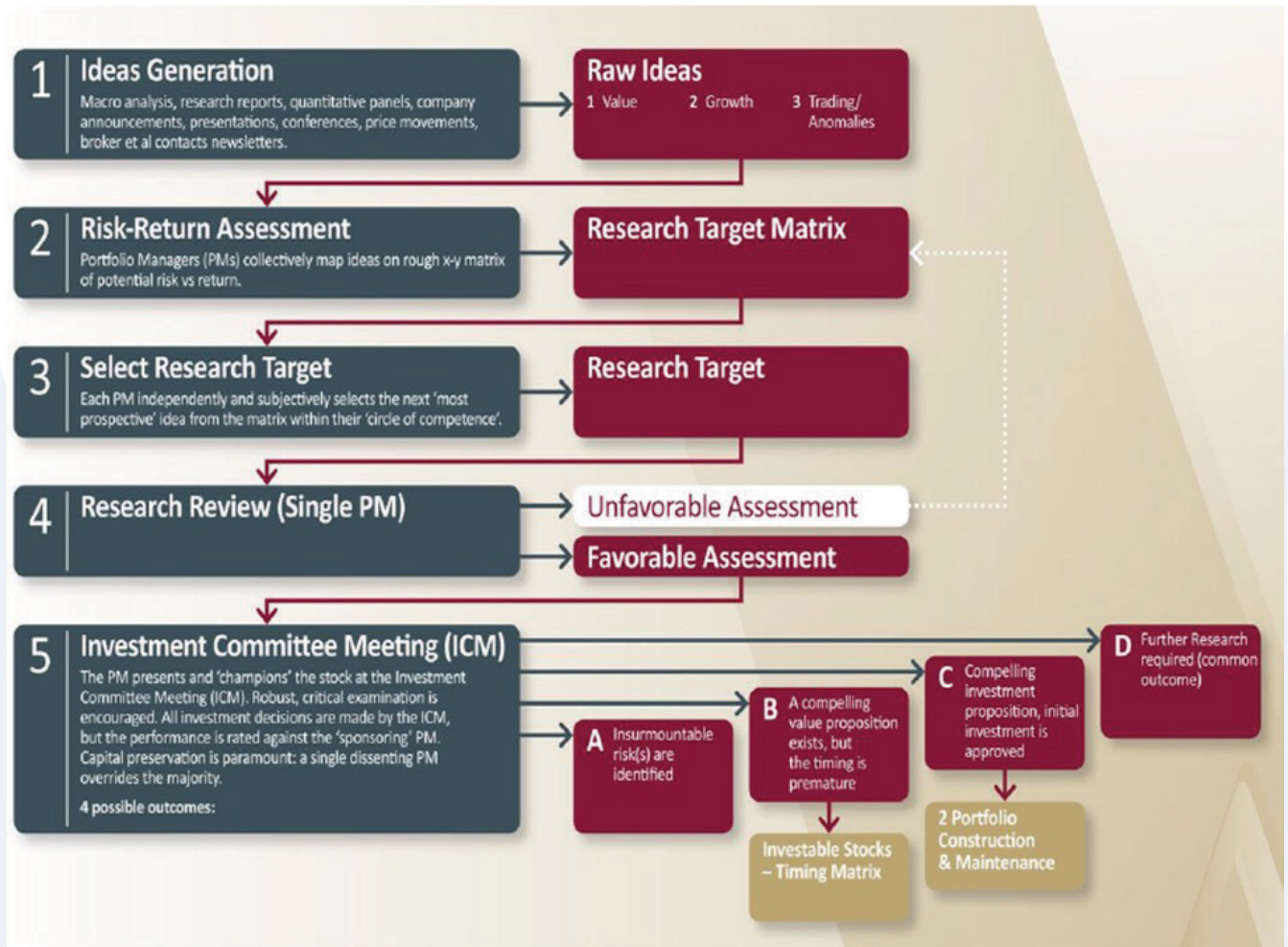
Other Considerations

- The Fund is a high turnover strategy, with an average of 142%, which creates material trading costs and realised gains. However, the Manager's ability to react proactively has tended to benefit the fund during volatile market conditions.
- The Manager views the fund from an absolute return perspective. It actively manages exposures and has held large cash positions on occasion, reaching 39% in 2023.
- Although the Manager has a focus on large caps, the fund has the ability to invest a portion of funds in small & mid caps.

Key Changes since the Last Review

- No significant changes since the previous review.

Investment Process Diagram



Process Description

Investment Process

Research and Portfolio Construction Process	Idea Generation
	Investment ideas are generated through multiple sources including, but not limited to: <ul style="list-style-type: none"> • Brokers and advisers • Research analysts • Corporate networks • Traditional and social media • Electronic newsletters, journals, and industry publications • Fund managers (Peer Community) • Quantitative screens

Investment Process

Research and Portfolio Construction Process

...continued

All ideas and leads are encouraged at this stage of the process - the goal is to maximise the generation of investment ideas. There is a concerted effort to remove overlapping sources to maximise the depth and breadth of genuinely unique ideas.

The PM draws on the relevant resources – both internally and externally – to systematically work through each idea and lead. This is done initially by applying Katana's 11 Key Criteria, by which every investment is assessed. The goal is to identify any glaring anomalies and hence eliminate ideas that are unlikely to proceed.

Research

Katana takes a macro-overlay approach to determine weightings to equities or cash, opportunities in specific sectors and themes. It then uses bottom-up analysis to drive investment into specific companies.

These criteria are researched, analysed, written up and discussed as a matter of course for every investment position. The importance of each of these criteria varies for each company. The relative weighting and priority follow the order below:

1. Management & Organisational Culture: - look for management that demonstrates over a period that they are:
 - (a) Trustworthy
 - (b) Competent
 - (c) Shareholder focused (put shareholders ahead of building an empire)
 - (d) Passionate
 - (e) Visionary
2. Robust Business Model (short-medium term) & Sustainable Competitive Advantage (medium to long-term): -

Above-average long-term returns require one or more sustainable competitive advantages, such as:

 - (a) Intellectual property, patents, or brand
 - (b) Regulatory/legislative
 - (c) Cost or 'effort' of switching
 - (d) Network effect: more buyers create more sellers create more buyers
 - (e) Cost advantage (including economies of scale or cost of capital)
 - (f) First mover advantage or 'pole position.'
 - (g) Geographical/physical/infrastructure constraints
 - (h) Management and corporate culture
3. Valuation: Low Price Earnings Growth (PEG) ratio -or- Low Price to Earnings Ratio (PER) & High Sustainable Dividend Yield: - The PEG ratio is calculated by dividing the PER into the company's annualised earnings per share (EPS) growth (typically over 5 years or longer). It measures how attractive the company's growth is when compared to its current price.

Investment Process

Research
and Portfolio
Construction
Process*...continued*

4. Positive Macro Outlook/Tailwinds: Macro factors such as population and industrialisation demographics, sector growth, 'step-change' technology, and the economic cycle phase.
5. Appropriate price action: - The Fund aims to move 'in harmony' with the greater market. Technical analysis provides insights into investor sentiment. An investor can be right fundamentally but wrong on timing. Once a potential investment has been identified, the Fund restrains from purchasing the stock until the price turns favourably. In doing so, the Fund saves capital ('cheap' stocks getting cheaper), time and emotional quotient.
6. Strong Balance Sheet Indicating Safety, Prudent Management and Flexibility: - providing a snapshot of a company's capacity to survive, the balance sheet provides an insight into what capacity the company must:
 - (a) maintain or increase dividends
 - (b) implement a buyback or capital return
 - (c) grow organically or by acquisition

It provides an insight into management's state of mind: a 'reckless' balance sheet may indicate reckless management.
7. Quality of Earnings: -
 - (a) Structurally sound sector
 - (b) Pricing power: clients vs suppliers
 - (c) Industry concentration
 - (d) Rational competitors
 - (e) Consistency & certainty of earnings
 - (f) Client concentration (a large number of small clients vs a small number of large clients)
 - (g) % of recurring revenue
 - (h) Determinants inside or outside of Management control
 - (i) High gross and net margins
8. High Operating Cash Flow (OCF) & High Free Cash Flow (FCF): - The very best businesses exhibit a high FCF and low annual Capex. A company that converts a high proportion of its net profit after tax [NPAT] into tangible cash without constantly reinvesting is considerably less likely to run into financial difficulty. High FCF provides the capacity to pay out an above-average portion to shareholders through dividends, capital returns, buybacks and pay down debt.
9. Return on Equity (ROE), Return on Price Equity (ROPE) & Return on Assets (ROA): - ROE measures the return that management has generated on shareholder's funds. ROPE links the level of shareholder equity returns to the current market capitalisation. ROA takes into account the impact that gearing has on ROE and considers whether a high ROE has been 'manufactured' by a high level of gearing.

Investment Process**Research and Portfolio Construction Process***...continued*

10. Liquidity: - Invariably, some investment decisions will be wrong. A lack of liquidity considerably impacts the 'cost' at which one can enter or exit a company – if indeed, these actions can be achieved at all.
11. Katana has been undertaking research to better understand key ESG drivers. This screening is now an important component in the Manager's research process.

Portfolio Construction

The investment thesis is formally submitted to the investment committee (which comprises the 3 PM's plus Analyst) for discussion and debate. The investment committee decides whether the stock is added to the portfolio. Capital preservation remains the overarching consideration. If a single member dissents ('the power of veto'), the investment does not proceed.

If the investment proceeds, the PM that submitted the proposal is allocated an initial position size and price parameters. The assigned PM takes responsibility for the position until it is no longer in the portfolio. The PM is held completely accountable for the performance of that position. At the end of each financial year – and on an ad hoc basis where required – the performance of each PM is calculated, tabled, and reviewed.

No 'orphan' position can exist in the portfolio. Every stock holding has a PM that is accountable for the position at all levels.

The macro backdrop is assessed at each Investment Committee Meeting (ICM). At the meeting, each PM chooses one of 5 ratings Sell, Reduce, Hold, Accumulate, Buy.

The views are collated to form a group view which drives cash/stock weightings over the coming fortnight. The view tends to be reasonably static and moves along the spectrum in steps rather than leaps. Where the macro environment changes significantly, the group view and hence weightings may change rapidly.

Capital preservation is the over-arching consideration. Not only each of the three PMs but also the analyst, has the exclusive, unfettered right to veto an investment. The decision-making process is often robust and, at times, contentious, but there can be no 'conflict' per se as the Investment Rules are clearly defined and well understood. The final vote rests with each IC Member to support, abstain or veto.

Risk Management

The portfolio has several portfolio construction structures and characteristics that limit downside risk, and capital preservation is the over-arching consideration:

1. No gearing
2. No use of derivatives
3. No currency or emerging market risk
4. No short selling
5. Power of Veto (as discussed earlier) and pre-disposition towards capital preservation
6. High cash weighting with the capacity to move to a cash allocation of up to 80%
7. A diversified portfolio of typically 50 – 60 stocks
8. Benchmark unaware and not coerced into high-risk companies or sectors

Investment Process

Research and Portfolio Construction Process

...continued

KAM uses three quantitative risk management tools:

- 1) Bloomberg Portfolio Analytics (six-monthly & ad hoc)
 - Sector concentrations
 - Market capitalisation concentration
 - Attribution analysis
 - Portfolio characteristics, including valuation demographics, debt metrics
 - Value at Risk (VaR)
 - Other portfolio and risk demographics
- 2) Portfolio Management System (Fortnightly)
 - Stop-loss percentages
 - Absolute loss levels
 - Stock weightings
 - Portfolio characteristics especially yield and valuation
- 3) Excel Spreadsheets (6 monthly and ad hoc as required/ requested)
 - PM Performance overall timeframes
 - Portfolio performance over different timeframes
 - Individual stock performance
 - Review of PM stock selection attributes
 - Bespoke risk modelling/projects

The Fund has no direct foreign currency exposure; hence currency hedging is not required.

Portfolio Characteristics

Portfolio Turnover

This is a high turnover strategy (typically ranging from 100 to 200% per annum) which can potentially create performance drag. The Manager has a focus on controlling trading costs, slippage and market impact and is not afraid to act rapidly to preserve capital and subsequently pivot if the PMs perceive the risk is dissipating.

Liquidity

Liquidity is not an issue at this FUM size with the current holdings.

Leverage

This Fund does not employ direct leverage (through borrowing by the Fund) **or** economic leverage (through the use of derivatives).

Key Counterparties



Parent Company

The parent entity is Katana Asset Management Ltd (KAM), an unlisted public company. Katana Asset Management was founded in September 2003 as a boutique investment management firm exclusively focused on Australian equities. KAM was granted an Australian Financial Services Licence in July 2005. In September 2005, KAM established its first fund - Katana Capital Ltd, 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.

Investment Manager / Fund Manager

Katana Asset Management Ltd was established in September 2003 and is led by experienced investment advisers Romano Sala Tenna, Brad Shallard, and Giuliano Sala Tenna. Katana Capital Ltd is a listed investment company (LIC) managed by Katana Asset Management Ltd (AFS License Number 288412). KAT was listed on the Australian Stock Exchange (ASX) in December 2005.

Governance

Responsible Entity

The Board of Directors of the Responsible Entity (Katana Asset Management) consists of three directors, none of whom are independent. SQM Research prefers the inclusion of independent members on the Board of Directors – it is a meaningful way to enhance governance and oversight. Board members have an average of 19.8 years of industry experience.

The Responsible Entity's **Compliance Committee** is composed of **3** members, **2** of whom are independent. The Chair **is not** independent; however, the Chair is a non-voting procedural member who is a professional compliance expert (Jacqui /Stewart from GRC Essentials). SQM Research views independence in a RE oversight body such as the Compliance Committee as a strong and favourable factor in Fund governance. Compliance Committee members have over **22** years of industry experience.

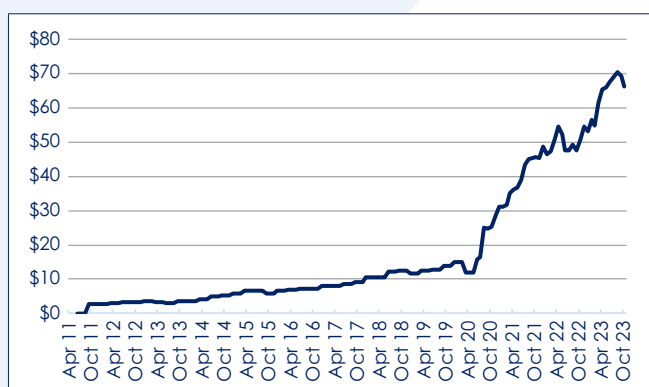
Management Risk

Funds management businesses rely on the operational capabilities of key counterparties. A critical element is the ability of the Responsible Entity to monitor operational performance and to meet the regulatory and statutory responsibilities required. For any investment fund, there is a risk that a weak financial position or management performance deterioration of key counterparties could temporarily or permanently compromise their performance and competency. This can adversely affect financial or regulatory outcomes for the Fund or associated entities.

Based on the materials reviewed, SQM Research believes that Katana Asset Management Ltd. and associated key counterparties are reasonably qualified to carry out their assigned responsibilities. Management risk is rated as modest.

Funds under Management (FUM)

FUM for Fund under Review (\$mill)



Distributions

Distributions occur on an annual basis, subject to the availability of distributable income. In a scenario where the Fund's realised losses and expenses exceed income in a distribution period, the Fund may elect not to make a distribution during that time.

Distribution Date	Distribution CPU
Jun-15	13.96
Jun-16	4.51
Jun-17	1.48
Jun-18	18.19
Jun-19	4.06
Jun-20	6.73
Jun-21	18.65
Jun-22	21.67
Jun-23	4.11

Name	Responsibility / Position	Location	Years at Firm	Years in Industry	Qualifications
Romano Sala Tenna	Portfolio Manager	Perth	20.0	27.0	B.Bus(Distinction), Grad Dip(Fin)
Brad Shallard	Portfolio Manager	Perth	20.0	28.0	CPA, Dip FP, F Fin
Giuliano Sala Tenna	Portfolio Manager	Perth	14.0	26.0	B. Comm F Fin GAICD
Hendrik Bothma	Analyst	Perth	3.5	9.0	B. Comm, CA, Dip FP

Investment Team

The Katana Asset Management (KAM) investment team consists of three portfolio managers and an analyst with nearly 90 years of combined experience, all contributing to a robust decision-making process.

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Meeting Schedule

The table below shows regular meetings that form an essential part of the overall process.

Meeting	Agenda	Frequency	Participants
Investment Committee Meeting	1) Review macro 2) Review Portfolio 3) Discuss investment submissions 4) Stop loss updates	Fortnightly	4 Investment Committee Members
Compliance Committee Meeting	Independent review of all aspects of Fund Governance, Statutory reporting etc.	Quarterly	3 Committee Members (2 independent) + Admin Manager + Compliance Manager
Performance Review Meeting	Review the collective performance of the fund and the Individual performance of each PM	Semi-annual	4 Investment Committee Members
Strategy Meeting	Review business strategy	Semi-annual	2 Co-founders
Macro View Setting	To discuss major political/social/economic change	Ad hoc	4 Investment Committee Members
Portfolio Review (Esp. Alignment)	Review portfolio weightings, correlation, alignment et al	Weekly (brief)	Senior PM with Administration Manager

SQM Research believes the practice of constant communication and the broad-based inclusion of team members in decision-making is a vital ingredient to the success of the process. Interactive peer review and collaboration across a tightly knit group of experienced investors will likely make the best use of their combined intellectual property and shared history.

Staffing Changes

Departures			
Date	Name	Responsibility	Reason for Departure
14-Jul-21	Rebecca Zaubzer	Administration and Accounts Assistant	Sought a role closer to home
16-Aug-21	Zaffar Subedar	National Business Development Manager	Border and pandemic restrictions

Additions			
Date	Name	Position / Responsibility	Previous Position / Employer
22-Jul-21	Katherin Millington	Administration and Accounts Assistant	RE Ledger Pty Ltd
20-Jun-22	Leilani Waterman	Administration and Accounts Assistant	Serco, PCOC

SQM Research observes that the levels of investment experience and company tenure are strong across the investment team. The size and nature of staff turnover are not an issue of concern, in SQM's view.

Remuneration and Incentives

Katana has an overall compensation philosophy that aligns individual awards with client success and has been in place and unchanged since 2014.

Total compensation for investment staff includes a base salary and incentive compensation as follows:

The total Bonus Pool available for staff is 30% of the annual performance fee physically received by Katana Asset Management. KAM only receives a performance fee where the Fund has outperformed its designated benchmark. If KAM does not receive a Performance Fee, no Performance Bonus is subsequently available to any PM. An arbitrary override (only ever to the benefit, not the detriment of a PM) may provide for an allowance from a subsequent period in the event that outstanding individual performance cannot be recognised in the current period due to the impact of other PMs.

Base Salary/Discretionary Bonus - is based on contribution to team performance. Each Portfolio Manager (PM) receives a percentage of the performance fee for their contribution to the team's overall performance, irrespective of how they have individually performed. This comprises a total pool capped at 10.0%.

Incentive Compensation - is determined by individual investment performance. It is directly linked to strong, long-term investment performance that is consistent with client objectives. All three PMs are eligible to share in an additional pool of 20.0% based on their individual performances for the financial year. The calculation is based on the gross return that the PM generates as a percentage of the overall gross return generated by all PMs. When a PM generates a negative return, it is subtracted from the following year's returns (or thereafter) until it is recovered.

The two joint Managing Directors hold 47% each of the firm's equity, while the portfolio manager and other staff own the remainder. The team has invested extensively in both funds under their management. Currently, the quantum is in the order of 25% of the total funds under management. The team continues to add to their

holdings regularly and has committed to reinvesting all dividends and distributions into the listed and unlisted funds.

SQM Research believes remuneration in the form of firm equity and client-focused performance bonuses function as strong incentives for optimising staff engagement, retention, and productivity. The intention (and SQM believes, the effect) is to align staff performance with client and shareholder objectives. It focuses on the customers' needs and medium to long-term results.

Fees and Costs	Fund	Peer Avg
Management Fee % p.a.	1.10%	0.81%
Expense Recovery/Other Costs % p.a.	–	–
Performance Fee %	10.00%	15.00%
Total Cost Ratio TCR % p.a.	1.35%	0.82%
Buy Spread %*	0.20%	0.19%
Sell Spread %*	0.20%	0.19%

* This spread is the difference between the Fund's application price and withdrawal price and reflects transaction costs relating to the underlying assets.

Management Fee

The management fee includes GST and is net of any applicable Reduced Input Tax Credits (RITC).

Performance Fee

There is a performance fee charged as follows:

- 10.0% of the amount by which the Fund's investment returns (**before** base management fees have been deducted) exceed the Benchmark returns (ASX All Ordinaries Accumulation Index).
- Excluding GST and the impact of RITC (Reduced Input Tax Credit).
- The fee is accrued monthly and (if applicable) paid to the Manager annually.
- The fee is adjusted for any prior accumulated negative performance fee. Underperformance in a previous performance period must be made up for before a performance fee is payable. This creates a permanent high-water mark.
- SQM Research observes that the performance fee is earned on **before-fee returns**, which creates a compounding fee effect, i.e. a performance fee is charged on the base management fee. The **approximate** effect of this is an **additional 0.10% cost**. (i.e. 10.00% of 1.00%) as compared to if the performance fee were calculated on after-fee returns.

SQM Research observes that:

- *The Fund management fee is 1.10% p.a., which is 31 basis points higher than the peer group average of 0.81% p.a.*
- *The Total Cost Ratio (TCR) is 1.35% p.a., which is 53 basis points higher than the peer group average of 0.82% p.a.*

Most managers in Australian equities do not charge a performance fee so relatively this fund can be expensive as shown by the difference in ICRs above.

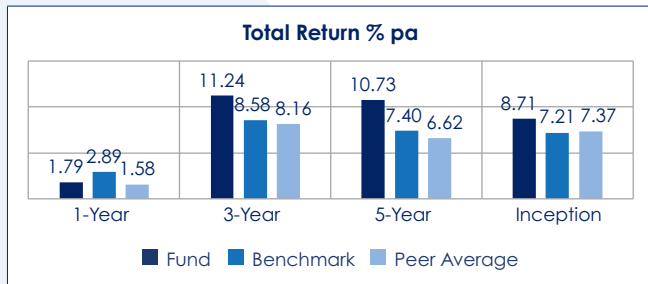
Risk/Return Data to 31 October 2023							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund	-4.04	-6.77	-4.41	1.79	11.24	10.73	8.71
Benchmark	-3.85	-7.26	-5.19	2.89	8.58	7.40	7.21
Peer Average	-4.42	-8.56	-5.97	1.58	8.16	6.62	7.37
Alpha	-0.19	0.49	0.79	-1.10	2.66	3.32	1.50
Metrics				1-Year	3-Year	5-Year	Inception
Tracking Error (% p.a.) - Fund				2.50	3.23	5.54	6.00
Tracking Error (% p.a.) - Peer Average				4.07	5.52	5.46	4.48
Information Ratio - Fund				-0.44	0.82	0.60	0.25
Information Ratio - Peer Average				-0.25	0.15	-0.09	0.00
Sharpe Ratio - Fund				-0.16	0.73	0.54	0.47
Sharpe Ratio - Peer Average				-0.17	0.50	0.31	0.37
Volatility - Fund (% p.a.)				11.64	13.47	17.34	13.86
Volatility - Peer Average (% p.a.)				12.29	14.72	17.30	14.26
Volatility - Benchmark (% p.a.)				12.58	14.19	16.67	13.71
Beta based on stated Benchmark				0.91	0.92	0.99	0.91

Distributions reinvested. Returns beyond one year are annualised. Return history starts May-2011
 Benchmark: S&P/ASX All Ordinaries TR

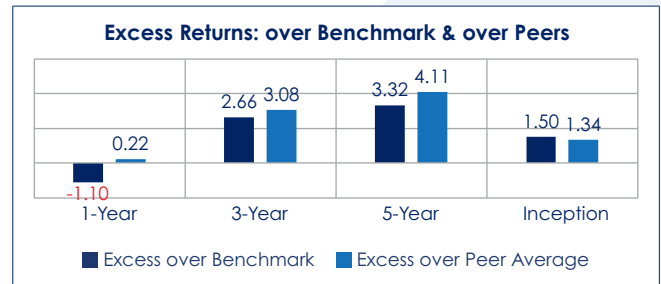
Quantitative Insight¹

Note: Unless otherwise stated, all return and risk data reported in this section are **after-fees** and for **periods ending Oct 2023**.

Returns



Excess Returns (Alpha)

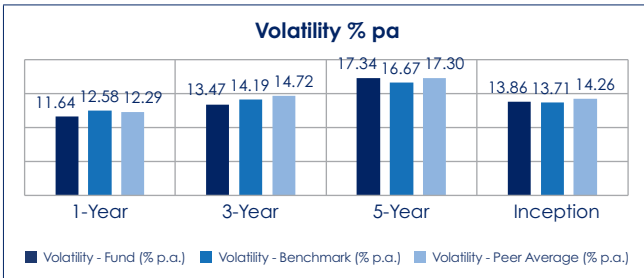


The Fund has displayed strong performance across most periods when compared with benchmark and peers.

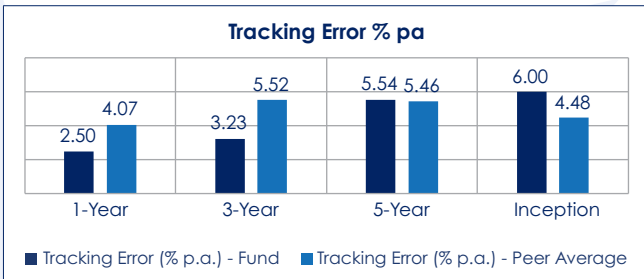
The **return outcomes**, as described above, are in line with the PDS objective and exceed SQM's expectations for the Fund relative to its fee level and volatility.

¹ **Note:** Sharpe and Information Ratios are not reliable comparison tools in periods where both the Fund and its peers/benchmark record a negative result

Risk



The Fund's **volatility** (annualised standard deviation of monthly returns) has tended to be similar to the benchmark and the peer group.



The Fund's **tracking error** (annualised standard deviation of monthly excess returns) has tended to be below the peer group in the short-medium term but higher over the long term.

The **risk outcomes** as described above regarding volatility and tracking error are consistent with the PDS statements and SQM's expectations about risk for this Fund.

Drawdowns

Drawdown Summary			
Drawdown Size (peak-to-trough)			
	Fund	Bench	Peers
Average	-5.35%	-6.49%	-6.19%
Number	20	20	22
Smallest	-0.01%	-0.77%	-0.32%
Largest	-26.64%	-27.33%	-28.24%
Length of Drawdown (in months)			
	Fund	Bench	Peers
Average	5.3	6.4	5.8

Length of Drawdown = time from peak to trough and back to the previous peak level

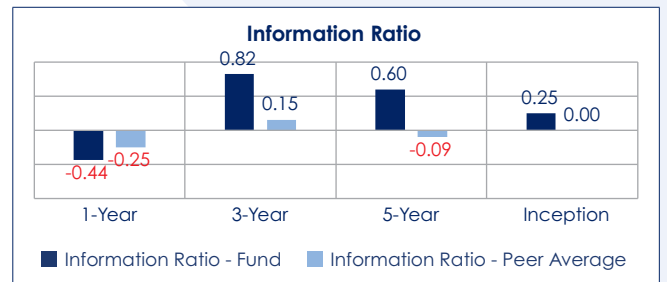
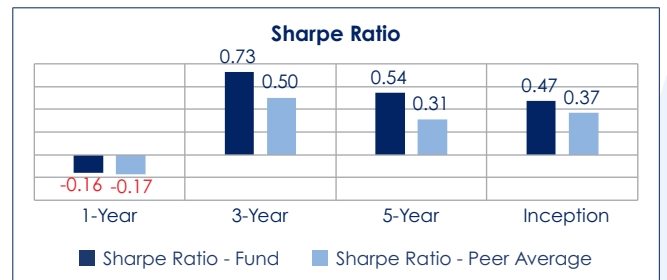
Average drawdowns have been modestly better than the peer average and moderately better than the benchmark.

Upside/Downside Capture

	Downside Capture		Upside Capture	
	3 years	Inception	3 years	Inception
Fund	77.5%	74.1%	95.9%	89.6%
Peer Average	97.1%	96.9%	96.5%	99.1%

for a cash benchmark, downside capture is not valid

Risk-Adjusted Returns



The Fund's risk-adjusted returns (as measured by Sharpe and Information ratios) have been better than the peer average.

Correlation of Fund to Asset Classes

Market	3 years	Inception	Market Indexes
Aust Bonds	+32.9%	+4.7%	Bloomberg AusBond Composite 0+Y TR
Aust Equity	+97.1%	+89.3%	S&P/ASX 300 TR
Global Bonds	+50.0%	+23.3%	Bloomberg Global Aggregate Hdg AUD
Global Equity	+62.3%	+46.9%	MSCI World Ex Australia NR AUD

Correlation Key

Low	High	Description
0%	20%	low, weak
20%	40%	modest, moderate
40%	70%	significant, material
70%	90%	strong, high
90%	100%	substantial

QUANTITATIVE ANALYSIS

Tail Risk

(The analysis in the table below looks at the **tail risk performance relationship of the Fund to the ASX300**, a practice that SQM has set as common across asset classes in Fund reviews. This approach recognises that for the large bulk of financial planner clients, their key traditional asset class **risk** regarding **size** and **volatility** is to Australian equities. Exploring that relationship is useful regardless of the asset class of the Fund itself, as it is helpful to understand how a Fund has acted in times of Australian equity market stress in terms softening or exaggerating the negative performance experienced at such times.)

The table below details the **largest negative monthly returns** for the ASX 300 **since the inception of the Fund**. This is compared to the Fund's performance over the same months.

Extreme Market Returns vs Fund Return Same Month				
Index: S&P/ASX 300 TR		From May-11 to Oct-23		
Rank	Date	Market	Fund	Difference
1	Mar-20	-20.83%	-21.13%	-0.30%
2	Jun-22	-8.97%	-8.54%	+0.43%
3	Feb-20	-7.76%	-6.98%	+0.78%
4	Aug-15	-7.70%	-4.59%	+3.11%
5	May-12	-6.74%	-7.53%	-0.80%
6	Jan-22	-6.45%	-4.77%	+1.68%
7	Sep-22	-6.29%	-4.85%	+1.44%
8	Sep-11	-6.28%	-8.01%	-1.74%
9	Oct-18	-6.16%	-5.86%	+0.30%
10	Jan-16	-5.45%	-4.85%	+0.60%
Totals		-82.63%	-77.12%	+5.51%

	No. of Months		
Correlation	+96.3%	Positive Return	0
Capture	+93.3%	Outperform	7

Tail Risk Observations:

The data in the table above indicate that the Fund displays **minor defensive characteristics** in the face of extreme Australian equity tail risk.

Snail Trail

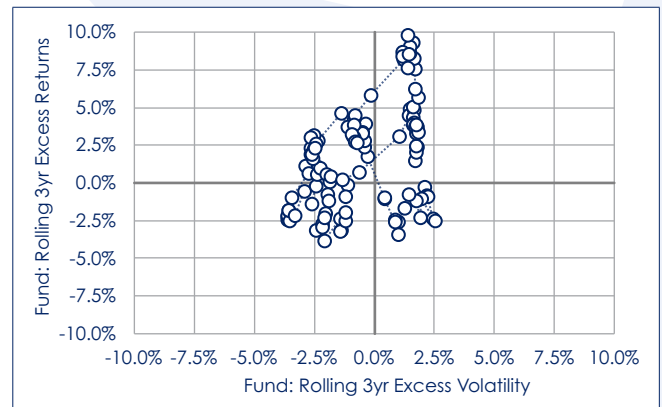
The snail trail chart and tables below show the combination of the Fund's rolling 3-year excess returns and rolling 3-year excess volatility.

There are **115** observations in total.

The two tables below display the distribution of these observations and their overall frequency across the risk/return quadrants.

Snail Trail Distribution			
Frequency	Lo-Vol	Hi-Vol	Total
Hi-Return	37	36	73
Lo-Return	26	16	42
Total	63	52	115

115 rolling 3-year observations			
% of Total	Lo-Vol	Hi-Vol	Total
Hi-Return	32.2%	31.3%	63.5%
Lo-Return	22.6%	13.9%	36.5%
Total	54.8%	45.2%	100.0%



In assessing a snail trail it is important to note the following:

Q1 upper left-hand quadrant - higher return than the Fund's market index with lower volatility (less risk). This is the optimal position.

Q2 upper right-hand quadrant - higher return than the Fund's market index with higher volatility (more risk). This can often be a desirable position depending on the attractiveness of the Sharpe ratios produced in this zone. It is important to note that in the case of inflation or cash-style benchmarks, the Q1 top left-hand quadrant is unachievable as it is not possible to deliver lower volatility than what is virtually zero for the benchmark. In such cases, the Q2 zone is the optimal position.

Q3 lower left-hand quadrant - lower return than the Fund's market index with lower volatility (less risk). Less than ideal, and Sharpe ratios can assist in assessing the risk/return trade-off in this zone.

Q4 lower right-hand quadrant - lower return than the Fund's market index with higher volatility (more risk). The least desirable outcome.

Consistency

The more "bunched together" the cluster of dots, the more consistent is the performance. A second indicator of consistency is the trail's nomadic nature. Trails that roam across multiple quadrants over time are indicating **low consistency** in the Fund's risk-return profile. The quadrant that **contains the bulk** of the Fund's snail trail is likely to be more representative of the Fund's risk/return characteristics and identity.

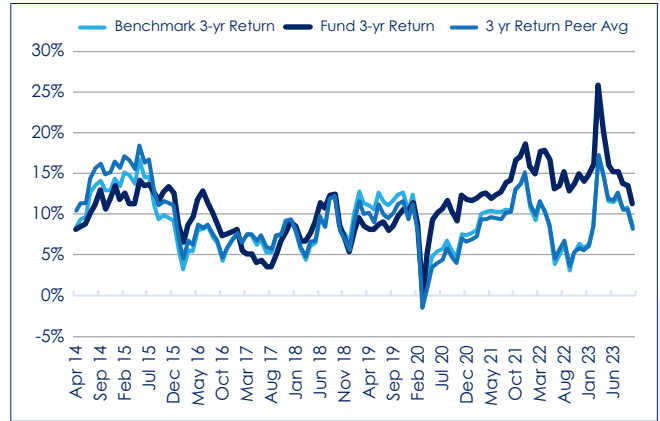
Annual Returns

Year	Fund	Benchmark	Peer Avg	vs. Bench	vs. Peers
2012	+10.84	+18.84	+20.86	-8.00	-10.02
2013	+16.69	+19.65	+23.88	-2.97	-7.20
2014	+13.16	+5.02	+5.43	+8.14	+7.73
2015	+8.20	+3.78	+4.95	+4.42	+3.25
2016	+2.44	+11.65	+10.53	-9.21	-8.09
2017	+16.87	+12.47	+12.89	+4.40	+3.98
2018	-2.16	-3.53	-5.57	+1.37	+3.40
2019	+17.33	+24.06	+23.16	-6.73	-5.83
2020	+21.71	+3.64	+4.31	+18.08	+17.40
2021	+16.96	+17.74	+18.98	-0.78	-2.02
2022	+4.10	-2.96	-4.78	+7.06	+8.88
Oct-23	-1.14	-0.04	-0.43	-1.11	-0.72

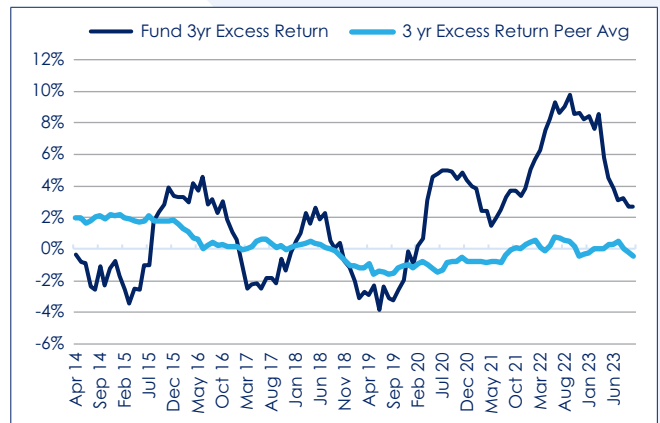
2023 data = 10 months ending Oct-23

Return and Risk

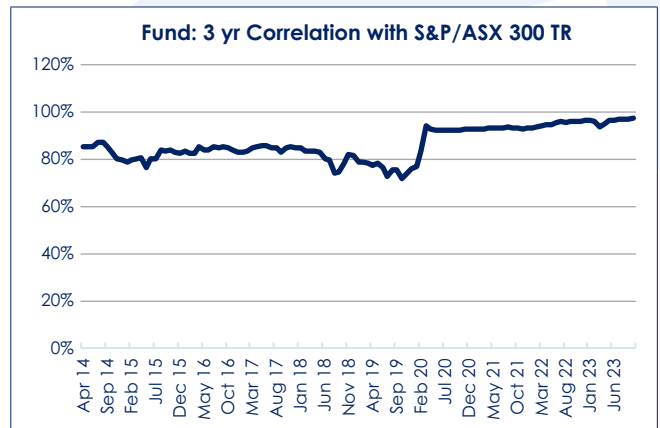
Rolling Returns



Rolling Excess Returns

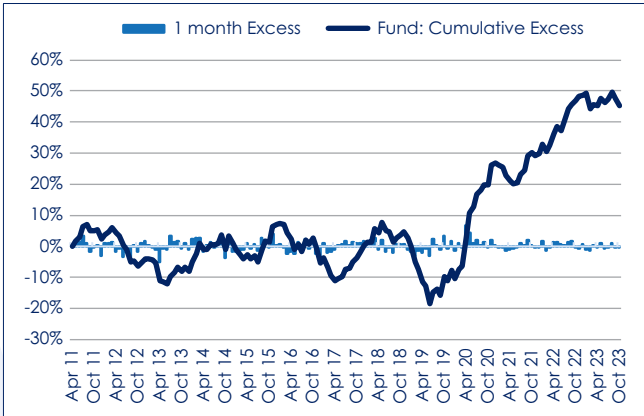


Rolling Correlation

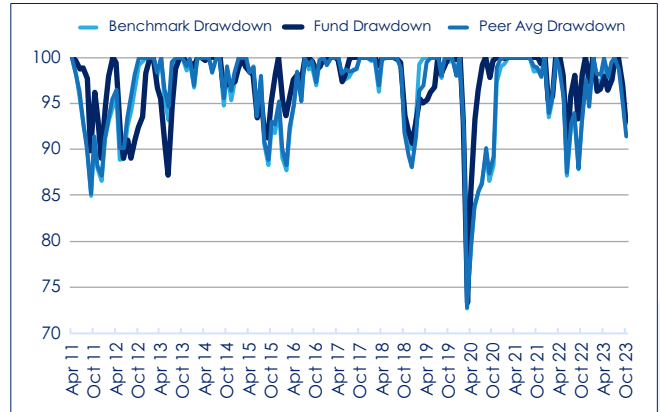


Return and Risk

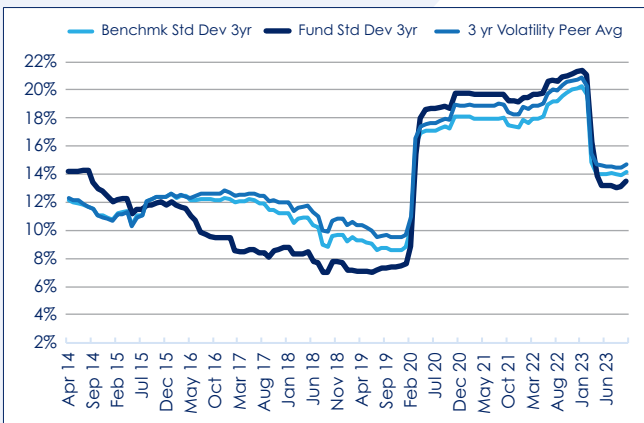
Cumulative Excess Returns



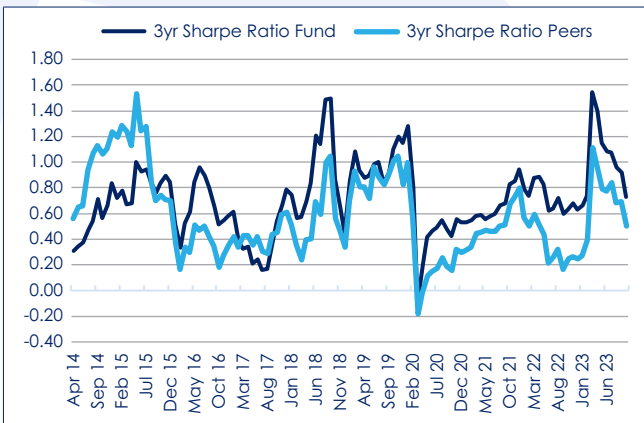
Drawdowns



Rolling Volatility



Rolling Sharpe Ratio



The table below outlines limits on the Fund's asset allocation and other risk parameters:

Fund Constraints and Risk Limits	Permitted Range or Limit
Top 20 stocks	Target = 5.0%, Lower Bound = 1.0%, Upper Bound = 12.5%
Top 100 / cash hybrids	Target = 3.0%, Lower Bound = 1.0%, Upper Bound = 10.0%
Top 500	Target = 1.5%, Lower Bound = 1.0%, Upper Bound = 3.0%
Outside of the Top 500	Target = 1.0%, Lower Bound = 0.5%, Upper Bound = 3.0%
Cash Weighting	Target = 15-30%, Lower Bound = no minimum, Upper Bound = no maximum
Australian Listed Securities	Target = 70-85%, Lower Bound = no minimum, Upper Bound = no maximum
Gearing	No gearing used
Ex-benchmark Holdings Limit	Target = \$0, Lower Bound = no minimum, Upper Bound = no maximum

Top 5 Holdings*

Ticker	Holding	Sector	Weight %	Country
CSL	CSL Ltd	Health Care	5.12	AUS
MIN	Mineral Resources Ltd	Materials	4.88	AUS
WES	Wesfarmers Ltd	Consumer Discretionary	2.65	AUS
BPT	Beach Energy Ltd	Energy	2.37	AUS
MQG	Macquarie Group Ltd	Financials	2.02	AUS

* As reported to SQM at report date – holdings will change over time.

Drawdown

A drawdown tracks the path of the Fund's accumulated NAV (with dividends reinvested). It is measured over the period of a peak-to-trough decline and the subsequent recovery back to that previous peak level. The total return over that entire period is, of course, zero. The metric of interest, the drawdown itself, is quoted as the percentage change between the peak and the trough over that period. Funds typically have multiple drawdowns of varying size and length over their lifetime. The table above shows how many drawdowns have occurred and their average peak-to-trough size.

Alpha

SQM defines **Alpha** as the excess return compared to the Benchmark and is calculated as

$$\text{Alpha} = \text{Fund Return} - \text{Benchmark Return}$$

A General Note on Distributions for Managed Funds

The Responsible Entity of a Managed Fund will provide for a regular schedule of distributions, such as monthly/quarterly/semi-annual or annual. This is subject to the Fund having a sufficient distributable income. The official total distributable income available to pay to investors is determined for the period of that Fund's financial year. By distributing the net taxable income of the Fund to investors each year, a Fund itself should not be liable for tax on its net earnings.

If a Fund makes distributions more frequently than once over the financial year, those distributions will be based on estimates of the distributable income for that distribution period. The final total amount of distributable income available for passing on to investors can only be calculated after the close of the financial year, based on the Fund's taxable income for that year.

If the total distributions a Fund pays out exceed total taxable income for that particular financial year, the excess amount may be treated as a return of capital rather than income. This will possibly have tax implications for the investor.

Due to the considerations outlined above, there may be periods in which no distributions are made, or a Fund may make additional distributions

A Fund's ability to distribute income is determined by the performance of the Fund and general market conditions. Accordingly, there is no guarantee that a Fund will make a distribution in any distribution period.

Total Cost Ratio (TCR)

Managed Investment Schemes: The TCR for Managed Investment Schemes, Exchange Traded Products and Investment Bond funds is an addition of the Investment Management Fees and Costs (including admin fees), Performance Fee Costs, and the impact of dollar-based fees.

Superannuation funds: The TCR for Superannuation and Pension funds is an addition of the Investment Management Fees and Costs (including admin fees), Performance Fee Costs, Administration Fees and Costs, the impact of dollar-based fees and a deduction of Super OTC Derivative Costs.

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SQM
RESEARCH

Address:

Level 16, 275 Alfred Street
North Sydney, New South Wales, 2060

Contacts:

Louis Christopher 02 9220 4666
Chetan Trehan 02 9220 4607
Paul Saliba 02 9220 4606

Analyst:

Paul Saliba

Central Contacts:

Phone: 1800 766 651
Email: info@sqmresearch.com.au
Web: www.sqmresearch.com.au