



Katana Australian Equity Fund

This report has been prepared for financial advisers
and wholesale clients only



Superior

November 2024

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

Reliance of information

In compilation of this report and rating, SQM Research has significantly relied on written and verbal statements made from the product issuer. While SQM Research makes enquiries on such statements, it is not able to verify the accuracy of all information received.

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This Research Report is current as at the date on the report until it is replaced, updated or withdrawn. SQM Research reports are generally valid for a term of approximately 12 months but may be replaced, withdrawn or changed at any time as judged appropriate by SQM Research.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

Licensed Investment Adviser

SQM Research is licensed as an Australian Financial Services Licensee, Licence No. 421913, pursuant to section 913B of the Corporations Act 2001. The licence authorises SQM Research to carry on a financial services business to provide general financial product advice only.

Privacy Policy

SQM Research collects only a limited amount of personal information from its clients. Our privacy policy can be viewed at www.sqmresearch.com.au. This will enable you to understand your rights, our obligations and what SQM Research does with any information it collects about you.

Fees charged for Report

SQM Research has received a fee from the fund manager for this report and rating.

General Financial Product Advice

This general advice will not take into account you, or your clients, objectives, financial situation or needs and will not be provided in respect of any other financial products. Accordingly, it is up to you and your clients to consider whether specific financial products are suitable for your objectives, financial situations or needs.

Report Date: 25 November 2024

Star Rating**	Description	Definition	
4½ stars and above	Outstanding	Highly suitable for inclusion on APLs <i>SQM Research believes the Fund has substantial potential to outperform over the medium-to-long term. Past returns have typically been very strong. Product disclosure statement (PDS) compliance processes are high-calibre. There are no corporate governance concerns. Management is extremely experienced, highly skilled and has access to significant resources.</i>	Highest Investment Grade
4¼ stars	Superior	Suitable for inclusion on most APLs <i>SQM Research considers the Fund has considerable 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 material 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, however they may not be yet fully tested. As a result the manager/product may have higher risks attached compared to peers.</i>	Investment Grade
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 uncertain. Historical performance has tended to be modest or patchy. Management is generally experienced and displays investment-grade quality, however they may not be yet fully tested. As a result the manager/product may have higher risks attached compared to peers. SQM Research has identified material weaknesses which need addressing in order to improve confidence in the Manager. There might be some corporate governance concerns.</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 potentially substandard. There might be material corporate governance concerns. Management quality is not of investment-grade standard.</i>	
3 stars	Strong Caution Required	Not suitable for APL inclusion <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 could be material corporate governance concerns. SQM Research has a number of concerns regarding management.</i>	
Below 3 stars	Avoid or Redeem	Not suitable for APL inclusion <i>SQM Research has multiple material concerns surrounding the Fund.</i>	
Event-driven Rating	Definition		
Withdrawn	<i>The rating is no longer applicable. Significant issues have arisen since the last report was issued, and investors should avoid or redeem units in the fund. The manager, after agreeing to be reviewed, has pulled out of the process and/or has not responded to our questionnaire.</i>		
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. Dealer groups should not be making further investments into this fund until SQM has completed its additional investigations.</i>		

* It is strongly recommended advisers conduct additional due diligence over and above base requirements when considering such rated funds.

** 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.

CONTENTS

Summary	2
Fund Summary	3
SQM Research's Review & Key Observations	3
Strengths	4
Weaknesses	5
Other Considerations	5
Key Changes Since the Last Review	5
Investment Process & Portfolio Construction	6
Investment Process Diagram	6
Process Description	6
Corporate Governance / Business Strategy	10
Key Counterparties	10
Parent Company	10
Investment Manager / Fund Manager	10
Responsible Entity	10
Management Risk	10
Funds under Management (FUM)	11
Management & People	12
Investment Team	12
Meeting Schedule	12
Staffing Changes	12
Remuneration and Incentives	13
Product Features - Fees, Redemption Policy	14
Management Fee	14
Performance Fee	14
Quantitative Analysis	15
Quantitative Insight	15
Return and Risk	18
Risk Constraints and Limits	20
Glossary	21

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	\$81,849,544
Return Objective (per PDS/IM)	Maximise risk adjusted returns to investors
Internal Return Objective	Maximise risk adjusted returns to investors
Risk Level (per PDS/IM)	Focus on capital preservation
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	88.00%
Top 10 Holdings Weight	28.9%
Investor Information	
Management Fee	1.10% (inc gst)
TCR (Total Cost Ratio)	1.26% (inc gst)
Buy Spread	0.20%
Sell Spread	0.20%
Performance Fee Rate	11.00% (inc gst)
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 an all-cap long-only, benchmark-unaware, style-agnostic, actively managed fund that invests in Australian listed companies. Katana focuses on generating returns through 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
4.00 stars	Superior	Suitable for inclusion on most APLs	High Investment Grade

Previous Rating: 4.25 stars (Issued December 2023)

SQM Research's Review & Key Observations

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 years later, and together, the three PMs 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 he left the business in 2024 to pursue opportunities elsewhere. During the year Charuni Godakanda was hired as a Trainee Analyst to assist with compiling consensus data, reviewing ASX announcements, summarising the mainstay media, analysing research notes, programming in-house models, assisting with research meetings and compiling investment submissions.

1. Investment Philosophy and Process

Investable Universe

The investable universe includes ASX-listed securities, rights to subscribe for or convert to listed securities (whether or not tradeable), and securities expected to be quoted on the ASX within 12 months of investment. It also includes deposits with authorised banks or corporations in the short-term money market, units or interests in cash management trusts, underwriting or sub-underwriting of securities as permitted by law, and other investments approved by the Board under the Manager's AFSL. While the total investable universe is extensive, approximately half to two-thirds of these stocks or instruments typically do not meet key investment criteria. As a result, the fund's practical investable universe is estimated to include around 700 – 800 companies, skewed toward larger capitalisation firms, with an approximate total market value of \$1.75–2.0 trillion AUD.

Philosophy / Process / Style

Katana's investment philosophy encompasses the following:

- Seeking fundamentally sound companies with above-average growth prospects that align with macro tailwinds and investor sentiment, which can be purchased for a fair price.

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.

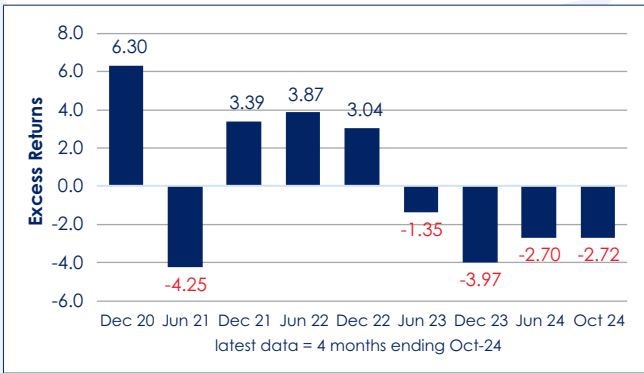
2. Performance & Risk

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 13.5 years (or 162 months).

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

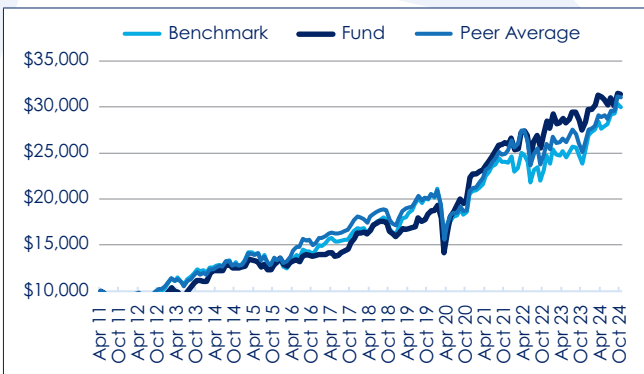
Risk Objective

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 2024 (% p.a.)							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund	-0.46	1.00	0.87	14.18	6.27	11.35	8.83
Benchmark	-1.33	2.49	8.10	25.36	7.56	8.45	8.45
Peer Average	-0.22	5.03	7.57	23.95	7.16	8.52	8.21
Alpha	0.87	-1.49	-7.23	-11.18	-1.29	2.90	0.37

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

Growth of \$10,000



Strengths

- Highly qualified, experienced, and stable portfolio management team.
- A disciplined risk management process.
- The Fund has outperformed the benchmark and peers, over 5 years and since inception.

Weaknesses

- 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.
- High cash holdings act as a drag in all but very weak market conditions.

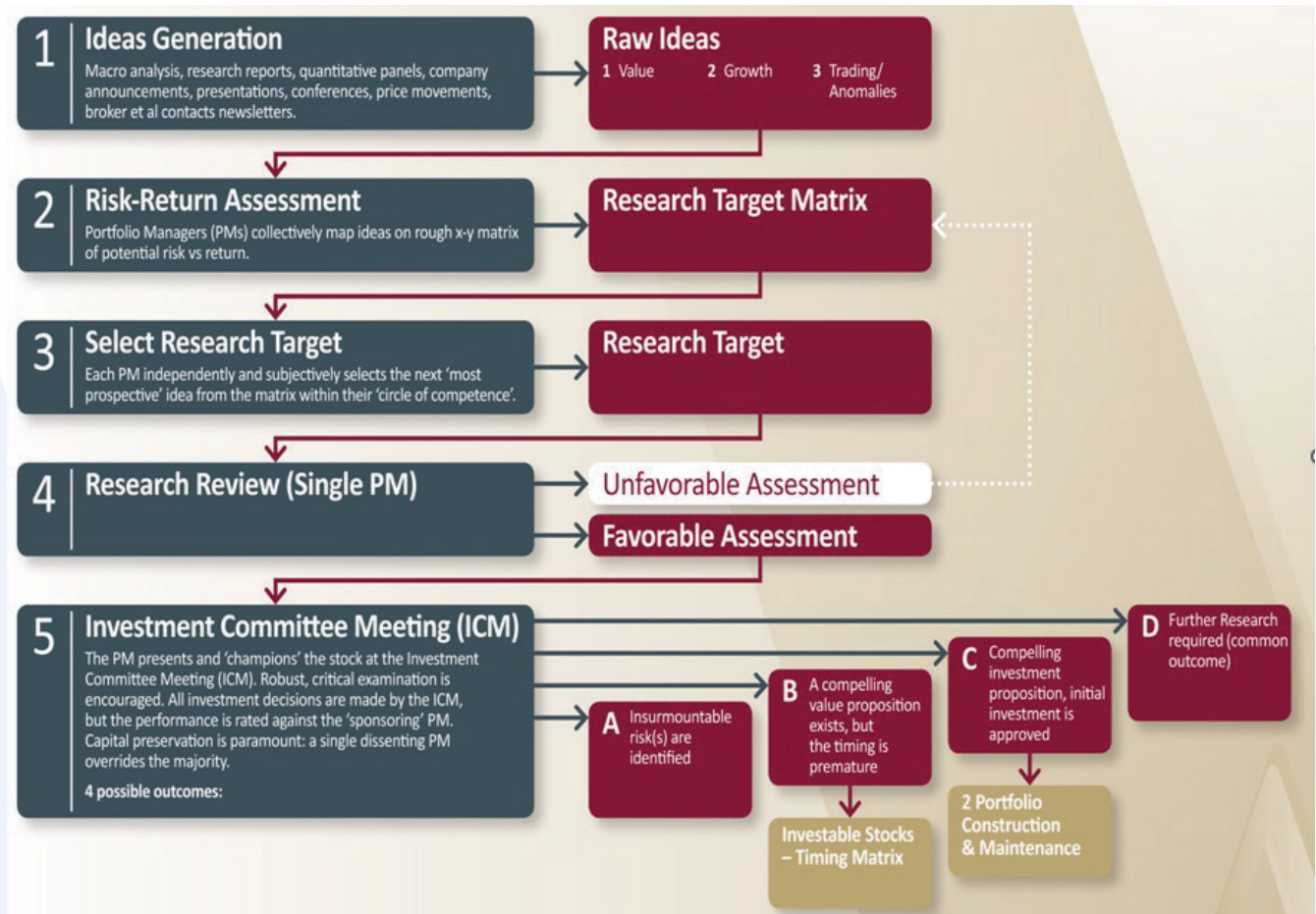
Other Considerations

- 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.
- 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

- There have been no significant changes to the investment philosophy and process.
- Hendrik Bothma tendered his resignation as a Research Analyst to pursue a career in an alternative industry.

Investment Process Diagram



Process Description

Investment Process

Research and Portfolio Construction Process	Idea Generation
	KAM's idea generation process prioritises flexibility and accountability, empowering each portfolio manager (PM) to explore and research investment ideas freely—"any stock idea, anywhere, anytime." Over time, each PM has cultivated a unique set of idea sources, including traditional and social media, brokers and advisers, research analysts, corporate networks, electronic newsletters and industry publications, peer fund managers, and quantitative screens. The process encourages a broad and inclusive approach, welcoming all ideas and leads to maximise the pool of potential investments. To ensure depth and breadth in idea generation, the team actively minimizes overlap in sources, fostering a diverse range of genuinely unique perspectives.

Investment Process

Research
and Portfolio
Construction
Process*...continued*

Research

Katana employs a comprehensive research process that integrates a macro-overlay approach with bottom-up analysis to identify and evaluate investment opportunities. The macro-overlay guides decisions on portfolio weightings between equities and cash and highlights potential opportunities within specific sectors or themes. Detailed bottom-up analysis is then applied to select individual companies, with every investment position undergoing thorough research, analysis, documentation, and team discussion. The importance of each criterion varies by company, but the research framework prioritizes the following:

- I. **Management & Organizational Culture:** A critical factor is identifying management teams that demonstrate trustworthiness, competence, shareholder focus, passion, and vision. Long-term success hinges on leadership that balances strategy with integrity.
- II. **Robust Business Model & Sustainable Competitive Advantage:** The research focuses on companies with defensible competitive advantages, such as intellectual property, regulatory barriers, cost advantages, network effects, or first-mover positions. These attributes support both short-term stability and long-term growth.
- III. **Valuation:** Katana emphasises metrics like a low Price Earnings Growth (PEG) ratio or low Price to Earnings Ratio (PER) combined with a high sustainable dividend yield. These measures ensure investments offer attractive growth potential relative to their current market valuation.
- IV. **Positive Macro Outlook/Tailwinds:** Macro factors like demographic trends, sector growth, disruptive technologies, and economic cycles are considered to ensure alignment with favourable broader trends.
- V. **Appropriate Price Action:** Timing plays a key role in maximizing returns. Katana uses technical analysis to ensure investments align with favourable market sentiment, avoiding premature entries into undervalued stocks that might face further declines.
- VI. **Strong Balance Sheet:** A solid balance sheet reflects a company's financial safety, prudent management, and strategic flexibility. This is essential for sustaining dividends, undertaking growth initiatives, and weathering economic downturns.
- VII. **Quality of Earnings:** The consistency, sustainability, and predictability of earnings are assessed. Factors like pricing power, competitive dynamics, revenue concentration, and recurring revenue are scrutinized to ensure the earnings base is structurally sound.
- VIII. **High Operating & Free Cash Flow:** Companies that generate substantial free cash flow with minimal reinvestment needs are preferred. High cash flow ensures financial stability and the ability to return value to shareholders.
- IX. **Returns Metrics:** Measures like Return on Equity (ROE), Return on Price Equity (ROPE), and Return on Assets (ROA) provide insights into management effectiveness and the sustainability of profitability.
- X. **Liquidity:** Liquidity is critical for facilitating entry and exit positions efficiently. A lack of liquidity can significantly increase the cost or feasibility of executing trades.
- XI. **Environmental, Social, and Governance (ESG) Factors:** Katana has integrated ESG considerations into its research, recognising their growing importance in evaluating long-term risks and opportunities.

Through this meticulous and multidimensional process, Katana ensures that every investment aligns with its stringent criteria for quality, value, and growth potential.

Investment Process

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

The investment thesis is formally submitted to the investment committee, which comprises the three Portfolio Managers (PMs) and an Analyst, for discussion and debate. The committee decides whether to add the stock to the portfolio, with capital preservation as the overarching consideration. If a single member dissents (exercising the power of veto), the investment does not proceed.

If the investment is approved, the PM who submitted the proposal is allocated an initial position size and price parameters. This PM is responsible for the position until it is no longer in the portfolio and is held fully accountable for its performance. At the end of each financial year, and on an ad hoc basis as required, the performance of each PM is calculated, tabled, and reviewed.

No 'orphan' position can exist in the portfolio; every stockholding must have a PM accountable for it at all levels.

The macro backdrop is assessed at each Investment Committee Meeting (ICM). During the meeting, each PM chooses one of five ratings: Sell, Reduce, Hold, Accumulate, or Buy. These views are collated to form a group perspective, which drives cash and stock weightings over the coming fortnight. The view tends to be reasonably static, moving along the spectrum in steps rather than leaps. However, if the macro environment changes significantly, the group view and weightings may change rapidly.

Capital preservation remains the overarching consideration. Each of the three PMs and 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 Manager employs several structures and characteristics to limit downside risk, with capital preservation as the primary focus. These include no gearing, no use of derivatives, no currency or emerging market risk, no short selling, and a high cash weighting that can reach up to 80%. The portfolio is diversified across 50-60 stocks and is benchmark-unaware, avoiding coercion into high-risk companies or sectors.

Katana Asset Management (KAM) utilises three quantitative risk management tools:

1. Bloomberg Portfolio Analytics (conducted six-monthly and on an ad hoc basis) to analyse sector and market capitalization concentrations, attribution, portfolio characteristics (including valuation demographics and debt metrics), Value at Risk (VaR), and other risk demographics.
2. Portfolio Management System (reviewed fortnightly) to monitor stop-loss percentages, absolute loss levels, stock weightings, and portfolio characteristics, especially yield and valuation.
3. Excel Spreadsheets (updated six-monthly and as required) to track PM performance over various timeframes, portfolio performance, individual stock performance, review PM stock selection attributes, and conduct bespoke risk modelling projects.

The Fund does not have direct foreign currency exposure, so currency hedging is not necessary.

Investment Process

Research
and Portfolio
Construction
Process

...continued

Material Risks

Material risks which are associated with the Fund include:

Investment Manager Risk: Risk that arises from the potential for the investment manager's decisions to adversely affect the fund's performance. It includes the risk that the manager may not execute the investment strategy effectively, make poor investment choices, or fail to respond appropriately to changing market conditions. The fund's performance is heavily dependent on the skills and judgment of the investment manager.

Market Risk: This is the risk of losses in the fund's investments due to market fluctuations. Market risk can be influenced by various factors such as economic conditions, interest rates, political events, and overall market sentiment. Since the fund invests in equities, it is exposed to the volatility and uncertainties inherent in the stock market.

Cash drag risk: risk that holding a significant portion of the portfolio in cash or cash equivalents may lead to lower overall returns, especially in a rising market. While cash holdings can provide liquidity and reduce risk, they can also act as a drag on performance if the market is performing well and the cash is not able to generate Australian share market like.

Investment Specific Risk: the potential for individual investments within the portfolio to perform poorly due to factors specific to those investments. It includes risks related to the financial health, management, and operations of the companies in which the fund invests. Poor performance of a single investment can negatively impact the overall portfolio, especially if the investment represents a significant portion of the fund.

Please see PDS for a full list of risks associated with investing in this fund.

Portfolio Characteristics**Portfolio Biases/Preferences**

The fund can display sector and size biases due to the managers investment philosophy and process.

Portfolio Turnover

This is a high turnover strategy (typically around 100%+ 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) (AFS License Number 288412), 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 managers Romano Sala Tenna, Brad Shallard, and Giuliano Sala Tenna. Katana Asset Management is also the investment manager of Katana Capital Ltd a listed investment company (LIC) which was listed on the 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

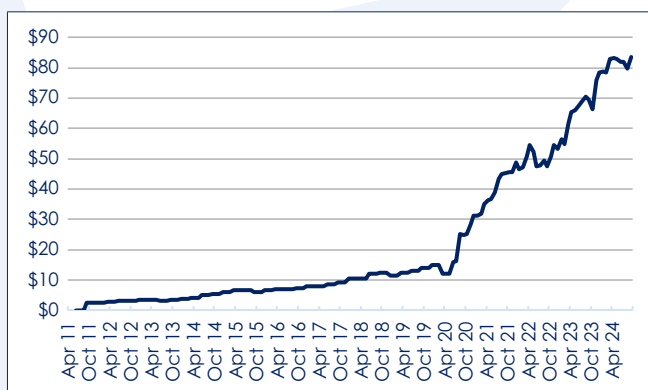
Funds management businesses rely on the operational capabilities of key counterparties. A critical element is the ability of the Responsible Entity to monitor operational performance and to meet the regulatory and statutory responsibilities required. For any investment fund,

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-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
Jun-24	0.06

Name	Responsibility / Position	Location	Years at Firm	Years in Industry
Romano Sala Tenna	Portfolio Manager	Perth	21.0	28.0
Brad Shallard	Portfolio Manager	Perth	21.0	29.0
Giuliano Sala Tenna	Portfolio Manager	Perth	15.0	27.0
Charuni Godakanda	Trainee Analyst	Perth	0	0

Investment Team

The Katana Asset Management (KAM) investment team consists of three portfolio managers, each with nearly 30 years of 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 years later, and together, the three PMs account for a very stable portfolio management team. Hendrik Bothma who joined the business in February 2020 to assist the three portfolio managers with their security research analysis departed in August 2024 to pursue an opportunity outside the industry.

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 collective performance of fund and Individual performance of each PM	Six monthly	4 Investment Committee Members
Strategy Meeting	Review business strategy	Six monthly	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
31-Aug-24	Hendrik Bothma	Analyst	New Opportunity outside the industry

Additions			
Date	Name	Position / Responsibility	Previous Position / Employer
15-Mar-24	Charuni Godakanda	Trainee Equity Analyst	New to the Industry

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 act 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%	0.96%
Expense Recovery/Other Costs % p.a.	–	–
Performance Fee %	11.00%	5.71%
Total Cost Ratio TCR % p.a.	1.26%	1.18%
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.

** Peer average is based on data provided by SQM's data provider. SQM is not responsible for any errors or omissions.

Management Fee

The management fee includes GST and is net of any applicable Reduced Input Tax Credits (RITC). The Management Fee includes the Responsible Entity fees as well as the investment manager fees.

Performance Fee

The Fund does not charge a performance fee

OR

There is a performance fee charged as follows:

- 11.0% (inc gst) 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 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 0.11% cost**. (i.e. 11.00% 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 14 basis points higher than the peer group average.*
- *The Total Cost Ratio (TCR) is 1.23% p.a., which is 5 basis points higher than the peer group average.*

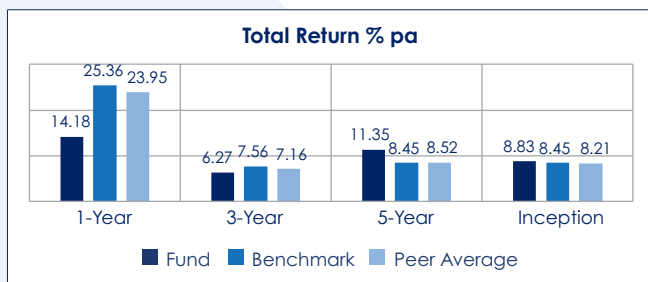
Risk/Return Data to 31 October 2024							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund	-0.46	1.00	0.87	14.18	6.27	11.35	8.83
Benchmark	-1.33	2.49	8.10	25.36	7.56	8.45	8.45
Peer Average	-0.22	5.03	7.57	23.95	7.16	8.52	8.21
Alpha	0.87	-1.49	-7.23	-11.18	-1.29	2.90	0.37
Metrics	1-Year	3-Year	5-Year	Inception			
Tracking Error (% p.a.) - Fund	6.04	4.51	5.45	6.08			
Tracking Error (% p.a.) - Peer Average	7.91	8.89	7.82	8.41			
Information Ratio - Fund	-1.85	-0.29	0.53	0.06			
Information Ratio - Peer Average	-0.20	-0.10	-0.03	0.00			
Sharpe Ratio - Fund	1.04	0.26	0.54	0.47			
Sharpe Ratio - Peer Average	1.89	0.28	0.39	0.45			
Volatility - Fund (% p.a.)	9.31	12.62	17.49	13.67			
Volatility - Peer Average (% p.a.)	11.24	15.12	17.36	14.73			
Volatility - Benchmark (% p.a.)	9.73	14.04	16.83	13.48			
Beta based on stated Benchmark	0.77	0.85	0.99	0.91			

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

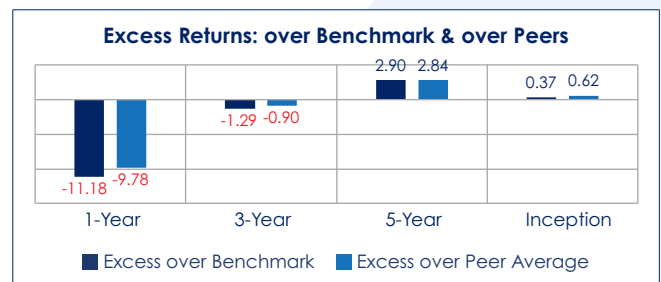
Quantitative Insight¹

Note: Unless otherwise stated, all return and risk data reported in this section are **after-fees** and for **periods ending Oct-2024**.

Returns



Excess Returns (Alpha)



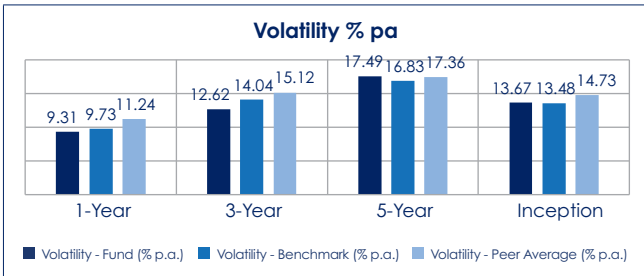
The Fund has displayed mixed performance across the observed periods when compared with benchmark and peers. Significant underperformance in the last 12 months has impacted the three-year returns with 5-year and since inception returns remaining ahead of both the benchmark and peer group.

The **return outcomes**, as described above, are in line with the PDS objective and are consistent with SQM's expectations for the Fund relative to its fee level and volatility when looking at the longer-term performance.

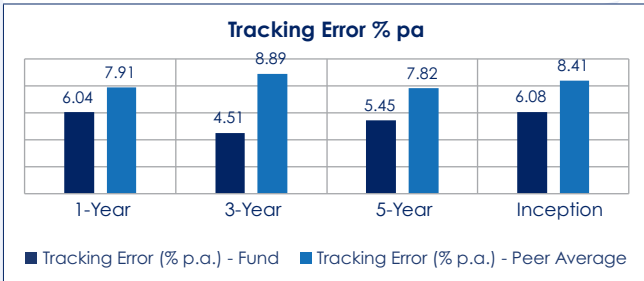
The significant underperformance in the last 12-months has had significant impact on the fund's longer term performance relative to both peers and the benchmark. The underperformance was driven by significant cash exposure which was a strategic decision in anticipation of potential economic weakness and was also impacted by weakness in lithium stocks and a lack of exposure to Financials which have done particularly well.

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 around than benchmark and peers.



The Fund's **tracking error** (annualised standard deviation of monthly **excess** returns) has tended to be lower than peers.

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

Drawdowns

Drawdown Summary			
Drawdown Size (peak-to-trough)			
	Fund	Bench	Peers
Average	-4.95%	-6.20%	-6.82%
Number	20	20	20
Smallest	-0.01%	-0.77%	-0.11%
Largest	-26.64%	-27.33%	-31.98%
Length of Drawdown (in months)			
	Fund	Bench	Peers
Average	5.7	6.3	7.9

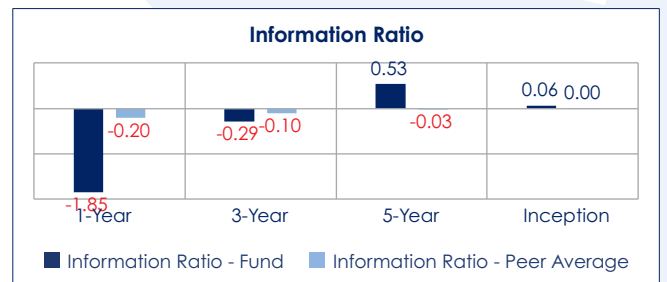
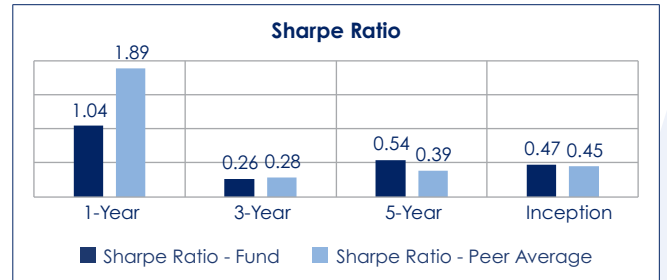
Length of Drawdown = time from peak to trough and back to the previous peak level

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

Upside/Downside Capture

	Downside Capture		Upside Capture	
	3 years	Inception	3 years	Inception
Fund	76.9%	75.9%	79.0%	87.1%
Peer Avg	83.3%	81.2%	88.4%	88.6%

Risk-Adjusted Returns



The Fund's risk-adjusted returns (as measured by Sharpe and Information ratios) have been impacted by the significant underperformance in the last 12 months but, over the longer term, have tended to be better than the peer average.

Correlation of Fund to Asset Classes

Market	3 years	Inception	Market Indexes
Aust Bonds	+42.2%	+6.9%	Bloomberg AusBond Composite 0+Y TR
Aust Equity	+94.4%	+88.8%	S&P/ASX 300 TR
Global Bonds	+51.1%	+24.5%	Bloomberg Global Aggregate Hdg AUD
Global Equity	+53.0%	+46.3%	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 of 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-24		
Rank	Date	Market	Fund	Difference
1	Mar-20	-20.83%	-21.13%	-0.30%
2	Jun-22	-8.97%	-8.54%	+0.42%
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%	-0.79%
6	Jan-22	-6.45%	-4.77%	+1.68%
7	Sep-22	-6.29%	-4.85%	+1.45%
8	Sep-11	-6.28%	-8.01%	-1.73%
9	Oct-18	-6.16%	-5.86%	+0.30%
10	Jan-16	-5.45%	-4.85%	+0.60%
Totals		-82.63%	-77.11%	+5.52%

			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 modest **defensive characteristics** in the face of extreme Australian equity tail risk.

Snail Trail

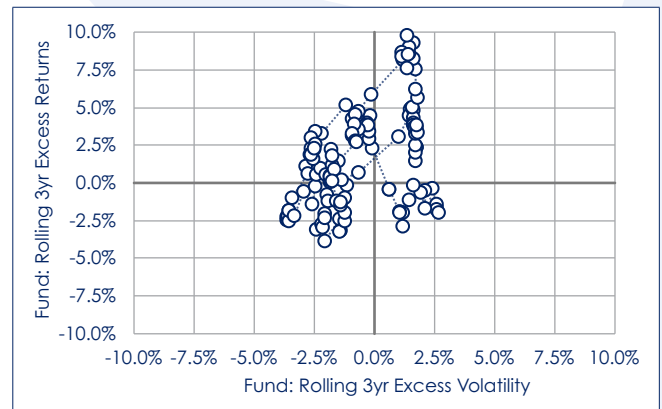
The snail trail chart and tables below show the combination of the Fund's rolling 3-year excess returns and volatility.

There are 127 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	46	36	82
Lo-Return	29	16	45
Total	75	52	127

127 rolling 3-year observations			
% of Total	Lo-Vol	Hi-Vol	Total
Hi-Return	36.2%	28.3%	64.6%
Lo-Return	22.8%	12.6%	35.4%
Total	59.1%	40.9%	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.

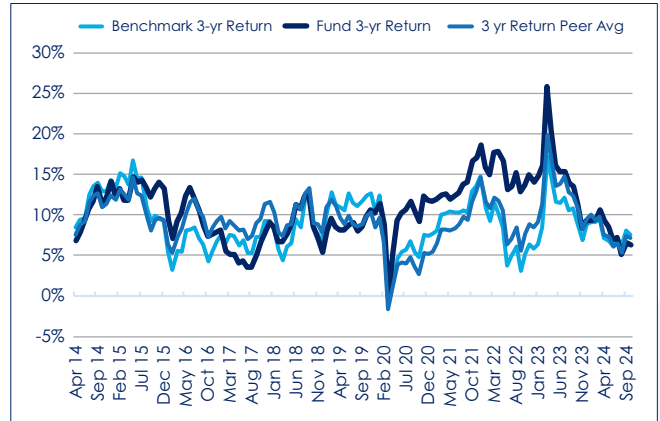
Annual Returns

Year	Fund	Benchmark	Peer Avg	vs. Bench	vs. Peers
2012	+10.86	+18.84	+16.65	-7.98	-5.79
2013	+18.52	+19.65	+14.25	-1.14	+4.27
2014	+13.17	+5.02	+7.50	+8.15	+5.68
2015	+8.19	+3.78	+5.72	+4.41	+2.47
2016	+2.45	+11.65	+15.82	-9.20	-13.37
2017	+16.86	+12.47	+14.71	+4.39	+2.15
2018	-2.17	-3.53	-5.30	+1.37	+3.13
2019	+17.33	+24.06	+17.98	-6.73	-0.66
2020	+21.71	+3.64	+4.94	+18.07	+16.77
2021	+16.97	+17.74	+24.08	-0.77	-7.10
2022	+4.09	-2.96	-3.72	+7.05	+7.81
2023	+7.42	+12.98	+8.61	-5.56	-1.19
Oct-24	+5.28	+10.92	+12.54	-5.63	-7.25

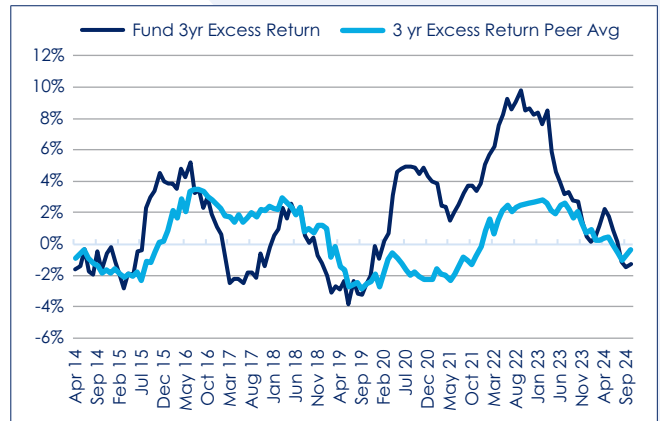
2024 data = 10 months ending Oct-24

Return and Risk

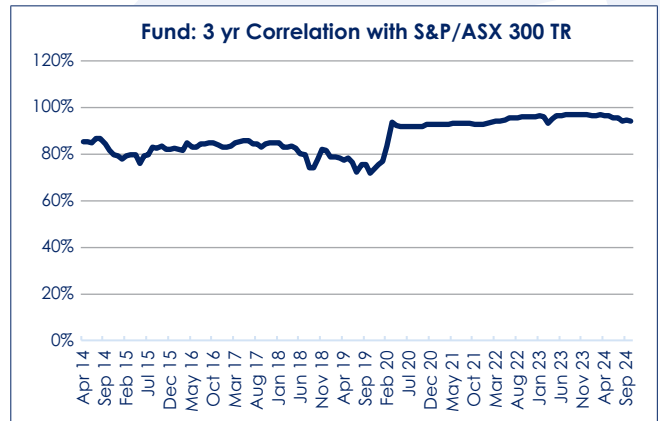
Rolling Returns



Rolling Excess Returns

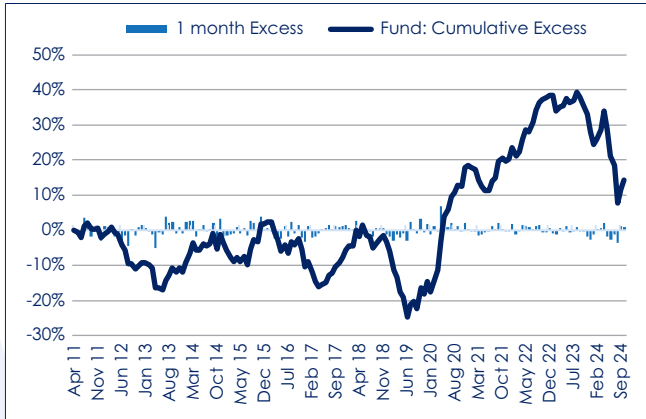


Rolling Correlation

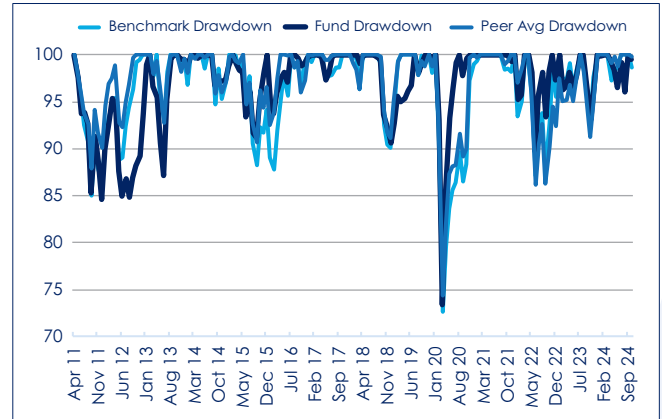


Return and Risk

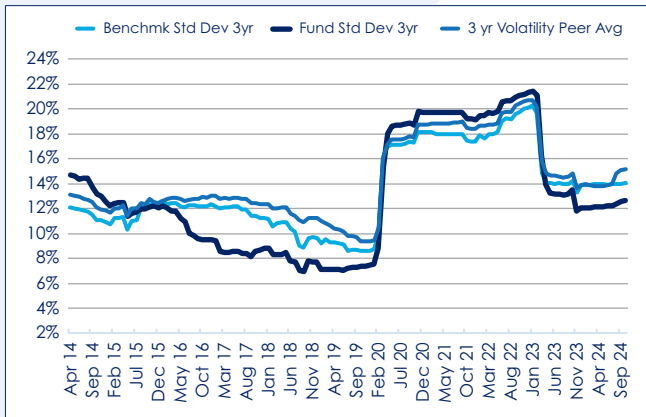
Cumulative Excess Returns



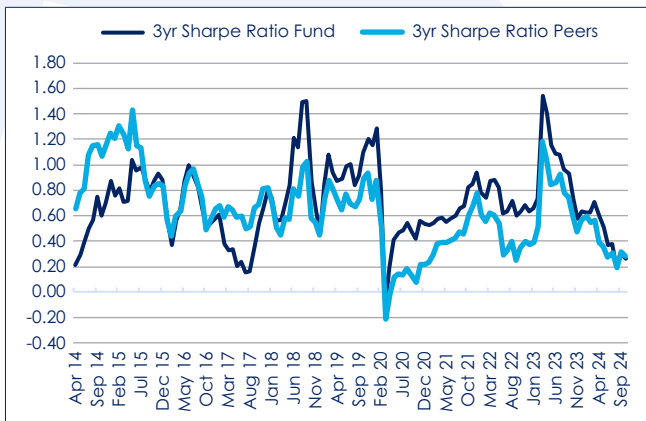
Drawdowns



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 Top 500	Target = 1.0%, Lower Bound = 0.5%, Upper Bound = 3.0%
Cash Weighting	Target = 15-30%, Lower Bound = no minimum, Upper Bound = 80%
Australian Listed Securities	Target = 70-85%, Lower Bound = 20%, 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
MIN	Mineral Resources	Materials	6.21	AUS
WHC	Whitehaven Coal	Energy	3.62	AUS
WES	Wesfarmers	Consumer Discrtnry.	3.56	AUS
CSL	CSL	Health Care	2.86	AUS
MQG	Macquarie Group	Financials	2.48	AUS

* As reported to SQM on the return of the RFI – 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.

Although all reasonable care has been taken to ensure that the information contained in this document is accurate, neither SQM Research nor its respective officers, advisers or agents makes any representation or warranty, express or implied as to the accuracy, completeness, currency or reliability of such information or any other information provided whether in writing or orally to any recipient or its officers, advisers or agents. In compilation of this report and rating, SQM Research has significantly relied on written and verbal statements made from the product issuer. While SQM Research makes enquiries on such statements, it is not able to verify the accuracy of all information received.

SQM Research and its respective officers, advisers, or agents do not accept:

- any responsibility arising in any way for any errors in or omissions from any information contained in this document or for any lack of accuracy, completeness, currency or reliability of any information made available to any recipient, its officers, advisers, or agents; or
- any liability for any direct or consequential loss, damage or injury suffered or incurred by the recipient, or any other person as a result of or arising out of that person placing any reliance on the information or its accuracy, completeness, currency or reliability.

This document contains statements which reflect current views and opinions of management and information which is current at the time of its release but which may relate to intended or anticipated future performance or activities. Such statements and financial information provided have been estimated only and are based on certain assumptions and management's analysis of the information available at the time this document was prepared and are subject to risk and uncertainties given their anticipatory nature. Actual results may differ materially from current indications due to the variety of factors.

Accordingly, nothing in the document is or should be relied upon as a promise or representation as to the future or any event or activity in the future and there is no representation, warranty or other assurance that any projections or estimations will be realised.

By accepting the opportunity to review this document the recipient of this information acknowledges that:

- it will conduct its own investigation and analysis regarding any information, representation or statement contained in this or any other written or oral information made available to it and will rely on its own inquiries and seek appropriate professional advice in deciding whether to further investigate the business, operations and assets of the business; and
- to the extent that this document includes forecasts, qualitative statements and associated commentary, including estimates in relation to future or anticipated performance, no representation is made that any forecast, statement or estimate will be achieved or is accurate, and it is acknowledged that actual future operations may vary significantly from the estimates and forecasts and accordingly, all recipients will make their own investigations and inquiries regarding all assumptions, uncertainties and contingencies which may effect the future operations of the business.

In providing this document, SQM Research reserves the right to amend, replace or withdraw the document at any time. SQM Research has no obligation to provide the recipient with any access to additional information or to release the results of or update any information or opinion contained in this document.

Reproduction

SQM Research assessment reviews cannot be reproduced without prior written permission from SQM Research. Each assessment review completed by SQM Research is held under copyright. Extracts may not be reproduced.

Requests to reproduce or use an SQM Research assessment review should be sent to info@sqmresearch.com.au

Disclosure

SQM Research has no involvement in this fund or any of the organisations contained in the product disclosure statement. This assessment does not constitute an investment recommendation. It is designed to provide investment advisers with a third party view of the quality of this fund, as an investment option. SQM Research charges a standard and fixed fee for the third party review. This fee has been paid under the normal commercial terms of SQM Research.

Analyst remuneration is not linked to the rating outcome. Where financial products are mentioned, the Analyst(s) may hold financial product(s) referred to in this document, but SQM Research considers such holding not to be sufficiently material to compromise the rating or advice. Analyst holdings may change during the life of the report. The Analyst(s) certify the views expressed in the report accurately reflects their professional opinion about the matters and financial product(s) to which the report refers.

Analyst's Disclosure

- A. SQM and the Analyst have no material interest in financial products that are the subject of this research report;
- B. SQM and the Analyst have not received any benefits from the subject of this report. SQM may receive reimbursement for travel costs;
- C. the Analyst has no relationship nor provides any services to the subject of this report and its related entities;
- D. the Analyst met with the management of the financial product that is the subject of this report and may have attended a site visit; and
- E. there are no other relationships with the subject of this report and its related entities.

SQM Research, under its Australian Financial Services Licence (Licence number 421913) operates under the provisions set down under ASIC Regulatory Guide 79.

Please note a Financial Services Guide and a [Conflicts of Interest policy](#) is available on our website. Subscribers to SQM Research receive access to the full range of fund research, ratings and fund updates.

This report has been prepared for subscribed financial advisers and wholesale clients only.



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