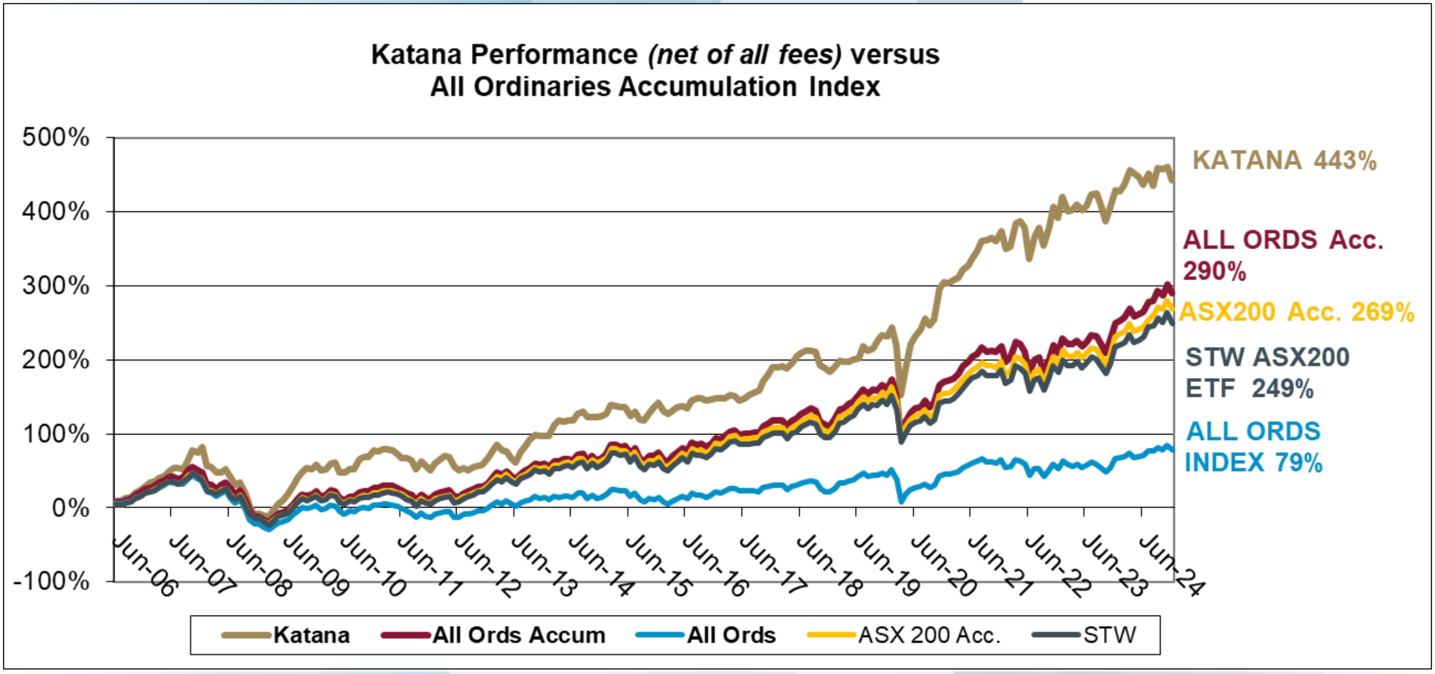
MANAGED FUND

Katana Australian Equity Fund

KATANA ASSET MANAGEMENT LTD

Performance at 31 December 2024	1 Month	1 Year	3 Years	5 Years	(Inception) 19 Years
Katana Investment Portfolio (net of all fees)	-3.26%	2.58%	4.68%	0.10%	9.31%
ASX All Ordinaries Accumulation Index	-3.07%	11.44%	6.91%	0.08%	7.42%

Alignment and Respect
Our team is passionate about what we do because our futures ride alongside those of our investors. Currently, staff interests comprise in excess of 20% of the total funds under management across both investment trusts.



Source: Katana Asset Management, strategy inception was January 2005. Fund net returns are post fees, pre tax using redemption prices and assume reinvestment of distributions. Dated 31/12/2024. Past performance is not an indicator of future performance

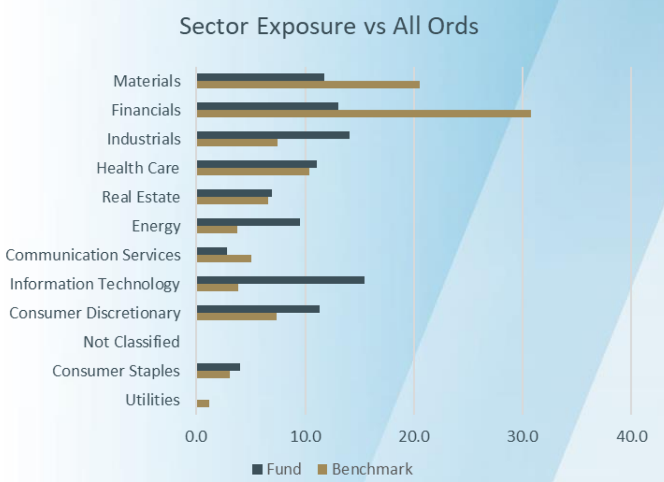
Key contributors:

1. **Technology One Ltd** High-quality compounder with long term growth runway
2. **Mineral Resources Ltd** Iron ore prices firmed up and lithium prices appear to have bottomed. The storm engulfing the MD appears to be passing.
3. **Karoon Energy Ltd** Bargain hunting from heavily oversold position combined with slight recovery in oil price

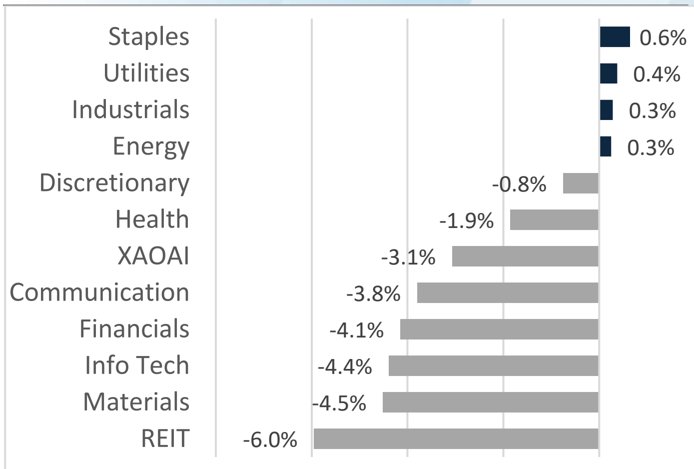
Key detractors:

1. **HMC Capital Ltd** after the share price ran over 30% the DigiCo IPO failed to deliver a positive listing, so the “hot money” exited the HMC register
2. **Life360 Inc** The share price rallied over 30% on the back of potential inclusions in the USA market. This failed to eventuate and the index money positioning for the inclusion sold off 360
3. **CAR Group Limited** The share price rose over 20% in early December but was sold off with other tech stocks by month’s end

Top 10 Holdings	Weight
Mineral Resources Ltd	4.36%
CSL Ltd	4.30%
Wesfarmers Ltd	4.09%
Technology One Ltd	3.98%
Macquarie Group Ltd	3.38%
Whitehaven Coal Ltd	3.08%
ResMed Inc	2.81%
Wisetech Global Ltd	2.46%
IPH Ltd	2.36%
Woolworths Group Ltd	2.33%
Total Top 10 Holdings	33.15%
Total Cash	12.99%



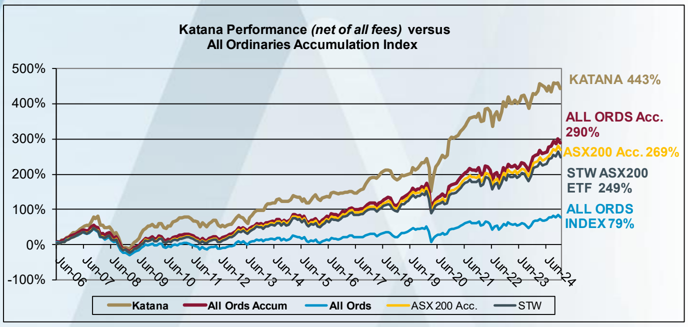
Key Facts	
APIR Code	KTA0002AU
Minimum Application	$25,000
Asset Allocation	Australian equities 65-95%; Cash 5-35%



Market Commentary

The Katana Australian Equity Fund (KAEF) recorded its 19th full year in operation in December 2024. Unfortunately, this was the 2nd worst year (in terms of comparative performance), since the fund's inception in December 2005.

One of the advantages of investing in a fund such as KAEF, is that there is a very long-term track record. This helps us to remember that across the investing journey, there are periods of under-performance and indeed out-performance. The summation of these periods is of course what is of essence. For KAEF, the journey has been a beneficial one for longer term unit holders.



Of course this does not address the critical questions as to what happened in 2024, and the outlook from this juncture. To address these items, we need to review how the following points have impacted performance and why we are (cautiously) optimistic for 2025:

1. Active versus Passive investing flows
2. The impact of Momentum trading
3. Portfolio Composition – especially Mineral Resources Ltd (MIN) and Resources more broadly.

Active versus Passive Investing Flows

Passive investing flows are based around a benchmark or index. Most commonly, passive flows are based on the market capitalisation of a company, such that the larger the company, the greater the proportion of money that is invested. As a simple example, if Commonwealth Bank of Australia (CBA) makes up ~10-11% of the ASX100, then every passive fund that invests based on that index, will invest 10-11% into CBA – irrespective of valuation or merit.

Passive flows into the Australian market appeared to accelerate dramatically in mid to late 2023. Whilst this is largely attributable to the rise of ETFs, these investment structures only had a modest impact. In reality, the much larger driver of passive flows has been our home-grown industry superannuation funds. The dramatic rise of industry super funds over the past decade together with the merger and aggregation of funds, has created a behemoth.

Industry super funds are now the largest marginal buyer by some size. As we can see from the table below, the top 5 funds alone make up $700bn in assets (as at Dec 2023).

Fund name	Total assets ($ billion)
AustralianSuper	$ 311
Unisuper	$ 127
Hostplus	$ 97
Cbus	$ 86
HESTA	$ 79
Total Assets	$ 700

But due to the sheer scale of the industry superannuation funds, the vast majority of their flows are restricted to large cap companies, and generally based around index weighting. As we outlined in our November update, a clear example of the impact of large-scale passive investing can be seen with CBA. CBA is currently valued at 3.4x price to book value versus 1.5x, which is the approximate long-term average for the big 4 banks. The yield has fallen to below 3…for a bank stock! The valuation now stands at 3 standard deviations from the long-term average, confirming that the increase in share price has been driven by PER expansion as opposed to earnings growth (refer to graph on the next page).

So how do we overcome the impact of passive investing in the year ahead? This is probably the most difficult of the 3 issues to overcome, as it is clear that we have undergone a structural change in the way that stocks are priced, and in a very short timeframe. Our thinking will evolve as the year unfolds, but what is evident at this point is that:

1. Larger cap companies will attract a growing premium simply because they are large
2. Passive investing may feed into momentum trading (refer below) and further exaggerate the valuations that the market is prepared to pay for larger cap companies.

Countering these points, is the fact that a significant proportion of the impact from Passive investing is now in the rearview mirror. From mid 2023 right through 2024, there was a noticeable impact from passive flows. Whilst it will still have an impact in 2025, it is likely to be less pronounced. This combined with our greater awareness and focus on the recipients of these flows, provides a cautious optimism that their impact on KAEF's relative performance will be reduced in the year ahead.

Momentum Trading

There are broadly 5 investment styles. Momentum investing is a style that is based on investors buying stocks because the price of those stocks is going up. The price signal is virtually the sole driver, with little or no consideration given to valuation, quality or earnings growth.

Momentum investing is often termed 'greater fool theory', as it relies upon the notion that irrespective of what price you pay for an asset, there will be somebody who will pay a higher price. Momentum investing is predicated on new buyers driving the price higher. This higher price then attracts new buyers and so the cycle continues…until new buyers are exhausted.

During 2024, momentum investing recorded its best year since data commenced in 2002. In the Australian market, this has been typified with companies such as WTC, XRO and PME.

Stock	FY25 Consensus PER	FY25 Consensus Dividend Yield
Wisetech Global Ltd	113x	0.2%
Xero Ltd	134x	0.0%
Pro Medicus Ltd	238x	0.2%

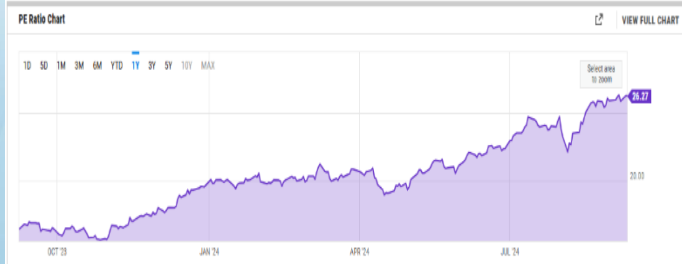
Momentum trading is the most dangerous of all styles, as there is normally little or no valuation support. When the music stops, price momentum works in reverse, and the swings can be substantial and rapid.

Looking ahead to 2025, we believe that a significant proportion of the 'investors' who are inclined to buy such companies, have now largely done so. Whilst we are not anticipating any major collapse and may see incremental gains, we are also not anticipating the enormous price increases that we have witnessed over the past few years. This provides optimism that it will not detract from KAEF's comparative performance as in recent years, and may provide a tailwind should this trade start to unwind.

Portfolio Composition

The best performing sector in 2024 was Technology, with an extraordinary rise of +48.5%. The KAEF portfolio was well exposed to this sector with key holdings in Life360 Inc (360), Block Inc. (SQ2), Technology One Ltd (TNE) as well as exposure to a host of smaller positions.

However, where the portfolio suffered was with the tactical weighting of Materials over Financials (i.e. banks). These 2 sectors combined make up over 51% of the Australian market. Commencing in May 2022, Australian interest rates rose 13 times in 15 months – the largest percentage increase on record. It was anticipated that the combination of reduced credit growth (due to higher rates), increased bad and doubtful debts and the removal of the TFF (Term Funding Facility) would at best flatline bank earnings and at worst see bank prices retrace.
In effect, this part of the analysis proved correct. However, due to Passive investing exacerbated by Momentum trading, bank stocks went on a tear, led by CBA.



As we can see from the above chart, it was PER expansion not earnings growth that drove the CBA share price (as discussed above). Sentiment is a fickle driver of prices, but even the most optimistic of investors will struggle to justify the current bank valuations. As we head into 2025, we anticipate a degree of mean reversion with bank stock prices. Compounding this underperformance was the fund's positioning in Materials, which performed poorly during 2024 with a return of -14.9%. This positioning was based on deep valuation support, especially high free cashflow levels and market leading dividend yields. However the fear of a China slowdown disproportionately impacted share prices, particularly in the back half of the year. Looking forward, we see compelling value across our Material holdings. We will continue to be patient and wait for the market to recognise the strong cashflows, dividend yields and growth opportunities. There were of course many smaller decisions that added or subtracted from the fund's total performance. However, the third point noteworthy of discussion centred on the weighting in Mineral Resources Limited (MIN), which was the fund's largest weighting holding during 2024. MIN suffered the year from hell, with governance issues, declining commodity prices and record debt all converging to create the perfect storm. However, MIN has been one of the very best performers in terms of total shareholder return (TSR) for nearly 2 decades. Investors need to remember that the record debt was a product of record growth, and the Onslow iron ore project will be fully operational by mid 2025. This is the largest and most lucrative project in the company's long history. We expect the substantial cashflows to deleverage the balance sheet and provide capital for further growth and shareholder returns. The bad news is in the price. At some point during 2025, we anticipate that MIN's price will recover strongly as investors re-focus on the company's high level of growth.

Management Commitment

Throughout 2024, the staff and management continued to add to their holdings in the fund. At the close of 2024, management and staff holdings were the highest on record. The management company is 100% owned by staff. These factors provide a high level of alignment and ensure that the manager is focussed on long term, sustainable returns. Additionally, there is no debt, derivatives or unlisted investments. The portfolio is highly diverse and averages ~60 individual holdings. These factors also reduce the risk with which returns are achieved.
2024 has been a difficult year. As always, Management are available for a personal review or phone call at any time.
Thank you for your support. We look forward to providing a further detailed update in due course.

Best regards

Romano Sala Tenna on behalf of the team at Katana Asset Management.