Katana Capital Limited
30 June 2026 Investment Report

Overview

Katana Asset Management Ltd (‘The Manager’) has completed a report on the performance of Katana Capital Limited’s (Katana) portfolio for the 12 months to 30 June 2026. The Manager is pleased to announce that the Fund generated a gross investment return of **17.98%** versus 2.43% for the All Ordinaries index. This represented an extraordinary gross investment outperformance of **+15.55%** (before expenses).

Year Ending	Katana Gross Investment Return	All Ords Index
2006	9.20%	6.91%
2007	49.05%	25.36%
2008	-6.41%	-15.49%
2009	-23.57%	-25.97%
2010	24.54%	9.55%
2011	19.10%	7.75%
2012	-11.19%	-11.25%
2013	8.84%	15.47%
2014	26.78%	12.70%
2015	-1.57%	1.28%
2016	4.98%	-2.58%
2017	6.23%	8.54%
2018	26.27%	9.12%
2019	-0.43%	6.51%
2020	9.30%	-10.42%
2021	32.82%	26.39%
2022	1.13%	-11.06%
2023	19.42%	9.71%
2024	9.21%	8.27%
2025	10.63%	9.47%
2026	17.98%	2.43%

Since inception some 20 years ago, the Fund's gross investment returns have outperformed the All Ordinaries index by an average of 7.14% per annum (past performance is no guarantee of future performance).

Average (2006–2026)	
Katana Gross Investment Return	**11.08%**
All Ordinaries Index	**3.94%**
Gross Outperformance	**7.14%**

2026 Financial Year Review

The 2026 financial year will be remembered as a year of rapidly pivoting narratives. The year opened with markets fixated on the potential fallout from draconian US tariffs. But like all headlines, this quickly receded as attention rotated in turn to the AI hyperscalers, a historic surge in precious metals, the return of domestic interest rate rises, US policy risk, and ultimately the sudden eruption of war in the Middle East. Against this constantly shifting backdrop, the Fund delivered one of its strongest years of relative performance in the past two decades.

Notably, the entire return of the Australian equity market for FY2026 was generated in the first two months of the year. From the end of August, the index effectively tracked sideways, closing out June at almost the identical level. For active managers, this created a rich environment. Beneath a flat index, sector and stock dispersion was pronounced.

The year began exactly as we had positioned for. The long-awaited rotation out of high-priced financials and overvalued momentum names – and into the neglected materials, value and quality segments – finally arrived. Long-term holdings that had been ignored by the market for an extended period were re-rated in quick succession, and the Fund materially outpaced the benchmark in July, August and September. Importantly, this outperformance was not the product of some radical pivot in strategy or investment philosophy, but rather a patient and diligent belief in the process that has underpinned the portfolio's construction for over two decades.

Front and centre in the first half was Electro Optic Systems (EOS). As armies around the world cross the automated warfare Rubicon, the market began to grasp EOS's unique position in drone warfare technology. The stock tripled in value between June and October, becoming only the fourth stock in the strategy's 20-year history to exceed a 5% portfolio weighting. As we cautioned at the time, 'the speed with which the stock price has rerated also means that drawdowns are likely to be rapid and aggressive' – and so it proved, with the stock retracing some 40% during October. The team used the exuberance to lock in sizeable profits, to the point where the realised gains exceeded the entire purchase cost of the position.

Through the middle of the financial year, the Manager adopted a more defensive posture. Strong share price gains prompted broad profit-taking, and cash was rebuilt to above 20% – beyond our preferred ceiling – as valuations across sections of the market appeared stretched. Calendar 2025 nonetheless closed with the Fund strongly ahead of the benchmark, with the December quarter capping a stellar 6-month period.

February delivered the year's greatest test of conviction. The banking sector re-rated significantly and rapidly. CBA rose 16.91% in a single month to regain its mantle as the largest stock on the ASX, approaching 12% of the entire index. NAB rose 13.03%, Westpac 9.58% and ANZ 9.1%. The sheer speed of the move caught the vast majority of active managers by surprise – including ourselves. Our deliberate and sizeable underweight in the sector resulted in a notable underperformance during the month.

In late February, war erupted in Iran. The unimaginable scale of the conflict had a sudden and pronounced impact on markets. As the flow of oil and gas through the Strait of Hormuz was restricted, the oil price spiked, re-igniting inflation and forcing the hand of central banks globally. The All Ordinaries Accumulation Index fell 7.30% in March – amongst the twenty largest monthly declines of the past 50 years. The Fund fared a little worse. At the same time, the Reserve Bank of Australia (RBA) delivered successive rate rises in February, March and May, rapidly altering investor positioning.

Historical context proved invaluable. Recognising March as a rare, extreme-left-tail month from which markets inevitably rebound, the Manager deployed capital into the drawdown. The Fund entered the conflict with over 20% in cash. By the end of March this had been reduced to approximately 12%, with a focus on the oversold gold and technology sectors. The decision was rewarded swiftly: roughly half of the drawdown was recovered in the first week of April alone, and the Fund posted strong gains through April and May. May in particular vindicated two long-held viewpoints, with the Materials sub-index rising 10.5% whilst Financials declined by nearly 3%.

The year closed quietly, with June broadly flat. Beneath the surface however, the Fund finished the year well positioned: ahead of the benchmark over every timeframe since inception, holding an elevated cash position, and stocked with companies trading below our assessed valuations.

Top Contributors for FY2026

In FY2026, the top five contributors to the Fund's performance were **Electro Optic Systems (EOS), GenusPlus Group (GNP), Mineral Resources (MIN), Forrestania Resources (FRS) and Life360 (360)**. Each of these businesses was selected based on deep fundamental analysis, strong alignment with secular trends, and clear valuation upside at the time of investment.

Electro Optic Systems (EOS) was the standout performer of the year. Our preferred defence contractor on the ASX entered FY2026 at the commencement of a long contracting cycle, with unique exposure to the rapidly emerging drone warfare arena. The contract cycle accelerated throughout the year. December alone brought three large contracts worth up to US$80m, US$21m and US$33m respectively. The stock reached a record high of $11.20 in January. Having tripled in the first four months of the year, the position was actively managed. Sizeable profits were crystallised into strength, leaving the holding free-carried. Further sales were undertaken over the following months and the remaining holdings were largely exited by financial year end.

GenusPlus Group (GNP) delivered a second consecutive year of exceptional performance and finished FY2026 as the Fund's largest holding. GNP represents one of the largest positions the Manager has taken in two decades. As one of the purest exposures to the re-wiring of the nation, GenusPlus compounded a powerful long-term thematic with excellent operational execution. The stock experienced consistent contract wins throughout the year and announced a number of earnings upgrades. The acquisition of MPC Kinetic at the back end of the financial year is highly EPS-accretive and will provide a runway for earnings growth into the foreseeable future.

Mineral Resources (MIN) completed a satisfying redemption arc after featuring amongst the largest detractors in FY2025. The company executed the ramp-up of its generational Onslow Iron Ore Project to nameplate capacity, received $200m from its JV partner, and completed a partial asset sale that ameliorated balance sheet concerns. This coincided with a re-rating of more than 30% in the lithium price, materially lifting the profitability of the Mt Marion and Wodgina operations. Interim results beat market expectations. As fears around peak debt subsided, broker upgrades ensued. The Fund's long-standing conviction – maintained through the depths of FY2026 – was ultimately rewarded with a strong rerating.

Forrestania Resources (FRS) is an emerging gold explorer and as such not typical of what the Fund would normally purchase. However, FRS offered a rare combination of a well-known and highly rated management team, a clear strategy and a pathway to production. FRS rapidly expanded the resource base through multiple acquisitions throughout the year. The subsequent purchase of the Lake Johnson processing plant created a credible path to gold production. On our current projections, we expect to see the plant in operation by December 2026, which is likely to provide the next rerating.

Life360 (360) continued to justify our multi-year conviction. The company beat market expectations with its FY25 result and became fully self-funding with multiple revenue sources including its new advertising pillar. The stock closed out the financial year with record Q1 results featuring 38% revenue growth and an upgraded full-year guidance. The journey however was far from linear. The stock was caught up in successive technology sell-offs mid-year. Despite the gyrations in sentiment, the underlying metrics remained strong throughout, and the share price rebounded emphatically into June.

Together, these five positions reflect the Fund's core principles: investing with conviction, focusing on valuation and quality, and staying patient through market dislocations. Each contributed materially to FY2026 outperformance and several continue to offer long-term upside.

Main Detractors for FY2026

On the flipside, the largest detractors were **WiseTech Global (WTC), Technology One (TNE), Bapcor (BAP), ResMed (RMD), and CSL Ltd (CSL)**.

WiseTech Global (WTC) bore the brunt of the mid-year technology sell-off. As one of the highest-multiple names on the ASX, WTC entered the year priced for perfection. The combination of successive domestic rate rises, a rotation towards resources and a broader de-rating of the AI-adjacent technology complex left little room for error. The decline was driven overwhelmingly by multiple compression rather than any deterioration in the underlying business. The CargoWise platform remains the global standard in logistics software, with the recurring revenue, retention and pricing power that defines a genuine compounder. The position detracted meaningfully in FY2026, but the long-term thesis remains intact.

Technology One (TNE), a long-term Fund holding and a top contributor in FY2025, gave back part of its gains despite the underlying business performing strongly. The company upgraded its earnings forecasts in February and appears to be embracing AI successfully, both to expand its product offering and to protect margins. However, as with WTC, a premium valuation proved a headwind in a rising rate environment. This saw the stock de-rated through the technology sell-offs in the middle of the year. TNE remains among the highest quality long-term compounders on the ASX, and the holding has been maintained.

Bapcor (BAP) was aggressively sold down as ongoing concerns around gearing levels resurfaced. We believe the market is discounting the company's strong position in a critical retail vertical, where demand for automotive parts is defensive across the cycle. The current weakness may well draw out potential bidders, who value the circa $2bn revenue pool. The Fund will continue to be patient in maintaining the position.

ResMed (RMD) was caught in the broadest healthcare selldown witnessed in more than two decades. Ongoing updates on weight-loss drugs re-ignited the GLP-1 narrative that the stock successfully looked through in FY2025. The weakness was further compounded by the sector-wide de-rating. However, the underlying business continues to perform, with its leadership in cloud-connected sleep health devices intact. Whilst part of the position has been trimmed, RMD remains in the top ten holdings as at the end of the financial year.

CSL Ltd (CSL) delivered a second consecutive disappointing year. A poor full-year result in August saw the Fund take a stop loss and progressively exit the position. The holding was subsequently rebuilt at materially lower levels, only for the stock to fall a further 19.10% in February following the sudden departure of the CEO and ongoing weakness in core plasma markets. Product development issues, increasing competition in the core IG market, repeated downgrades and tax loss selling into year-end compounded the decline. Trading on 14x past year's earnings moving to 13.8x FY27, CSL remains a high-quality, globally significant healthcare company. The Fund is looking to add to its holding once sentiment rebases.

Collectively, these underperformers share a common thread: four of the five are high-quality businesses that were de-rated by rising interest rates and sector rotation rather than by deteriorating fundamentals. Where conviction remains intact, positions have been maintained or increased, and the Fund remains confident in their medium-term prospects.

Strategic Outlook for FY2027

FY2027 begins with a macroeconomic landscape that has been reshaped over the past twelve months. Australia is now in a rate-rising cycle, with three increases delivered in quick succession. The inflationary impulse from elevated energy prices has yet to fully wash through. President Trump's sudden and unpredictable actions continue unabated. And the war in the Middle East continues to grind on. All of which are unfavourable for bottom-up stock performance.

However, the Manager does expect volatility to recede as hostilities in the Middle East are ultimately resolved. In due course, the other factors will also be addressed to varying degrees. In time, this will allow investors to once again focus on underlying company fundamentals.

Domestically, the housing market warrants close attention. Successive rate rises, combined with sudden and dramatic changes to negative gearing, have decimated auction clearance rates and sent a tremor through residential property markets. Residential property represents approximately 56% of Australian household wealth. By extension, a 10% decline in house prices is equivalent to a **50%** decline in the ASX or a **30%** fall in total superannuation balances. This dynamic has the potential to ripple through the broader economy and needs to be monitored closely.

Against this backdrop, the Fund remains deliberately underweight the banking sector, which looks particularly vulnerable at the current juncture. The February re-rating of bank equity valuations ran well beyond what earnings can sustain. The combination of rising funding costs, slowing credit growth and a softening property market are challenging headwinds. We therefore expect Financials to continue to underperform the wider benchmark in FY2027.

In contrast, the outlook for the resources sector remains constructive, albeit valuations have already rerated somewhat. The copper market is moving into structural deficit at a time of accelerating electrification demand. The Fund has built meaningful exposure through Capstone Copper Corp (CSC), BHP and more recently Firefly Metals Ltd (FFM). The rerating in the price of lithium has yet to be fully reflected in the underlying producers. The medium-term drivers of the gold price – de-dollarisation and US dollar devaluation – also remain firmly intact.

The Fund continues to see opportunities in the energy transition and the work to rewire the nation. Artificial Intelligence (AI) will also continue to be a major theme not just in FY2027 but well beyond. For the coming period, the Fund's focus will continue to be on those companies that are able to quickly deploy AI to their advantage. But this focus will change in coming years, as more and more business models are challenged and threatened.

The rise of index investing and passive momentum is a structural shift that is likely to feature again in FY27. Whilst it is not the primary decision for any purchase, it is increasingly important as a secondary consideration.

The recent Federal Budget changes also bring dividends back into the spotlight – especially those that are fully franked. 'Value' stocks normally have higher dividend yields. They have witnessed a resurgence in recent months, and we suspect that there may be more to play out.

At the sector level, we believe that few industries have a thematic as strong as healthcare. An ageing demographic, affluent middle class and rapid advancements in technology bode well for this sector. It has been a difficult space to invest in over the past 3 years, but in many respects this adds to its attractiveness as valuations have significantly contracted.

We also see continued momentum in the contractor space. In particular those that are focused on the electrification themes we highlighted above as well as companies with tangible exposure to the defence sector. Contracting is notoriously cyclical and it is brutal on investors who overstay the party. But we think the next 12 months (at least) continues to look robust.

Finally, whilst the Fund is currently underweight Consumer Discretionary, we are watching for green shoots. We believe that this sector may provide opportunities in the back half of the 2027 financial year.

Corporate activity is also likely to remain a feature of FY2027. The combination of a weak domestic currency, high private equity demand and depressed valuations across the mid- and small-cap segments of the market continues to point to a raft of activity. The portfolio holds a record number of companies that we believe are prime candidates to be acquired.

Finally, the Fund continues to renew itself. New positions were established late in the year in Generation Development Group (GDG) and Hansen Technologies (HSN). A pipeline of high-quality, high-growth companies is also on the radar. In some cases, valuations are now back within range. However, we are awaiting the technical price action to turn positive.

The Fund enters FY2027 with an elevated cash position, a highly diversified portfolio of more than 50 holdings, and a record of deploying capital decisively when opportunity is borne of volatility.

Closing Comment

The 2026 financial year validated the Fund's core philosophy: that disciplined, process-driven investing can deliver attractive outcomes, even in volatile environments. Patience with neglected holdings was rewarded emphatically in the first half. Our disciplined approach to taking profits was instrumental in protecting the resultant gains. And the willingness to deploy capital into the depths of the March drawdown positioned the Fund for the (inevitable) recovery that followed.

As markets continue to digest a complex array of macro variables – war, rates, property and politics – the Fund remains committed to its core process. The coming year presents both opportunities and risks, but with a strong research foundation, a patient mindset, and a clear thematic focus, the Fund is well placed to navigate what lies ahead.

Corporate

Katana Capital Ltd finished FY26 with 31,579,612 shares on issue. During the period from 1 July 2025 to 30 June 2026, 904,367 shares were bought back on market and were subsequently cancelled. The shares were acquired at an average price of $1.30 with the price ranging from $1.22 to $1.375 per share. The buyback also provided liquidity and increased the underlying net asset backing for all existing shareholders.

Katana paid four quarterly dividends, totalling 2 cents during FY26. Once again, the dividends were all fully franked.

The Manager remains committed to outperforming its benchmark and rewarding shareholders with solid dividends. The Fund has declared and paid a 0.5 cent fully franked dividend subsequent to the year end.

On behalf of all of the staff at Katana Asset Management, we take this opportunity to once again thank Katana Capital's valued shareholders for your support.

Romano Sala Tenna
Investment Manager
Katana Asset Management Limited