Quarter Update Newsletter

31 March 2018 – 30 June 2018

Barramundi
LANDING TOMORROW'S TROPHIES

BRM NAV	SHARE PRICE	DISCOUNT
$0.71	$0.60	15.2%

as at 30 June 2018

- **Buoyant quarter for Australian equities with the S&P/ASX200 Index (70% hedged to NZD) rising +9.4%.**
- **The Barramundi portfolio performed strongly over the quarter, rising +11.5% on a gross performance basis.**
- **Three portfolio companies participated in M&A activity during the quarter as M&A activity picked up in Australia generally.**

I was excited to join the Fisher Funds family at the start of June as Senior Portfolio Manager responsible for Australian equities, including the Barramundi portfolio. I have been working closely with the Chief Investment Officer, Frank Jasper, and the Australian equities team, Terry and Delano to get up to speed. It's also great to come into a firm with such a clearly defined investment approach and one that really resonates with me. The Fisher Funds' fundamental, 'bottom-up' stock picking process is underpinned by the firm's sound investment philosophy neatly encapsulated by the STEEPP acronym.

Market News

The market bounced back after a softer March quarter, as some market jitters eased and all sectors, with the exception of communications (which was dragged down by some disappointing performance from bellwether Telstra), finished the quarter in the green. Consumer durables led the rebound and the sector rose nearly 30% across the quarter. Healthcare, energy resources and retail also performed well with each sector up around 18-25%. As the largest constituents of the index, banks and a number of financial companies, such as AMP, underperformed as the Royal Commission's investigation into the sector and various company specific investigations continued to take their toll across the quarter.

Key Portfolio News

For the three months to 30 June, the Barramundi portfolio lifted 11.5% on a gross performance basis. Led by **Wisetech** (+66%), **APN Outdoor** (+35%), **Xero** (+35%), **Domino's Pizza** (+25%) and **CSL** (+24%), Barramundi's portfolio performance was broad based. Domino's continued its re-rate as the market concerns around near term performance abated and CSL, a longstanding core position for the portfolio, continued its strong performance of recent times assisted through an upgrade in its earnings guidance in May.

As discussed in our previous March commentary, **Wisetech's** share price fell in the March quarter following an earnings miss, but it rebounded strongly in the June quarter, rising +66% over the three months. Returns were boosted by an investor strategy day, held in early May, as well as a slight upgrade to earnings guidance. The company continued its expansion announcing a few small, but strategic acquisitions. As we mentioned in the March quarterly, we continue to remain comfortable with our investment in the company, and believe the market opportunity in front of them is significant.

Notable Returns for the Quarter in Australian dollars

WISETECH	APN OUTDOOR	XERO	DOMINO'S PIZZA	CSL
+66%	+35%	+35%	+25%	+24%

M&A also played its role in this quarter's returns, with three companies in the Barramundi portfolio involved in significant M&A activity.

In the retirement & community living sector, **Gateway Lifestyle Group** received takeover bids from two offshore companies looking to achieve scale in the retirement and community sector in Australia. Barramundi has been invested in Gateway and Ingenia Communities Group in this sector, as we are attracted by the property underpinning the assets of the companies in conjunction with their business models which are focused on providing cost effective retirement and lifestyle community property solutions to retirees. Additionally, the rising numbers of 'baby boomers' entering retirement provide a favourable structural tailwind to the sector. On our valuation, the bid for Gateway seemed more than fair, and consequently we have sold and exited the position. Barramundi still continues to hold a position in Ingenia which is supported by the race for consolidation in the sector.

M&A also played a key role in the performance of Barramundi's investments in the outdoor advertising sector, which is one of the few growth areas in advertising. Outdoor advertising, which includes digital billboards, for example, adverts at bus shelters and mall based promotions, constitutes around 6.5% of total advertising spend in Australia. The market continues to grow incrementally (as a percentage of total advertising spend) assisted by amongst other things, the digitisation of billboards. The Australian outdoor market has historically consisted of five main players, French listed JC Decaux, and Australian listed APN Outdoor (APO), oOh!media (OML), QMS Media (QMS) and Adshel (a subsidiary of listed company HT&E). Attracted by the dynamics of the sector, Barramundi has been invested in **APO** and **OML**.

Consolidation across this sector kicked off in the June quarter with both APO and OML making a play for HT&E owned Adshel. This in turn resulted in JC Decaux pre-empting a deal with Adshel (which you may know for its bus shelter advertisements in New Zealand) by bidding for portfolio company APO. JC Decaux has long had aspirations to ramp up its presence in Australia. However, due to potential concerns about the competition regulator, the ACCC, it seems JC Decaux felt it could not acquire APO if APO had already acquired Adshel. In the end, JC Decaux has signed a binding deal with APO, supported by APO's board (but still subject to ACCC clearance) and OML in turn has snapped up Adshel and raised some equity to fund part of the purchase.

Our view is that both moves are constructive for the future performance of the outdoor sector with an improved competitive structure likely post completion of these transactions. While both deals are being reviewed by the ACCC, there is low overlap between the specific outdoor markets that JC Decaux and APO as well as OML and Adshel operate in, so we suspect there is a reasonable chance both deals receive clearance. We participated in the OML equity raising for the Adshel acquisition.

Outside of these M&A related changes to the portfolio, we added to the **Credit Corp** (CCP) position in June. A negative investment report on CCP published in social media raised a number of perceived (largely accounting related) concerns which put the company's share price under pressure. This elicited a comprehensive rebuttal from the company which at the same time re-affirmed earnings guidance for the June year end. While CCP's business faces the same sector risks as its competitors, as alluded to in the March quarterly, CCP has a high quality management team led for many years by Thomas Beregi. We think the company will continue to be prudently and well managed as it continues to expand domestically and abroad in the US. We took advantage of the share price weakness following the publication of the investment report and added to the Barramundi position.

Robbie Urquhart
Senior Portfolio Manager
Fisher Funds Management Limited
18 July 2018

Performance
as at 30 June 2018

	3 Months	3 Years (annualised)	5 Years (annualised)
Corporate Performance			
Total Shareholder Return	+5.8%	+5.5%	+7.0%
Adjusted NAV Return	+10.9%	+10.2%	+6.5%
Manager Performance			
Gross Performance Return	+11.5%	+13.5%	+9.8%
Benchmark Index[1]	+9.4%	+10.8%	+9.6%

[1] Benchmark Index: S&P/ASX Small Ords Industrial Gross Index until 30 September 2015 & S&P/ASX 200 Index (hedged 70% to NZD) from 1 October 2015

Non-GAAP Financial Information
Barramundi uses non-GAAP measures, including adjusted net asset value, adjusted NAV return, gross performance return and total shareholder return. The rationale for using such non-GAAP measures is as follows:

- *adjusted net asset value – the underlying value of the investment portfolio adjusted for capital allocation decisions,*
- *adjusted NAV return – the return to an investor after fees and tax,*
- *gross performance return – the Manager's portfolio performance in terms of stock selection and hedging of currency movements, and*
- *total shareholder return – the return to an investor who reinvests their dividends, and if in the money, exercises their warrants at warrant maturity date for additional shares.*

All references to adjusted net asset value, adjusted NAV return, gross performance return and total shareholder return in this newsletter are to such non-GAAP measures. The calculations applied to non-GAAP measures are described in the Barramundi Non-GAAP Financial Information Policy. A copy of the policy is available at http://barramundi.co.nz/about-barramundi/barramundi-policies/

Company News
Dividend Paid 29 June 2018

A dividend of 1.33 cents per share was paid to Barramundi shareholders on 29 June 2018, under the quarterly distribution policy. Interest in Barramundi's dividend reinvestment plan (DRP) remains high with 37% of shareholders participating in the plan. Shares issued to DRP participants are at a 3% discount to market price. If you would like to participate in the DRP, please contact our share registrar, Computershare on 09 488 8777.

Portfolio Holdings Summary
as at 30 June 2018

COMPANY	% Holding
Ansell	3.6%
APN Outdoor	1.4%
ARB Corporation	4.3%
AUB Group	3.1%
BHP Billiton	3.1%
Brambles	4.3%
Carsales.com	6.5%
Commonwealth Bank	4.6%
Credit Corp	3.9%
CSL	7.1%
Domino's Pizza	3.3%
Ingenia Communities	1.6%
Link Administration Holdings	3.4%
Nanosonics	3.0%
National Australia Bank	4.5%
NEXTDC	3.6%
Ooh! Media	3.7%
Ramsay Health Care	3.2%
ResMed	3.6%
Rio Tinto	2.0%
SEEK	7.1%
Sonic Healthcare	3.0%
Technology One	1.7%
Westpac	2.8%
Wisetech Global	3.1%
Xero Limited	3.3%
Equity Total	**94.8%**
Australian dollar cash	4.9%
New Zealand dollar cash	0.8%
Total Cash	**5.7%**
Centrebet Rights	0.0%
Forward foreign exchange contracts	-0.5%
TOTAL	**100.0%**

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