

Quarter Update Newsletter

30 June 2018 – 30 September 2018



- » A positive quarter for Australian equities with the S&P/ASX200 Index (70% hedged to NZD) rising 1.6%
- » A pleasing quarter for the Barramundi portfolio rising 4.5% for the quarter on a gross performance basis
- » Reporting season in late July and August drove share price movements for the quarter, with our companies that reported delivering strong returns overall

Reporting season was a key catalyst for share price movements through the quarter, and this proved to be a good reporting season by that measure for Barramundi. Our team has spent the quarter focussed on analysing these results and meeting with the management teams of the majority of our portfolio companies either in person or via phone calls. A number of companies use their post results briefings as mini 'investor days' and provide investors access to a broader number of their management teams than is ordinarily the case when meeting with, usually the CEO and/or CFO.

We find these meetings useful in providing us with deeper insight into the overall businesses and amongst other elements, their culture, people and 'bench strength'. Our team put in a lot of work and thought in preparing for these meetings to make them as productive as possible in the allotted time we have with management. I especially wish to commend my team mates Terry and Delano for this work.

ASX Market News

The market continued adding to the positive return recorded in the June quarter, with results in July and August overriding macro and trade war concerns to lift the market index across the September quarter. Companies in the Communication Services and Information Technology (IT) sectors led the gains for the market. Within Communication Services, a significant step towards telco consolidation lifted the sector returns for the quarter sparked by a proposed merger between TPG Telecom and Vodafone. Strong financial results underpinned the IT sector returns.

Utilities, led by sharp sell offs in AGL Energy and Infigen Energy, neither of which are constituents of the Barramundi portfolio, was the worst performing sector in the quarter.

Materials, Consumer Staples (led by softness in bellwether supermarket operator Woolworths) and Financials also lagged the market returns. Emerging cost inflation and trade war concerns took the shine off the strong cash flow generation reported by some of the diversified mining companies, while Royal Commission concerns overshadowed Financials.

Key Portfolio News

On the whole, the Barramundi portfolio companies that reported in July/August fared well relative to expectation. A number of companies contributed meaningfully to the quarter's return.

Notable Returns for the Quarter in Australian dollars

| WISETECH | TECHNOLOGY ONE | CREDIT CORP GROUP | BRAMBLES | ARB CORPORATION |
|----------|----------------|-------------------|----------|-----------------|
| +42% | +31% | +23% | +23% | -15% |

Amongst them was **Wisetechn** which returned +42% (in A\$) across the quarter and benefitted from a strong set of results in which it provided positive outlook commentary for FY2019.

Technology One (+31%) did not report results during the quarter but rebounded after ameliorating market concerns around the impact changes in accounting standards would have on them.

After a tough first half of the year **Brambles** (+23%) rebounded in the quarter on better than expected results and as it announced it was looking at demerging its IFCO reusable plastic container division.

Credit Corp (+23%) also had a strong quarter after following up a rebuttal of a negative investment report in June with a strong set of financials when it reported in late July, as the company continues to benefit from tightening lending restrictions by the major banks and a favourable backdrop for their expansion into the US.

Nanosonics (+14%) and **Resmed** (+13%) both rose across the quarter on positive results. In Nanosonics case the market responded positively to the introduction of its next generation Trophon 2 product which was earlier than expected.

Xero (+9%) did not report during the quarter, but held its AGM in August and hosted its annual Australian Xercon in Brisbane during September which we attended. Whether it was the 3,700 attendees (up strongly on last year), the calibre of the presentations from particularly the senior product people at XRO, the amount and quality of ecosystem partners (apps) on display, or the life sized pool, we were impressed. We are generally a little bit cynical about corporate displays of largesse but when it is specifically targeted at clients (accountants) and when it achieves the purpose of ensuring XRO is front of mind when those accountants are recommending to their SME clients which accounting software to use, we are comfortable.

At the other end of the spectrum, after strong share price performance in the first half of the year, **ARB Corporation** returned -15% across the quarter. In our view the underlying business continues to be well run and having reviewed the financial results we remain comfortable with the longer term outlook for the company.

NextDC returned -14% across the quarter. Similar to ARB, NextDC's share price had risen strongly in the first half of the year. After initially responding positively to its financial result (delivered on the last day of August), the share price sold off in September. There was nothing

onerous in the result, although the lack of progress in contracting more of its recently constructed data centre capacity disappointed the market. Management put this down to timing delays rather than a lack of demand and in fact have brought forward the expansion of its second data centre in Sydney because of the strength of the underlying demand for capacity. We topped up our holding on this pullback.

Portfolio Changes

As highlighted in the September monthly we exited our Ramsay Healthcare position in August. This was due to concerns surrounding some revenue headwinds that may persist for a number of years resulting in a deterioration of our future earnings expectation for the company. We also had some question marks around some of the capital allocation initiatives undertaken by management led by a relatively new CEO.

We also exited our APO position once the takeover offer from JC Decaux received ACCC approval in August and as mentioned above, topped up our NextDC shareholding in September following price weakness.

Outside of these changes in the quarter, we had a number of minor changes to portfolio position sizes in September following a comprehensive review of our portfolio companies relative to the STEEP framework.



Robbie Urquhart
Senior Portfolio Manager
Fisher Funds Management Limited
11 October 2018



Performance

as at 30 September 2018

| | 3 Months | 3 Years (annualised) | 5 Years (annualised) |
|------------------------------|----------|-------------------------|-------------------------|
| Company Performance | | | |
| Total Shareholder Return | +9.1% | +9.7% | +7.4% |
| Adjusted NAV Return | +2.9% | +12.6% | +7.0% |
| Portfolio Performance | | | |
| Gross Performance Return | +4.5% | +16.1% | +10.3% |
| Benchmark Index ¹ | +1.6% | +12.6% | +8.5% |

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 currency hedging before fees and tax, 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 28 September 2018

A dividend of 1.40 cents per share was paid to Barramundi shareholders on 28 September 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.

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Portfolio Holdings Summary

as at 30 September 2018

| Company | % Holding |
|------------------------------------|---------------|
| Ansell | 3.0% |
| ARB Corporation | 3.6% |
| AUB Group | 3.0% |
| BHP Billiton | 3.1% |
| Brambles | 3.5% |
| Carsales | 6.6% |
| Commonwealth Bank | 5.2% |
| Credit Corp | 3.7% |
| CSL | 6.7% |
| Domino's Pizza | 2.9% |
| Ingenia Communities | 1.5% |
| Link Administration Holdings | 4.6% |
| Nanosonics | 2.8% |
| National Australia Bank | 4.0% |
| NEXTDC | 3.9% |
| Ooh! Media | 4.4% |
| ResMed | 3.0% |
| Rio Tinto | 1.9% |
| SEEK | 7.3% |
| Sonic Healthcare | 3.0% |
| Technology One | 2.2% |
| Westpac | 3.9% |
| Wise Tech Global | 4.3% |
| Xero Limited | 3.6% |
| Equity Total | 91.7% |
| Australian dollar cash | 7.0% |
| New Zealand dollar cash | 1.1% |
| Total Cash | 8.1% |
| Centrebet Rights | 0.0% |
| Forward foreign exchange contracts | 0.2% |
| TOTAL | 100.0% |

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