Barramundi
LANDING TOMORROW'S TROPHIES

Monthly Update

November 2018

BRM NAV $0.65 | SHARE PRICE $0.63 | DISCOUNT 3.1%

as at 31 October 2018

A word from the Manager

Market Overview

'October, and the trees are stripped bare, of all they wear.'
– Lyrics by U2

U2's meditative lyrics seem like an apt description of the past month for equity markets. Similar to the major global equity markets, the ASX 200 index had a tough month, falling 6.1% (in A$) in the worst monthly return since August 2015.

Concerns around higher interest rates, slowing global growth, the spectre of rising cost pressures and inflation, trade war rhetoric and a sell–off in global technology companies seemed to weigh as much on Australian as they did on international equities.

All sectors of the ASX 200 finished the month in the red, with the Information Technology (IT) sector including a number of high P/E or 'growth' constituents affected the most, falling –11.2% (in A$ terms) for the month. That said, the negative performance was broad based, with other sectors including Energy (–10.5%), Consumer Discretionary (–8%), Communication Services (–7.3%), Healthcare (–7%) and Financials (–5.9%) all feeling the October chill.

Portfolio News

Given this backdrop and with Barramundi including a number of IT, Healthcare and higher P/E 'growth' companies, the portfolio was negatively affected. The news flow from a number of our portfolio companies was somewhat positive, or at least not as commensurately negative as the share price performances would suggest.

Wisetech –27.3% (in A$ for the month), was the portfolio's worst performer for October and was caught up in the IT and high P/E sell–off. The company presented at a broker's conference during the month and effectively re–affirmed earnings guidance and noted continuing strength in the business's organic revenue growth as customer demand for its software continues to increase.

Carsales –15.6%, also one of the portfolio's worst performers noted at its AGM that the company has had a solid start to the financial year in its core business with the exception of display advertising (a small component of overall earnings) which had been soft.

Three of our industrial businesses **Ansell** (–8.2%), **ARB** (–8.7%) and **Brambles** (–2.6%) also held their AGMs in October. All three noted rising cost pressures (typically raw materials inputs, and energy), and where feasible each of them are mitigating this through lifting their own prices. While there was a note of caution in their commentary, demand for their products does not seem to be falling.

BHP (–7%) and **RIO** (–3%), both released their September quarter production reports during the month. Aggregating the 'overs and unders' across their different divisions (the benefit of being a diversified miner), both companies' reports were broadly in line with expectations. BHP completed the sale of its US onshore gas assets to BP on the last day of the month and will be returning the US$10.4bn in sales proceeds to shareholders.

Resmed (–6.7%), delivered a strong first quarter 2019 result with good revenue momentum evident. Pleasingly, with management's disciplined focus on cost control, underlying profits rose more than the increase in revenue for the quarter.

Dominos +1.5%, hosted an investor day in Brisbane during the month which we attended. No large ground breaking initiative was announced. However, the company did shine further light on a range of store productivity and customer focussed technology initiatives and shared more of their thinking around the economics and logic behind store–splits which are central to their store roll–out strategy in Australia. It's pleasing to see that management continues exploring ways in which they can improve their customer proposition and put more distance between them and their competitors.

Portfolio Changes

We selectively topped up some of our positions during the month and used the price weakness in **Xero** (–18.8% in A$) to increase its weighting in the portfolio.

We also initiated a new position in **Aristocrat Leisure**, a good quality business, with a track record of delivery and strong growth prospects on the horizon.

Aristocrat is the leading global provider of gaming machines and software to casinos as well as pubs & clubs, with a particularly strong presence in the US and Australia.

Well run, and with a demonstrated track record of earnings growth over a number of years, management have inculcated a deep cultural focus on innovation and design and development within the company. This has been commercialised through the launch of a range of games over the past decade that have developed a strong brand cache amongst consumers and gaming venues alike. Aristocrat has shared some of the financial benefits that stem from the popularity of their games with the venue providers in the form of lower pricing, which has improved customer stickiness as well as their customer proposition vs the competition. Speaking of which, the competitive environment has improved in the last decade as the industry has consolidated, leaving Aristocrat's key competitors with stretched balance sheets and less flexibility to invest in innovation and improving the odds of Aristocrat staying ahead of the pack.

Aristocrat has diverted a portion of the strong cash flow generated from this core but relatively mature division into a higher growth arena of digital and mobile games. Aristocrat first entered the digital gaming market through acquisition in 2012, and successfully grew the earnings strongly from this division over the ensuing years including through using their design and marketing talent to successfully re-skin some of their high profile branded land based games for the digital market.

This was followed up with two further acquisitions in 2017, expanding its reach in social casino (it is now the #2 player globally) as well as into the casual games market. This provides it with critical mass in a sector in which marketing capability and brand presence is increasingly important to acquire and retain customers in a profitable fashion.

Digital games now comprise over 30% of Aristocrat's operating earnings and this is likely to be a key source of the company's future earnings growth.

The chilly October market conditions gave us an attractive entry point to add a position in Aristocrat to the Barramundi portfolio.

Robbie Urquhart
Senior Portfolio Manager
Fisher Funds Management Limited

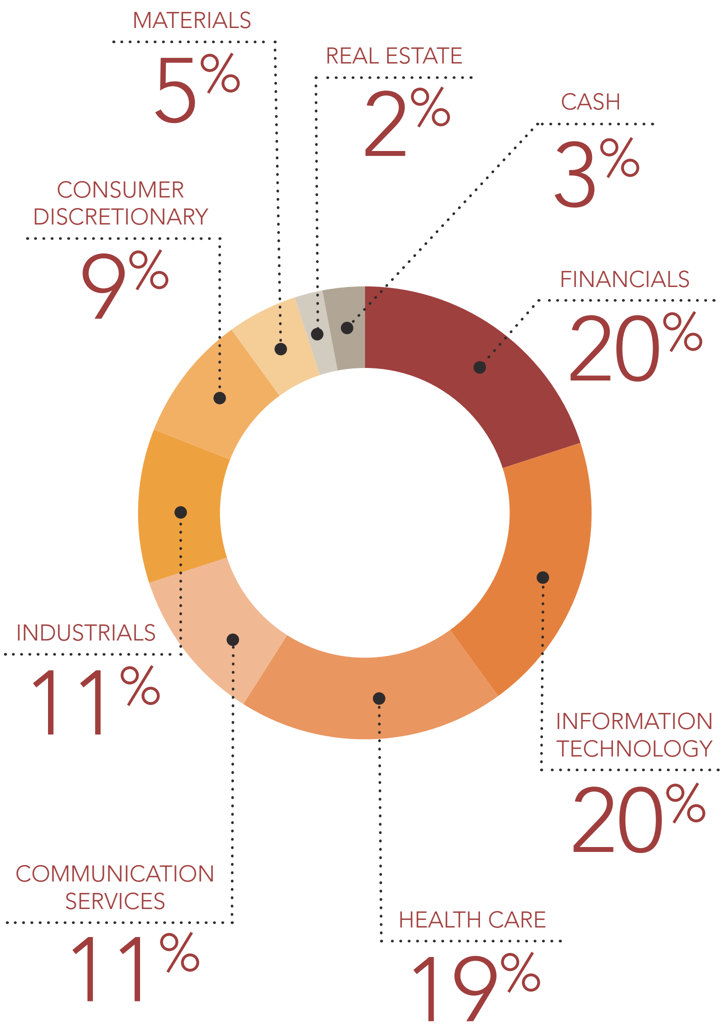
Key Details

as at 31 October 2018

FUND TYPE	Listed Investment Company
INVESTS IN	Growing Australian companies
LISTING DATE	26 October 2006
FINANCIAL YEAR END	30 June
TYPICAL PORTFOLIO SIZE	25–35 stocks
INVESTMENT CRITERIA	Long–term growth
PERFORMANCE OBJECTIVE	Long–term growth of capital and dividends
TAX STATUS	Portfolio Investment Entity (PIE)
MANAGER	Fisher Funds Management Limited
MANAGEMENT FEE RATE	1.25% of gross asset value (reduced by 0.10% for every 1% of underperformance relative to the change in the NZ 90 Day Bank Bill Index with a floor of 0.75%)
PERFORMANCE BENCHMARK	Changes in the NZ 90 Day Bank Bill Index + 7%
PERFORMANCE FEE HURDLE	15% of returns in excess of benchmark and high water mark
HIGH WATER MARK	$0.69
SHARES ON ISSUE	168m
MARKET CAPITALISATION	$106m
GEARING	None (maximum permitted 20% of gross asset value)

Sector Split

as at 31 October 2018



October's Biggest Movers in Australian dollar terms

Typically the Barramundi portfolio will be invested 90% or more in equities.

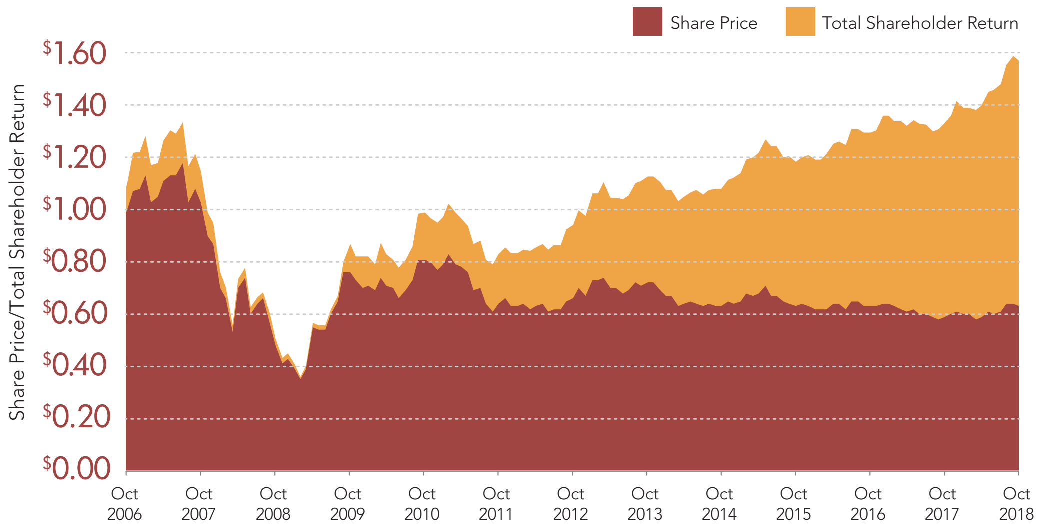
WISETECH GLOBAL	XERO	NANOSONICS	CARSALES.COM	SEEK
-27%	-19%	-16%	-16%	-14%

5 Largest Portfolio Positions as at 31 October 2018

CSL LIMITED	SEEK	CARSALES.COM	COMMONWEALTH BANK OF AUSTRALIA	LINK GROUP
7%	7%	7%	6%	5%

The remaining portfolio is made up of another 22 stocks and cash.

Total Shareholder Return to 31 October 2018



Performance to 31 October 2018

	1 Month	3 Months	1 Year	3 Years (annualised)	Since Inception (annualised)
Company Performance					
Total Shareholder Return	(1.6%)	+5.6%	+17.9%	+9.7%	+3.8%
Adjusted NAV Return	(8.9%)	(6.0%)	+3.5%	+8.6%	+3.7%
Portfolio Performance					
Gross Performance Return	(8.8%)	(5.4%)	+6.6%	+11.8%	+7.0%
Benchmark Index^	(6.2%)	(6.1%)	+2.3%	+9.1%	+2.7%

^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 monthly update 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/

About Barramundi

Barramundi is an investment company listed on the New Zealand Stock Exchange. The company gives shareholders an opportunity to invest in a diversified portfolio of between 25 and 35 quality growing Australian companies through a single, professionally managed investment. The aim of Barramundi is to offer investors competitive returns through capital growth and dividends.

Management

Barramundi's portfolio is managed by Fisher Funds Management Limited. Robbie Urquhart (Senior Portfolio Manager), Terry Tolich (Senior Investment Analyst) and Delano Gallagher (Investment Analyst) have prime responsibility for managing the Barramundi portfolio. Together they have significant combined experience and are very capable of researching and investing in the quality Australian companies that Barramundi targets. Fisher Funds is based in Takapuna, Auckland.

Board

The Manager has authority delegated to it from the Board to invest according to the Management Agreement and other written policies. The Board of Barramundi comprises independent directors Alistair Ryan (Chair), Carol Campbell and Andy Coupe; and non–independent director Carmel Fisher.

Capital Management Strategies

Regular Dividends

- Quarterly distribution policy introduced in August 2009
- Under this policy, 2% of average NAV is targeted to be paid to shareholders quarterly
- Dividends paid by Barramundi may include dividends received, interest income, investment gains and/or return of capital
- Shareholders who prefer to have increased capital rather than a regular income stream have the opportunity to participate in the company's dividend reinvestment plan (DRP)
- Shares issued to DRP participants are at a 3% discount to market price
- Barramundi became a portfolio investment entity on 1 October 2007. As a result, dividends paid to New Zealand tax resident shareholders have not been subject to further tax

Share Buyback Programme

- Barramundi has a buyback programme in place allowing it (if it elects to do so) to acquire up to 8.4m of its shares on market in the year to 31 October 2019
- Shares bought back by the company are held as treasury stock
- Shares held as treasury stock are available to be re–issued for the dividend reinvestment plan and to pay performance fees

Warrants

- On 16 October 2018, a new issue of warrants (BRMWE) was announced
- The warrants were issued at no cost to eligible shareholders and in the ratio of one warrant for every four Barramundi shares held
- Exercise Price = $0.64 per warrant, to be adjusted down for dividends declared during the period up to the Exercise Date.
- Exercise Date = 25 October **2019**
- The final Exercise Price will be announced and an Exercise Form will be posted to warrant holders in September **2019**

Barramundi

Barramundi Limited
Private Bag 93502, Takapuna, Auckland 0740
Phone: +64 9 489 7074 | Fax: +64 9 489 7139
Email: enquire@barramundi.co.nz | www.barramundi.co.nz

Computershare Investor Services Limited
Private Bag 92119, Auckland 1142
Phone: +64 9 488 8777 | Fax: +64 9 488 8787
Email: enquiry@computershare.co.nz | www.computershare.com/nz