

# Quarter Update Newsletter

30 June 2019 – 30 September 2019



BRM NAV

\$0.73

SHARE PRICE

\$0.63

WARRANT PRICE

\$0.03

DISCOUNT<sup>1</sup>

12.2%

as at 30 September 2019

» Barramundi returned +6.7% gross (in A\$), well ahead of the ASX200 which returned +2.3% (in A\$) in the September quarter.

## Strong reporting season for Barramundi

Barramundi's return in the quarter was largely driven by a pleasing August 'reporting season' for our portfolio companies. We touch on a few of the highlights (and lowlights) below. As always, we are constantly working to optimise and improve the portfolio mix of companies (and hence our return outcomes). As discussed below, to that end we have added PWR Holdings to the portfolio.

Retirement community owner **Ingenia Communities (+26% over the quarter in A\$)** was our best performing company. It benefitted as investors sought companies with defensive characteristics following the collapse in interest rates.

**Wisetech (+25.4%)** was another star performer. Its financial result was in line with market expectations. It guided to high recurring revenue growth for 2020. Software adoption by logistics companies continues to rise as companies seek to reduce their costs and improve efficiency. Wisetech's growth outlook looks bright for many years to come.

As widely anticipated, **Dominos (+24.9%)** result was below guidance. However the company is off to an encouraging start in the 2020 fiscal year. The outlook is more positive. Improved in-store management and momentum in rolling out new stores is driving growth in Japan. In the key European division, the integration of acquired stores has been completed. Along with new management initiatives, this sets the division up for future growth. The Australian division has recently been a drag on overall performance. Initiatives are underway to improve this performance in the medium-term. This includes for example, Domino's purchasing stores from underperforming franchisees (and operating them more efficiently).

Outdoor advertising company, **oOH! Media (-26%)** was our worst performing company in the quarter. It downgraded earnings guidance for the December 2019 year end. Echoing the soft domestic economic conditions of the last year, forward bookings for outdoor advertising spending for the September quarter were particularly weak. This led to the earnings downgrade. In line with tentative signs of optimism elsewhere in the economy, the forward bookings for the December quarter seem to have improved. Structurally, outdoor advertising as a category continues to receive an increasing proportion of advertising spend compared to traditional advertising channels. So longer-term, the business is well positioned to benefit from a pick-up in ad spending.

## Notable Returns for the Quarter in Australian dollars

INGENIA	WISETECH	DOMINO'S	LINK ADMINISTRATION	OOH! MEDIA
+26%	+25%	+25%	+17%	-26%

## Like the Formula One cars that it cools, PWR Holdings got off to a flying start in the portfolio

Leonardo DiCaprio gave a masterful performance as the eclectic Howard Hughes in the film *The Aviator*. The film traces Hughes' life as he attempts to revolutionise aircraft design and performance. What is less emphasised in the film is that Hughes funded his endeavours with the profits from sales of a patented drill bit invented by his dad. Although it was a critical component, this drill bit did not cost much relative to the total cost of drilling for oil. This product made the Hughes family a fortune. We were reminded of this when we met with management of Brisbane-based **PWR Holdings** recently.

Founded around the year 2000, PWR makes cooling parts for motorsport teams. This includes specialist radiators for water and engine cooling, heat exchangers and intercoolers for turbochargers. Today, it supplies the vast majority of Formula 1 teams as well as all NASCAR and the electric car powered Formula-E teams.

Like Hughes' drill bit, these cooling products are critical to car performance, yet make up a fraction of the cost of the car. PWR's products are not patented. But given PWR's reputation for excellence, motorsport teams will think twice before switching to competing products that lack a track record in the sport. Why take the risk, especially when cooling products are not a large overall cost in getting the most out of a very highly priced car?

PWR's craftsmanship is exacting. The quality of its products (typically customised), is high. As such, PWR sells its products at healthy profit margins. The know-how and expertise is difficult for potential competitors to replicate. This dynamic, coupled with the high risk to customers of switching to a competing supplier, protects PWR's profitability. It acts as an economic moat around the business and is one of the key reasons we have bought shares in the company.

Similar to Hughes, the spirit of innovation is core to PWR's DNA. PWR invests heavily in research and development each year. This ensures it stays one step ahead of technological change.

<sup>1</sup> Share price discount/(premium) to NAV (including warrant price on a pro-rated basis)

This culture and its highly regarded motorsport reputation has opened doors for the company to supply customers in a multitude of other arenas.

Today, PWR supplies cooling products to super car manufacturers such as Aston Martin and Porsche. It makes cooling products for electric vehicle manufacturers. More recently, PWR has established an emerging technology division. It is developing products to be used in other industries such as aerospace. This offers the company a significant opportunity for many years of revenue growth.

The people at PWR are passionate about their work. They genuinely think like owners. The founder together with the majority of the employees own more than 30% of the shares in the company. They are motivated to turn the revenue growth potential into reality. Pleasingly PWR has got off

to a good start returning +13.9% since it was added to the portfolio in the quarter.

In summary, this is a profitable company protected by an economic moat. It is an innovative and growing business run by passionate hardworking people who are aligned with shareholders. We are excited to have added it to the Barramundi portfolio.



**Robbie Urquhart**  
Senior Portfolio Manager  
Fisher Funds Management Limited  
18 October 2019



## Performance

as at 30 September 2019

	3 Months	3 Years (annualised)	5 Years (annualised)
<b>Company Performance</b>			
Total Shareholder Return	+2.7%	+10.1%	+9.9%
Adjusted NAV Return	+7.6%	+11.3%	+10.2%
<b>Portfolio Performance</b>			
Gross Performance Return	+7.9%	+14.4%	+13.6%
Benchmark Index <sup>1</sup>	+3.3%	+12.5%	+10.0%

<sup>1</sup> 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 after expenses, fees and tax,
- » adjusted NAV return – the return to an investor after expenses, fees and tax,
- » gross performance return – the Manager's portfolio performance in terms of stock selection and currency hedging before expenses, 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 26 September 2019

A dividend of 1.39 cents per share was paid to Barramundi shareholders on 26 September 2019, under the quarterly distribution policy. Interest in Barramundi's dividend reinvestment plan (DRP) remains high with 36% 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 2019

Company	% Holding
Ansell	3.0%
ARB Corporation	3.7%
Aristocrat Leisure	2.6%
AUB Group	4.3%
Brambles	3.0%
Carsales	6.8%
Commonwealth Bank	5.1%
Credit Corp	4.0%
CSL	6.7%
Domino's Pizza	4.4%
Ingenia Communities	1.6%
Link Administration Holdings	5.0%
Nanosonics	2.8%
National Australia Bank	4.2%
NEXTDC	3.3%
Ooh! Media	4.1%
PWR	2.0%
ResMed	3.8%
Rio Tinto	2.1%
SEEK	7.8%
Sonic Healthcare	3.0%
Technology One	1.8%
Westpac	4.3%
Wise Tech Global	4.4%
Xero Limited	5.3%
<b>Equity Total</b>	<b>99.1%</b>
Australian dollar cash	0.3%
New Zealand dollar cash	0.5%
<b>Total Cash</b>	<b>0.8%</b>
Centrebet Rights	0.0%
Forward foreign exchange contracts	0.1%
<b>TOTAL</b>	<b>100.0%</b>

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