Quarter Update Newsletter

1 January 2020 – 31 March 2020

Barramundi
LANDING TOMORROW'S TROPHIES

BRM NAV	SHARE PRICE	DISCOUNT[1]
$0.55	$0.52	5.8%

as at 31 March 2020

Dear shareholders,

It has been an extremely eventful quarter in financial markets. Coronavirus has had extreme ramifications for millions of businesses around the globe, who are having to deal with the implications of government sanctioned lockdowns. The Barramundi team is fully functional and currently working from our respective home offices. We had detailed and well-practiced business continuity plans in place and have access to all required research and trading systems.

Market Update

When asked to name the greatest difficulty facing a Prime Minister, legend has it that Harold MacMillan replied "Events, dear boy, events."

COVID-19 virus related events have certainly created challenges for the world in the past quarter. As the tragic human toll has risen, government actions to contain the virus have increased. This has created tremendous strain on the global economy and sent equity markets lower, particularly in March.

The ASX200 fell -23.2% (70% hedged into NZ$) over the quarter compared to Barramundi which returned -19.6% (gross performance).

Managing a portfolio through a crisis such as this presents a range of challenges. It also offers opportunity. Our investment team has focussed our energies in three key areas.

Firstly, we have had regular dialogue with our portfolio company management teams. With over 50 calls in the last few weeks alone we've sought to gauge how their businesses are faring. We've explored the steps they are taking to mitigate the effects of the economic shutdown. We've focussed particularly on the strength of their balance sheets.

We have been impressed (again) by the calibre of our management teams. They are calmly moving fast to adapt to this environment and are setting their companies up well for the future.

Secondly, we have selectively increased our weightings in some of our higher quality companies. Their share prices have fallen a lot because near-term earnings are expected to fall. However these companies are well placed to weather this storm and to strongly benefit when the economy does recover.

Thirdly, as a team we have been determined not to waste this crisis. There are a number of high quality companies that we've watched closely, but have found to be too expensive in the past. In March we were given a rare opportunity to add one such company to the portfolio, online real estate advertising company REA Group Ltd. As this crisis evolves, we will keep an eye out for other opportunities such as this.

Balance Sheet, Balance Sheet, Balance Sheet

"To win the game you need to stay in the game" is a mantra of our CIO, Frank Jasper. The COVID-19 crisis has been a prescient reminder of this sentiment.

Companies have found their revenues falling quickly in response to activities (such as lockdowns) designed to contain the virus. Yet they still have costs which are being incurred. Having sufficient cash to pay these costs is paramount. In our calls with our companies we've therefore been focussed on the strength of their balance sheets. How much cash do companies have access to? Without it, they won't be able to stay in the game, much less win it.

Significant returns impacting the portfolio during the quarter in Australian dollars

NEXTDC	SEEK	LINK GROUP	CREDIT CORP GROUP	OOH! MEDIA
+36%	-34%	-44%	-55%	-78%

Management teams of our portfolio companies have pleasingly been on top of this. They are also doing an admirable job balancing short and long-term needs of their businesses. As discussed below for example, Next DC is continuing to grow and invest through this slowdown. They're not making short-term decisions such as cutting back on key investments that would likely impair their long-term performance.

oOH!Media ("OML") the leading outdoor advertising company (think of billboards on roadsides) in Australia & NZ was our portfolio company with the most acute need of raising cash. OML's debt levels were fine for most environments, but it had too much debt for a 1 in a 100 year event. Balance sheet concerns resulted in the share price falling -70% (in A$) in March. The company to its credit acted quickly. By the end of March it had raised $167m in equity and substantially reduced its debt. We participated in the equity raising. OML also improved the terms of its existing bank debt. Amongst other initiatives it is also re-negotiating leases on billboard sites to give it more leeway to manage through this period of 'hibernation'. OML is a well run albeit cyclical business. Its longer-term competitive position remains sound. OML's capital raising keeps it in the game.

Credit Corp's share price also fell sharply (-58%) in the month. As a purchaser of debt ledgers, and with a consumer lending operation, the market was concerned how it would fare given the deteriorating economy. We expect its impairments to rise in this environment. However Credit Corp has a high quality and seasoned management team. They will continue to steward the company well through this crisis. Having entered the crisis in a strong position relative to their competition, they are reinforcing their relationship in this environment with their banking partners (who they purchase debt ledgers from). This helps position them to benefit as the economy rebounds longer-term. We have topped up our shareholding in Credit Corp during the month.

Data Centre owner **Next DC** is a rare company benefitting from this crisis. Its share price rose +13% in the month. As CEO Craig Scroggie reiterated on a number of calls we had in the month, demand for data centre services has risen throughout March. Companies have had to embrace the 'working from home' model. This has accelerated the structural shift from having computing data stored on servers in offices to having it stored in the 'cloud' (ie: in data centres). Companies have been scrambling to speed up this transition during the crisis to better enable employees working remotely. This shift is structural. When business gets back to normality, companies are not going back to office servers. Those that still have them will likely move them to data centres as fast as they can. Next DC is well placed to benefit from this trend.

As a generalisation, during the equity market plunge in March our Information Technology related companies which continue to benefit from structural growth tailwinds performed better. This includes **Next DC, Wisetech (+13%), Technology One (+2%) and Xero (-8%)**. Our healthcare holdings which have defensive earnings characteristics also

[1] Share price discount to NAV (using NAV to four decimal places)

held up better including **Resmed (+1%) and CSL (-4%)**.

In contrast, our financial markets related businesses which are more directly impacted by deteriorating economies generated some of the poorer returns in the portfolio. This includes **Credit Corp**, and our bank shareholdings in **NAB (-34%), ANZ (-32%), Westpac (-30%) and CBA (-24%)**. As we touch on below, we have used this share price weakness to increase our weightings in some of these companies.

Portfolio Changes

We initially decreased our weighting in Seek (an online employment advertising company) in February before the market fell as our concerns about the COVID-19 economic fallout rose.

As the crisis unfolded in March we began re-weighting some of our positions. Share prices of most of our portfolio companies fell sharply in the month. This has given us the opportunity to add to our higher quality company shareholdings at materially lower valuations. We have helped fund these changes by reducing our weightings in companies that have narrower competitive advantages and/or that do not offer the same return potential. These changes strengthen the overall mix of the portfolio.

To this end we increased our weightings in the Australian banks, ANZ, CBA, NAB and Westpac in the middle of March. The banks valuations have fallen as low as they have been since the recession in the early 1990s. The banks enter this crisis with the strongest balance sheets they've had in decades and are well positioned to weather the storm.

We have also increased our weighting in pallet manufacturer Brambles and have added selectively to positions including Seek, Credit Corp, and Wisetech.

To help fund this we have exited our shareholdings in Rio Tinto and retirement accommodation provider Ingenia. We also reduced our weighting in Dominos Pizza Enterprises, ARB Corporation and Link Group.

Every crisis breeds opportunity

We have been following **REA Group Ltd** for a long time. It is Australia's dominant online real estate advertising business. Almost all real estate agents across the country advertise houses for sale on the site.

REA's near-term earnings will be impacted as the economy enters hibernation. However the long-term prospects and REA's competitive positioning remains really strong. People will resume buying and selling houses at some point in the future. When they do, REA stands to benefit.

REA has a strong balance sheet enabling it to weather the storm. The drop in REA's share price in March offered us a rare opportunity to buy shares in the company at a reasonable valuation.

We are excited to have added it to our portfolio.

Robbie Urquhart
Senior Portfolio Manager
Fisher Funds Management Limited
20 April 2020

Performance

as at 31 March 2020

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	(25.8%)	+4.1%	+4.8%
Adjusted NAV Return	(20.0%)	+3.9%	+4.4%
Portfolio Performance			
Gross Performance Return	(19.6%)	+7.1%	+7.5%
Benchmark Index[1]	(23.2%)	(0.8%)	+4.8%

[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 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 27 March 2020

A dividend of 1.45 cents per share was paid to Barramundi shareholders on 27 March 2020, 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.

Portfolio Holdings Summary

as at 31 March 2020

Company	% Holding
Ansell	2.8%
ANZ Banking Group	4.0%
ARB Corporation	3.0%
AUB Group	3.2%
Brambles	3.7%
Carsales	6.3%
Commonwealth Bank	7.1%
Credit Corp	4.1%
CSL	8.4%
Domino's Pizza	2.6%
Link Administration Holdings	2.1%
Nanosonics	2.6%
National Australia Bank	3.5%
NEXTDC	3.7%
Ooh! Media	2.6%
PWR	2.0%
REA Group	4.3%
ResMed	4.0%
SEEK	6.2%
Sonic Healthcare	2.9%
Technology One	2.0%
Westpac	3.9%
Wise Tech Global	4.3%
Xero Limited	5.4%
Equity Total	**94.7%**
Australian dollar cash	4.0%
New Zealand dollar cash	0.8%
Total Cash	**4.8%**
Centrebet Rights	0.0%
Forward foreign exchange contracts	0.5%
TOTAL	**100.0%**

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