Barramundi
LANDING TOMORROW'S TROPHIES

Monthly Update

JUNE 2013

Market Update

Waking from the dream where a roaring Chinese dragon eats iron ore for breakfast and you live on a red dust island made entirely of dragon food was always going to be a little uncomfortable. In May the Aussie share market finally woke up, splashed some cold water on its face and took a long hard look in the mirror. What did it see? A slowing Chinese economy, a raft of profit downgrades in the cyclical and mining services sectors, a rapidly weakening Aussie dollar and a US Federal Reserve pondering the removal of its monetary cocaine. Sometimes rolling over and going back to sleep is the smartest move!

Unfortunately for investors in Australia this was not an option and we enjoyed a far too exciting, at least in my opinion, month of market gyrations. By month end the market had fallen 4.5% (S&P/ASX 300 Index) in Australian dollar terms. From the perspective of a global investor, Australia's performance was even more disappointing falling 12.1% in US dollar terms, 14.2% behind the performance of the S&P500 for the month.

Interestingly after a long period of underperformance it was not the resources stocks sending the market lower this month but the recent theme du jour, yield stocks, as investors reminded themselves that sustainability of yield actually does matter. Capital goods, retail, banks and consumer staples all underperformed the market while info tech, media, and resources outperformed.

There was the usual raft of economic data out over the month which was of the mixed to poor persuasion. Treasurer Wayne Swan announced that a significant revenue shortfall would result in a $19.4b budget deficit in 2013-14, despite previously targeting a surplus. In a brave move that we believe was fully justified the Reserve Bank of Australia (RBA) cut the official cash rate by 25bps to 2.75% at their April meeting. In previous Board minutes, the Bank had stated that the inflation outlook afforded scope to further ease policy if necessary. This month, the Board stated that it "decided to use some of that scope". The Westpac-MI consumer confidence index declined 7% for the month of May, with the fall concentrated in the expectations measure. Similarly the National Australia Bank business confidence index dropped from +2 to -2 in April. Retail sales were down 0.4% in March versus a positive expectation. Employment data, which no one really believes, rebounded by 50,000 in April with the unemployment rate falling to 5.5% - we expect this to inch higher over time as mining projects shut down.

With an RBA rate cut and continued weaker economic data, the Kiwi dollar rallied against the Aussie dollar rising to 0.8317 by month end. A far cry from the sub 75 cent level it was just two years ago.

Portfolio Update

There were a number of items of important news in the portfolio over the month:

Aurizon has been undertaking a review of its capital structure. One key outcome of this review is that Aurizon has engaged with a number of potential investors considering the possible sale of a minority stake in Aurizon's regulated network assets. This would release capital from Aurizon's regulated capital base enabling either capital management initiatives or to allow Aurizon to reinvest in additional WACC (weighted average cost of capital) positive investments in the non-regulated part of its business.

Austbrokers announced a further acquisition in its Austagencies business buying 90% stakes in two underwriting agencies, Lawsons Underwriting Australasia Limited and Guardian Underwriting Services Pty Limited. These underwriting agencies focus on labour hire and hospitality, respectively. This continues Austbrokers' strategy of focusing on specific niche industries in the underwriting agency sector. The combined purchase price is A$10m. Management expects the acquisitions to be 2.3% earnings per share accretive on an annualised basis. Employees will hold the residual 10% of each agency, consistent with the company's owner-driver model. Austbrokers has now spent cA$27m on acquisitions in FY2013, making it the largest single year of acquisitions since it listed in 2005. We met with the company during the month and remain very comfortable with this investment.

Performance to 31/05/13

	1 Month	3 Months	6 Months	1 Year	3 Years	Since Inception (accumulated)
BRM Adjusted NAV*	0.0%	-2.8%	+5.0%	+18.0%	+16.6%	+15.0%
Relative Performance						
S&P/ASX Small Ords Industrial Gross Index (in NZ dollar terms)	-4.0%	-6.0%	+7.1%	+11.0%	+25.4%	-4.0%
Total Shareholder Return*	0.0%	-1.9%	+4.7%	+20.2%	+34.7%	+4.4%

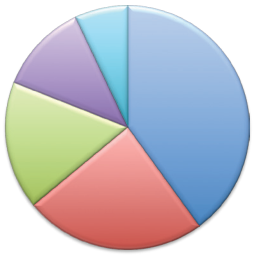
**Adjusted NAV and Total Shareholder Return assume all dividends are reinvested, but exclude imputation credits.*
NB: NAV and Adjusted NAV are net of fees and tax, and includes the dilution effect of warrants exercised.

May's Biggest Movers

+23%	Nanosonics
+14%	CSG
+11%	McMillan Shakespeare
-18%	WHK Group
-17%	McPherson's

Sector Split as at 31/05/13

- 40% Industrials
- 24% Information Technology
- 17% Consumer Discretionary
- 12% Financials
- 7% Healthcare



At a Glance as at 31/05/13

BRM NAV	$0.81
Share Price	$0.70
Discount	13.6%

At $0.70 Barramundi currently trades at a discount to NAV of 13.6%. The discount could provide value, as investors are able to purchase a portfolio with a NAV of $0.81 per share for only $0.70 per share.

Portfolio Update continued

Credit Corp provided an update to the market during the month. The update highlighted that purchase debt ledger (PDL) acquisitions in FY2013 will be in the range $125m-$130m compared to previous projections for $105m-$125m, whilst FY2013 profit guidance pointed to underlying net profit after tax of $28m-$29m compared to previous projections for $27m-$29m; at the top end this represents 9% growth vs the prior comparative period. Whilst the higher than anticipated guidance on PDL volumes is a positive, and helps underpin 2014 earnings, the company did note that purchasing conditions remain challenging with credit growth 'slow', and 'aggressive' competition amongst buyers. They also noted that credit issuers having taken advantage of the high industry prices by selling increased volumes. We remain comfortable with our investment in Credit Corp although we're watching progress in its US early stage collections business as some success here is important in driving a strong medium-term growth story.

Universal Biosensors has been working for some time with Siemens on a number of Point of Care coagulation devices the first of which was slated to be a prothrombin time testing system. Over the month Siemens unveiled the Xprecia Stride™ Coagulation Analyzer, a handheld prothrombin time testing system (PT/INR) that has been developed with Universal Biosensors. This will be presented to the market at the 20th European Congress of Clinical Chemistry and Laboratory Medicine in Milan, Italy. No specific details on pricing and product launch timing have been provided as yet but it is pleasing that significant progress has been made and that a product is being delivered to the market in line with our expectations.

Ingenia Communities continued to deploy capital purchasing two rental villages over the course of the month. The first of those is the $3.7m acquisition of 49 unit rental village in Wagga Wagga, NSW. This purchase is close to an existing Ingenia village cluster. The economics of the village are attractive with it having a trailing cash yield of 11.8% and forecast unlevered internal rate of return (IRR) exceeding 16%. Later in the month the firm announced a further purchase spending $3m to acquire a 50 unit rental village in Ballarat, Victoria. The village has a current occupancy rate of 84% and considerable operational upside through increasing occupancy, growing rents to market levels and expanding cash margins. Ingenia is targeting a yield of approximately 11% in the first full year of ownership, with the asset anticipated to deliver an unlevered IRR in excess of 18%. The village is being acquired off-market out of a broader portfolio in receivership at a per unit price of $61,000, well below replacement cost. We regard these acquisitions as consistent with CEO Simon Owen's stated strategy, the economics of the purchases are attractive and they fit well with Ingenia's clustering approach.

Frank Jasper, Senior Portfolio Manager

Top 5 Portfolio Positions

as at 31/05/13

toxfree	8%
McMillan Shakespeare	7%
Credit Corp Group	7%
austbrokers	7%
RFG Retail Food Group	7%

A word from the Manager

American poet Henry Wadsworth Longfellow said "the best thing one can do when it's raining is to let it rain". Looking out on this particularly wet and dreary Auckland day, I understand that there are some things that are out of our control, which we cannot change, so we might as well just accept them.

Market volatility is one of those things. Even though textbooks depict economic and market cycles as being smooth with soft curves indicating the gradual transition from peak to trough, cycles rarely play out so smoothly in real life. Rather than just accepting short-term market 'bumps' in the context of a positive long-term trend, investors often try to explain the volatility and look for patterns which will give some guidance as to what's going to happen next. They'd find life a whole lot easier if they just accepted that market cycles can be erratic.

Markets were definitely jittery in the past month, with rather more down days than we've been used to in the calendar year-to-date. On an almost daily basis, market movements have been 'explained' by reference to the Federal Reserve (Fed) and its quantitative easing (QE) strategy. We haven't heard a squeak out of Europe, and job numbers and housing data (which, by the way, were generally positive) have barely even registered. Instead every down day has supposedly reflected the market's reaction to (or anticipation of) the imminent end of the Fed's monetary policy support. Every utterance from the Fed has been examined for a sign as to when the taps will be turned off, so that investors can sell ahead of what many believe will be the beginning of the next bear market. The logic is that it is only the Fed's support that has enabled the US share market to rally so strongly for so long (with other markets following suit). Once the Fed stops buying bonds, interest rates will start to rise which will put an end to economic growth.

However, this line of thinking is flawed and some investors are guilty of over-analysing and reading far too much in the tea leaves. For a start, Fed Chairman Ben Bernanke knows exactly what will happen if he withdraws support too quickly and he's hardly going to risk pandemonium by acting aggressively. The Fed has been very clear that a 'tapering' of policy (which means a gradual reduction not an outright stop) is only going to happen when the US economy is on a strong enough footing to be taken off life support. So it will actually be a good thing when QE support is removed because it will mean that the economy is growing on its own – the market should hardly react badly to that!

We are getting closer to a turning point in the economic cycle (which is a good thing) so we should accept that there will be more volatility as economies start to walk without support. The good thing is that the volatility we're experiencing now is quite different to the volatility we lived with during the financial crisis … and the likely outcome will be different (better) too. Let it rain.

Carmel Fisher, Managing Director

fisher funds

INVESTING 101

WHAT IS GDP?

GDP is a term you'll hear a lot when economic commentators are talking about the health of a country's economy. GDP stands for Gross Domestic Product.

It represents the total dollar value of all goods and services produced over a specific time period; in essence outlining the size of the economy. Usually, GDP is expressed as a comparison to the previous quarter or year. For example, if the year-to-year GDP is up 3%, this means that the economy has grown by 3% over the last year. Negative GDP growth is typically associated with recessions and this is what we experienced during the GFC.