Barramundi
LANDING TOMORROW'S TROPHIES

# monthly update

## JUNE 2014



## market update

The Australian share market was flat over the month. The healthcare (+2.7%) and technology (+2.6%) sectors staged a rebound off prior months' weakness, while the energy (+5.5%) sector rallied on positive oil price momentum and a weaker Aussie dollar.

The Australian federal budget occupied investor attention in May. The budget broadly aims to reduce public spending in the short-run in favour of infrastructure investment over the medium-term. Consumer confidence fell sharply post the budget as households were called upon to bear the brunt of the fiscal contraction through reduced social benefits and higher taxes. This policy direction had been well telegraphed and the budget presented no significant surprises for the share market.

## portfolio update

Key news on portfolio stocks over the month included:

Barramundi's relative under performance in May is largely due to **Universal Biosensors'** share price collapsing after management announced the terms of an agreement to sell their core OneTouch Verio business at an exceptionally disadvantageous price. We deem this a permanent impairment of capital and now question both the competence and integrity of Universal Biosensors' management. We have significantly reduced our position in the stock.

**Technology One** reported an interim result well ahead of expectations and management reiterated full year guidance of 10% to 15% profit growth. The company showed strong growth in initial license fees, boding well for continuing revenues in future, while expense growth was contained, resulting in a healthy improvement in underlying profitability. Growth in the number of cloud-based customers was encouraging and the UK business showed positive momentum following some senior management changes. The company enjoys a strong sales pipeline which we expect to support near-term earnings growth.

**Credit Corp** reaffirmed that it expects to deliver 15% earnings growth this year, tightening guidance at the top end of the previously disclosed range. Continued debt ledger purchasing over 2013 and 2014 is expected to secure medium-term earnings growth. The company delivered stellar growth in its lending book. Given the company's very conservative accounting policies, the true underlying profitability of this business could be superior to that reported. One area of concern is the consistently tough US business. When we reviewed the US expansion with CEO Thomas Beregi in May, we remained confident that his strategic decision to continue investing in the US is appropriate. The US is a tough trading environment for all players because of changing regulation. During these harder times weaker competitors will exit the sector, allowing remaining players greater exclusivity on a profitable opportunity when the regulatory issues are resolved. Credit Corp should be well positioned to benefit in that event.

Investors responded positively to **Coca-Cola Amatil's** trading update where management reiterated recent earnings guidance and a preliminary summary of its ongoing strategic review. Key areas of focus include revisiting the brand portfolio to ensure that the most profitable offerings are marketed in Australia, reviewing sales and distribution channels and finding innovative ways to further reduce costs. Coca-Cola Amatil has some of the most powerful global consumer brands, a distribution system with phenomenal reach, a stable wealthy market in Australia and a

## performance to 31/05/14

| | 1 Month | 3 Months | 6 Months | 1 Year | 3 Years (accumulated) | Since Inception October 2006 (accumulated) |
|---|---|---|---|---|---|---|
| BRM Adjusted NAV* | +0.3% | +0.0% | -8.3% | -6.3% | +5.6% | +7.7% |
| **Relative Performance** | | | | | | |
| S&P/ASX Small Ords Industrial Gross Index (in NZ dollar terms) | +1.4% | +1.5% | +0.3% | +0.8% | +8.6% | -3.3% |
| Total Shareholder Return* | +1.6% | -0.6% | -5.4% | +2.2% | +14.7% | +6.7% |

**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 include the dilution effect of warrants exercised.*

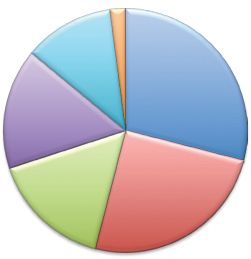
## May's biggest movers

*(from Bloomberg, in Australian dollar terms)*

| | |
|---|---|
| +14% | DWS |
| +14% | Crowe Horwath |
| -9% | Nanosonics |
| -14% | Noni B |
| -43% | Universal Biosensors |

## sector split as at 31/05/14

- **29%** Industrials
- **25%** Information Technology
- **16%** Financials
- **16%** Consumer Discretionary
- **12%** Healthcare
- **2%** Consumer Staples



## at a glance as at 31/05/14

| | |
|---|---|
| BRM NAV | $0.70 |
| Share Price | $0.65 |
| Discount | 6.9% |

*At $0.65 Barramundi currently trades at a discount to NAV of 6.9%. The discount could provide value, as investors are able to purchase a portfolio with a NAV of $0.70 per share for only $0.65 per share.*

## portfolio update continued

large, fast-growing emerging market in Indonesia. We look forward to the company's detailed strategic review in August 2014.

**CSG** reaffirmed earnings guidance and talked of solid progress on key projects. The company is selling more annuity products to current customers, attracting new customers, developing their finance business and improving cost efficiency. The current management team has a good execution record, positioning them well for the business' new expansion phase.

**Ingenia Communities** left investors somewhat disappointed when it reported that notwithstanding continued strong demand for homes in its villages, sales this year will fall short of expectations because of manufacturing delays. Although we will be monitoring execution closely, for now we see teething problems with supply as a short-term non-recurring issue. During the month we visited several Ingenia sites and their largest manufactured home supplier. We were impressed by the quality of life Ingenia customers enjoy and by the escalating demand for space in Ingenia villages. As Australia's population ages, companies that can provide retirees with appropriate lifestyle options at affordable prices will enjoy a substantial growth runway. Our analysis of Ingenia's manufactured home supplier was instructive; Ingenia buys 60% of their volume every year, enjoys substantial price discounts, and does not pay the supplier until the home has been paid for by Ingenia's customer. The very beneficial trading terms Ingenia enjoys in dealing with its suppliers demonstrates the strength of Ingenia's business.

The potential for a competitive bidding process for an influential share of **Crowe Horwath** is increasing. In addition to Alceon, mentioned in last month's update, there are now possibly two additional interested parties. One of these, Financial Index Wealth Accountants, has contracted to undertake due diligence on Crowe Horwath with a view to acquiring the company.

*Manuel Greenland, Senior Portfolio Manager*

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

## top 5 portfolio positions

as at 31/05/14

| | |
|---|---|
| toxfree | 11% |
| RFG (Retail Food Group) | 9% |
| technologyone | 8% |
| Ingenia Communities | 7% |
| Credit Corp Group | 6% |

fisher funds

## a word from the manager

I enjoy watching *The Voice Australia* and particularly like this stage of the show where the judges' teams are nearly full so their chairs only turn around for exceptional performances. For those unfamiliar with the format, The Voice is a reality show where contestants audition to join one of the judges' teams, but with a twist - the judges never see the contestant. Their chairs are turned away from the stage so they can only judge the contestant based on his or her voice. Sometimes several judges' chairs turn around and the performer gets to choose which mentor's team to join.

There are shades of *The Voice* in markets right now. In May we saw the US share market and economic activity hit all-time records; the five year anniversary of the end of the GFC came and went; and market volatility has been eerily low with only eight days of S&P500 Index returns of -1% or worse since the beginning of the year. But investors aren't turning their chairs. Sentiment is neither bullish nor bearish, and news has to be extremely good (and no doubt extremely bad) to garner reaction.

We talked about the lower-than-usual volatility last month and mentioned that pundits were trying to find inner meaning or predict future trends from the smooth sailing markets. The longer markets stay reasonably flat the more, it seems, investors are happy to accept low volatility and become, if not complacent, at least comfortable with the trend.

We can tell this from the reaction to the S&P500's latest all-time high (which at the time of writing is 1924). It used to be that when the S&P pushed through a round number, it was big news. Back in May last year, the 1600 milestone was cause for celebration, as was the 1700 mark in August. When the S&P burst through its 40th record high for the year to hit 1800 in November 2013, investors were excited. But when the 1900 hurdle was reached last month, the reaction was pretty ho hum – 'oh, another record high?' There were few headlines calling for the market to go to 2000 and beyond, and neither were there headlines starting with 'What goes up…'. It just happened and the markets moved on.

Times have certainly changed, and time has probably helped. Markets have had time to adjust and get used to the new order of things, and the new order is pretty good. Sentiment, like the global economy, is in a good space. Global economic activity, consumer and business confidence, retail sales, house prices and corporate profitability are all improving at a steady if unexciting pace, and this is providing support for markets and market sentiment. A growing global economy fuels profit growth, which will ultimately drive markets upwards; it's as simple as that.

The chairs are not turning around though because steady-state, gradual improvements don't warrant big reactions and much of the improvement and future expectation for growth is already built into asset prices. So investors are looking for exceptional, out-of-the ordinary performances or stories to spark their interest... and so it should be. Profit results that exceed expectations and encourage forecast upgrades are generating positive share price reactions. New share market listings that offer better prospects than existing listed companies are well sought after, whereas those that are a bit same old are proving less popular. Government and central bank policy announcements that are consistent with what we've come to expect are largely being ignored. And so it should be.

*Carmel Fisher, Managing Director*



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