Barramundi
LANDING TOMORROW'S TROPHIES

Monthly Update

September 2018

BRM NAV **$0.74** | SHARE PRICE **$0.64** | DISCOUNT **14.0%**

as at 31 August 2018

A word from the Manager

Market Overview

With reporting season hitting top gear in August, company results were the key driver of the market's performance with the ASX 200 index (70% hedged in NZ$) tracking +1.4% higher across the month. The market took domestic political upheaval in its stride with Australia switching its Prime Minister during the month for the 5th time in the past eight years. Financials seemed to wear the political risk most visibly with the sector performing poorly in the days around the Prime Ministerial change.

On the whole, results across the market were well received and outlook commentary seemed positive.

The Telecommunication services sector returned +13.1% in A$ terms for the month as the sector began consolidating with Vodafone and TPG Telecom announcing a merger.

Information Technology, which rose +12.9% was one of the standout sectors in the market this reporting season. Tech businesses continue to benefit from the structural tailwind of rising demand across the economy for software and cloud based applications, and growth continues to surprise on the upside within this sector.

The Healthcare sector was another high achiever, with the likes of CSL (+15.6%) and Resmed (+10.2%) continuing to cement and enhance their global leadership positions in each of their niches.

Companies within the consumer discretionary sector, (+3.5% for the month) typically delivered better than expected results as consumer spending seems to be holding up better than feared, given the backdrop of tightening lending standards and a softening housing market.

Financials underperformed the index in the month, in part due to political sentiment. Insurance companies results and outlook statements were positive and their results were bolstered by a hardening premium rate environment. The major banks quarterly updates (and full year results in the case of CBA) proved to be favourable, with modest credit growth, and relatively stable net interest margins and loan impairments the order of the day.

Companies in the materials, energy and industrials sectors delivered a mixed bag of results, with strong cash flow generation and some positive capital management surprises offset by rising cost pressures across raw materials, labour and consumables.

Results Season

In August Barramundi's gross performance return was +5.8%. This was a pleasing result compared to the ASX 200 Index (70% hedged into NZ$) which returned +1.4%. The majority of our portfolio companies reported strong earning results for the month.

Wisetech Global's (up +40% in the month in A$) results were marginally ahead of guidance with strong organic and acquisition related growth. The company provided positive commentary for FY2019 with an outlook of strong growth. Our team attended a breakfast meeting with Richard White (CEO) and some of his management team the day after the result. We remain impressed with their focussed approach as they continue taking steps to establish the CargoWise One platform as the global operating standard in cloud based software solutions for the freight forwarding and logistics industries. We expect that the business will grow reasonably fast through organic growth, abetted by strategically important acquisitions for years to come.

XERO (+19.3%) did not report in August, but had a positive AGM and benefitted from positive market sentiment to the tech sector which generally had a good reporting season as mentioned above. This also played into **Technology One's** return for the month (+11.9%) as it continued to rise following its market update in July (which we wrote about in last month's update).

CSL (+15.6%) continues to benefit from its decision to invest heavily over a number of years in opening new plasma collection centres. This investment has made CSL the key beneficiary of a tight market in plasma derived products as global demand for plasma products continues to grow strongly relative to supply. Pleasingly, CSL's burgeoning influenza business also posted a maiden profit ahead of schedule.

Credit Corp (+12.2%) reported results in late July. CCP's share price rose across the month on the back of a favourable operating environment as they benefit from tightening lending restrictions by the major banks and a favourable backdrop for their expansion into the US.

Nanosonics (+11.4%) is accelerating the roll out of its next generation Trophon 2 product, underpinning its growth trajectory into 2019.

Brambles (+11%) rounded out our top performers for the month, posting a solid result in a tough operating environment which was enough to spark a relief rally for the share price. Brambles also announced it was exploring the demerger of IFCO, its reusable plastic containers business, which was taken well by the market.

Ansell (-11.7%) suffered from market concerns regarding the cost of raw materials. We remain comfortable with the overall direction that Ansell is being taken in by management. They are streamlining operations around Ansell's Industrial and Healthcare business units and focussing their product portfolios within these divisions on higher growth and higher returning categories. Management has also been disciplined in the pursuit of acquisitions. In time we think this will pay dividends for shareholders.

Rio Tinto (-8.4%) and to a lesser degree **BHP** (-4.7%) were also impacted by rising cost pressures in spite of each of them delivering a solid set of financial results. Both companies have been anticipating a sustained increase in cost inflation for a while. We're comfortable that their management teams remain ahead of the curve in the productivity initiatives that they currently have underway to help mitigate this cost inflation.

Portfolio Changes

In a key portfolio change during the month we sold our Ramsay Healthcare position.

We have long admired the quality of the business. Ramsay has by all accounts some of the best private hospitals in Australia (and good operations offshore) and is well managed. It also stands to benefit longer term from the structural trends of ageing demographics and (unfortunately) rising obesity.

However, our work in the past few months has raised our concerns related to a number of headwinds facing the company that appear somewhat structural in nature. These headwinds include private health insurance pricing pressure, a trend of patients spending less time in hospitals for operations, as treatment methods continue to improve as well as rising cost pressures (primarily labour cost pressures). Hence our outlook for Ramsay's earnings growth over the next few years has deteriorated and given its valuation relative to this deterioration in earnings outlook, we have consequently exited the position. We expect the resulting cash balance to come down over the next couple of months as we continue to review and re-assess positioning across the portfolio.

Robbie Urquhart
Senior Portfolio Manager
Fisher Funds Management Limited

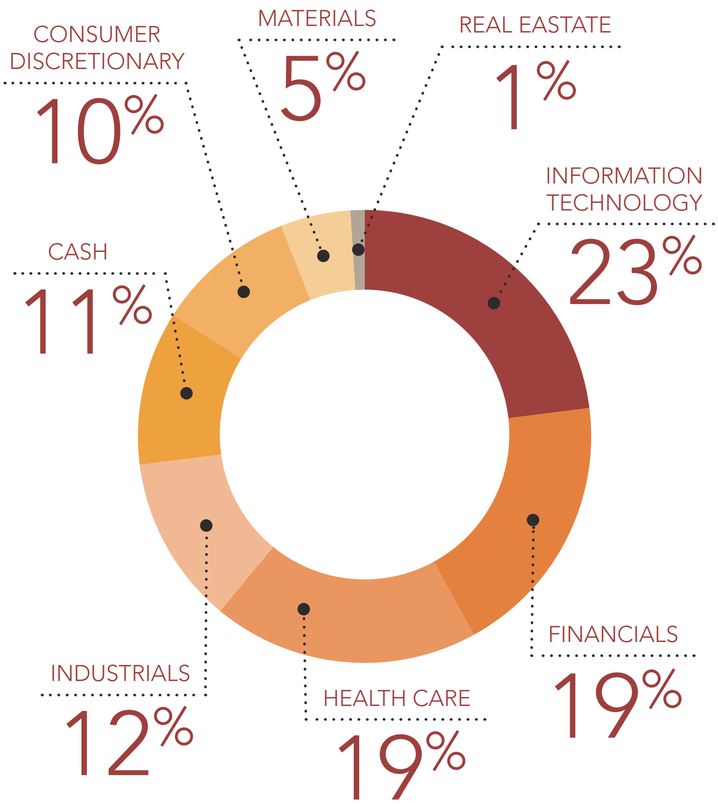
Key Details

as at 31 August 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	$0.70
SHARES ON ISSUE	167m
MARKET CAPITALISATION	$107m
GEARING	None (maximum permitted 20% of gross asset value)

Sector Split

as at 31 August 2018



August's Biggest Movers in Australian dollar terms

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

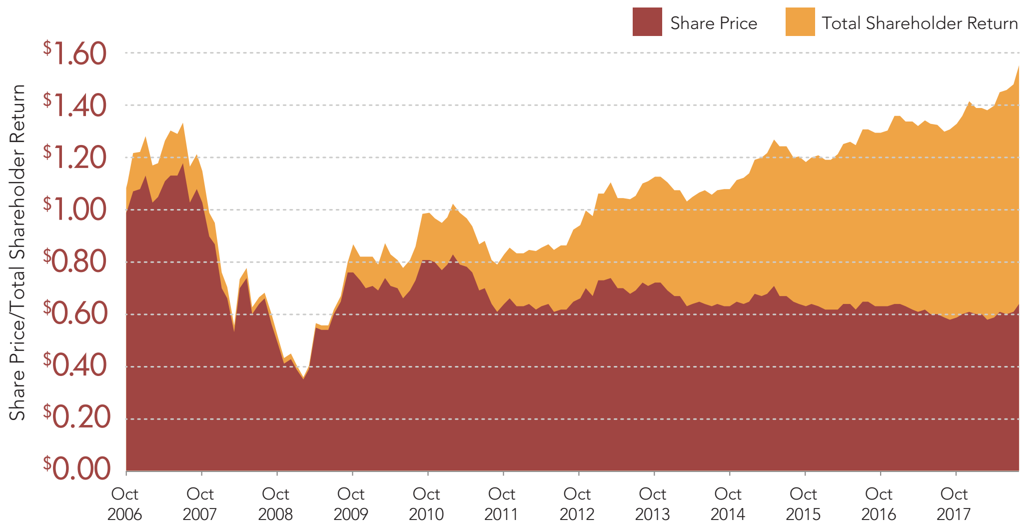
WISETECH GLOBAL	XERO	CSL	ANSELL	RIO TINTO
+40%	+19%	+16%	-12%	-8%

5 Largest Portfolio Positions as at 31 August 2018

CSL	SEEK	CARSALES.COM	BRAMBLES	COMMONWEALTH BANK OF AUSTRALIA
7%	7%	6%	5%	5%

The remaining portfolio is made up of another 21 stocks and cash.

Total Shareholder Return to 31 August 2018



Performance to 31 August 2018

	1 Month	3 Months	1 Year	3 Years (annualised)	Since Inception (annualised)
Company Performance					
Total Shareholder Return	+4.9%	+7.3%	+19.7%	+9.1%	+3.8%
Adjusted NAV Return	+5.5%	+9.5%	+24.6%	+12.9%	+4.8%
Portfolio Performance					
Gross Performance Return	+5.8%	+11.1%	+28.5%	+16.6%	+8.2%
Benchmark Index^	+1.4%	+6.6%	+15.3%	+12.7%	+3.4%

^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 7.4m of its shares on market in the year to 31 October 2018

» 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

» Warrants put Barramundi in a better position to grow further, operate efficiently and pursue other capital structure initiatives as appropriate

» A warrant is the right, not the obligation, to purchase an ordinary share in Barramundi at a fixed price on a fixed date

» There are currently no warrants on issue

Barramundi

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