Quarter Update Newsletter

31 December 2017 — 31 March 2018

Barramundi
LANDING TOMORROW'S TROPHIES

BRM NAV	SHARE PRICE	DISCOUNT
$0.65	$0.58	10.9%

as at 31 March 2018

- » **Over the quarter the Barramundi portfolio was down 2.9%, while the benchmark[1] was down 4.7%**
- » **Market volatility gave us the opportunity to add to positions in Credit Corp and Domino's Pizza**
- » **Increased competition prompted us to begin exiting IVF provider, Virtus**
- » **Recent departure from the Kingfish portfolio, Xero, is now welcomed into the Barramundi portfolio**

In the first quarter of 2018 market volatility picked up. Common volatility indicators such as the VIX index spiked from all-time lows to five times those levels. Driven by inflation concerns, and exacerbated by technical factors, investors were treated to a rollercoaster ride that has not been experienced for some time.

Globally, investors have become used to low and incredibly stable inflation; in fact deflation was the bigger fear for most market participants. However, during the quarter, investors got a reminder that nothing lasts forever, including low inflation. Two data points acted as wakeup calls. Payroll data in the United States was released which showed early evidence of upwards pressure on wages, followed up by surprisingly strong consumer prices data.

Markets do not like change and reacted accordingly. Shares fell sharply from recent highs on January 26, with the United States S&P 500, as an example, down 10% to its lows for the quarter on February 8. Australia did not escape unscathed and was down 4.9% intra period, however climbed back somewhat. It is important to remember that on the flipside, Australia's economy is sound, as is the global economy, more and more people are working and wages are rising, which fuels more activity. Company earnings will continue to be robust. Earnings growth is a powerful tonic for equity prices.

In such an environment, while the Barramundi portfolio was down 2.9% for the three months to 31 March 2018, it outperformed its benchmark[1] which fell 4.7% over the same period.

Key portfolio news

Strong earnings results drove the performance of the leading contributors to portfolio performance over the quarter. **NextDC** was up 9% for the quarter. An owner and operation of carrier neutral datacentres, it crushed market expectations posting a very upbeat earnings result. NextDC is benefitting from strong uptake of datacentre space as customers increasing move towards cloud computing and away from traditional on premise IT infrastructure. NextDC is in the enviable position where every dollar of revenue added generates a high incremental level of profitability. The market is beginning to understand this dynamic.

Notable Returns for the Quarter in Australian dollars

RESMED	CSL LIMITED	RAMSAY HEALTHCARE	CREDIT CORP	WISETECH GLOBAL
+13%	+11%	-10%	-12%	-33%

Similarly, **Resmed** (+13%), **CSL** (+11%) and **ARB** (+6%) demonstrated strong profitability, delivering healthy share price gains. In the case of ARB the company posted its strongest sales growth in seven years. CSL is benefitting from a "good" flu season in the Northern hemisphere, producing a better than expected margin performance in its Seqirus business. Resmed continues to gain share in the obstructive sleep apnea (OSA) market on the rollout of new masks and, in our view, its connected OSA management platform has created a sustainable competitive advantage

The biggest negative for the quarter was the share price performance of logistics software provider **Wisetech** (-33%) which, despite posting profit growth of 32%, lagged bullish market expectations. To put this in context, and even with February's steep share price fall, Wisetech shares have risen 68% in the past twelve months.

We continue to be very comfortable with our investment in the firm. Wisetech is a global leader in providing cloud-based software to help customers in the highly competitive freight forwarding industry improve efficiency. Given the razor sharp margins in this industry efficiency is a critical customer need. The company addresses a significant market opportunity, has high quality management and a clear multiyear growth strategy. We will be looking to add to Barramundi's investment on further weakness.

Portfolio changes

Over the course of the quarter we used share price weakness to add to positions in both **Domino's Pizza** and **Credit Corp**.

In both cases we felt the market had over reacted to results. For **Domino's** the first half was soggy but this is something we expected. The Australasian business should post strong growth in the second half, Japanese sales performance has picked up markedly after a first half misstep and the solid momentum in European sales is expected to continue.

Credit Corp was "guilty" of not raising guidance. Investors have got used to CEO Thomas Beregi beating expectations and setting the bar even higher. That wasn't the case this time. There was something much more interesting in this result in our view. The company is beginning to gain real traction in its

[1] S&P/ASX200 (hedged 70% to NZD)

US business. The US Purchased Debt Ledger market is 10 times the size of the Australian market. Credit Corp is now on-track to create a business that is of similar size to its Australian operation. At this level it would have a US market share of around 4%. We believe it could readily grow beyond this providing a significant growth option for the company over years to come.

Despite a reasonable result delivered on the back of cost savings and a good share price bounce we made the decision to begin exiting IVF provider, **Virtus**. We have become increasingly concerned that competitors offering low cost IVF treatments will cannibalise Virtus's full service premium priced offering. Ultimately there is a risk that Virtus will need to lower the price of their offer affecting future profitability. To compound this risk, Virtus has expanded offshore and its operations in Singapore and Ireland have been indifferent performers to date. Management has doubled down on this strategy. We don't share their confidence that this is the right step forward for the business.

During the quarter we added **Xero** to the portfolio. With Xero's move to a sole listing on the ASX, it now fits within Barramundi's fishing pond. We regard Xero as a well-run, high quality business with a global growth opportunity. It is an obvious portfolio candidate.

Frank Jasper
Chief Investment Officer
Fisher Funds Management Limited
23 April 2018

Performance

as at 31 March 2018

	3 Months	3 Years (annualised)	5 Years (annualised)
Corporate Performance			
Total Shareholder Return	(2.6%)	+4.7%	+4.5%
Adjusted NAV Return	(2.9%)	+6.2%	+4.5%
Manager Performance			
Gross Performance Return	(2.9%)	+8.9%	+7.8%
Benchmark Index[1]	(4.7%)	+9.8%	+5.2%

[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, 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,*
- » *gross performance return – the Manager's portfolio performance in terms of stock selection and hedging of currency movements, 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 including adjusted net asset value, 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 29 March 2018

A dividend of 1.38 cents per share was paid to Barramundi shareholders on 29 March 2018, under the quarterly distribution policy. Interest in Barramundi's dividend reinvestment plan (DRP) remains high with 37% 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 2018

COMPANY	% Holding
ANSELL	4.2%
APN OUTDOOR	1.5%
ARB CORPORATION	4.5%
AUB GROUP	3.5%
BHP BILLITON	2.7%
BRAMBLES	3.9%
CARSALES	6.1%
COMMONWEALTH BANK	4.7%
CREDIT CORP	3.4%
CSL	7.7%
DOMINO'S PIZZA	3.0%
GATEWAY LIFESTYLE GROUP	1.4%
INGENIA COMMUNITIES	1.5%
LINK ADMINISTRATION HOLDINGS	4.1%
NANOSONICS	2.1%
NATIONAL AUSTRALIA BANK	5.0%
NEXTDC	3.2%
OOH! MEDIA	2.6%
RAMSAY HEALTH CARE	3.9%
RESMED	3.4%
RIO TINTO	1.9%
SEEK	6.5%
SONIC HEALTHCARE	4.2%
TECHNOLOGY ONE	2.3%
VIRTUS HEALTH	0.9%
WESTPAC	3.0%
WISETECH GLOBAL	2.2%
XERO	2.3%
EQUITY TOTAL	**95.8%**
AUSTRALIAN DOLLAR CASH	1.5%
NEW ZEALAND DOLLAR CASH	1.8%
TOTAL CASH	**3.3%**
CENTREBET RIGHTS	0.1%
FORWARD FOREIGN EXCHANGE CONTRACTS	0.8%
TOTAL	**100.0%**

Barramundi

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