# Monthly Update

December 2019

BRM NAV[2] $0.74 | SHARE PRICE $0.71 | DISCOUNT[1] 3.6%

as at 30 November 2019

# A word from the Manager

## Market Overview

The S&P/ASX 200 Index returned +3.3% (in A$), broadly in line with major global indices. All sectors apart from Financials and Utilities (-0.6%) finished in positive territory for the month. The Information Technology (+11%), Healthcare (+8.9%) and Consumer Staples (+8.3%) sectors performed particularly well during the month.

## Portfolio News

**Technology One (+25.9% in A$)** reported full year financial results that were broadly in line with market expectations during the month. The result was Technology One's first under the new AASB[2] 15 accounting standard and although messy the market reacted well to the result coming in at the top end of guidance. The process of converting on premise customers to its cloud based offering continued through the period. Cloud based customers now constitute over a third of the total customer base (and software revenues). During the period Technology One won a contract with the Australian Department of Defence. The contract win was unique in that it was on premise but should be converted to a cloud based offering once Technology One get the necessary security clearances in the coming year. Encouragingly, progress is being made in the UK division where losses continue to abate and the division is nearing break even. The company signed six new UK customers and expects this market to be a source of future growth.

**Xero (+17.8%)** announced its interim financial result, which saw subscribers exceed two million for the first time and drove a +33% increase in revenue growth. Other milestones included doubling operating profit (EBITDA) and an increase in its gross profit margin. Subscriber growth was strong courtesy of Australia (+114,000) and the UK (+73,000). These subscriber additions were helped by supportive regulatory change as Australia introduced 'Single Touch Payroll' and the UK introduced its first phase of 'Making Tax Digital' for small businesses.

**CSL (+10.7%)** continued its strong share price performance of recent months. Results from its competitors, corroborated by industry data pointed to continued tightness in the supply / demand balance in key plasma therapy markets, which resulted in a number of brokers upgrading their earnings forecasts and valuations in the month.

**Aristocrat (+8.2%)** rose strongly on the back of its financial results which largely met market expectations. Aristocrat's key North American land-based electronic gaming machine division delivered a strong set of results as the company showed evidence of successfully expanding into adjacent gaming markets. Pleasingly, its digital gaming division also met market expectations. The social casino division delivered tepid results as expected, while the casual gaming digital division's strong result was underpinned by the success of popular game 'Raid'. This lays a strong foundation for the results of this division in the next year. We exited our Aristocrat position after the result. Over the course of the last few financial results our conviction in some aspect of the business has reduced. Regarding the longer term earnings outlook there are some early signs that key competitors in land-based gaming are starting to improve their performance which is not helpful in a mature industry. Although the digital gaming division has performed adequately, overall it has missed our expectations since we initially invested in Aristocrat. Mostly however, we have come to increasingly question the long-term sustainability of Aristocrat's business model from an Environmental, Social and Governance perspective and hence decided to sell our shares.

**Westpac (-10.5%)** led the underperformance of the large banks in Australia during the month. At Westpac's annual result it cut its dividend and raised equity to bolster its capital position. Shortly after this, AUSTRAC (the anti-money laundering and counter-terrorism financing regulator) began civil proceedings in relation to alleged contraventions of Westpac's obligations under the requisite regulations. The details of this civil proceeding took the market by surprise. Westpac had previously disclosed that as part of its programme to improve its management of financial crime risks it had discovered that a large number of international funds transfer instructions had not been reported to AUSTRAC as required. Westpac self-reported these breaches to AUSTRAC. This had sparked an investigation by AUSTRAC into Westpac's processes and banking activities. However, the statement of claim filed in court by AUSTRAC in November was more extensive than expected by the market. This claim extended

[1] Share Price Discount to NAV (using NAV to four decimal places).
[2] Australian Accounting Standards Board.

beyond the issues self-reported by Westpac and included funds transfers that are characteristic of the type linked to child exploitation activities.

In the wake of AUSTRAC's filing, the Westpac CEO has resigned and been replaced by an interim CEO. Westpac's chairman has brought forward his resignation into the first half of 2020 and the Director chairing the Board's Risk & Compliance committee will not seek re-election at December's AGM. A number of work streams have been initiated to address the company's failings.

**National Australia Bank's (-6.8%)** share price also fell during the month following a tepid earnings result, and it was also impacted by AUSTRAC's statement of claim filing against Westpac. Similar to Westpac, NAB has previously disclosed that it too has self-reported a number of compliance breaches to AUSTRAC. NAB is working with AUSTRAC to address and resolve these breaches. The uncertainty affiliated with this investigation weighed on NAB's share price. The NAB chairman (and interim CEO) has spoken about how the bank has begun overhauling processes and practices to address the bank's failings although acknowledged that "it is still early days and there is more work to be done to achieve sustainable change." This process no doubt will be picked up and continued by the incoming new CEO at NAB (Ross McEwan) who started in his role on 2nd December

## Portfolio Changes

During the month we exited Aristocrat, (as discussed above).

Robbie Urquhart
**Senior Portfolio Manager**
**Fisher Funds Management Limited**

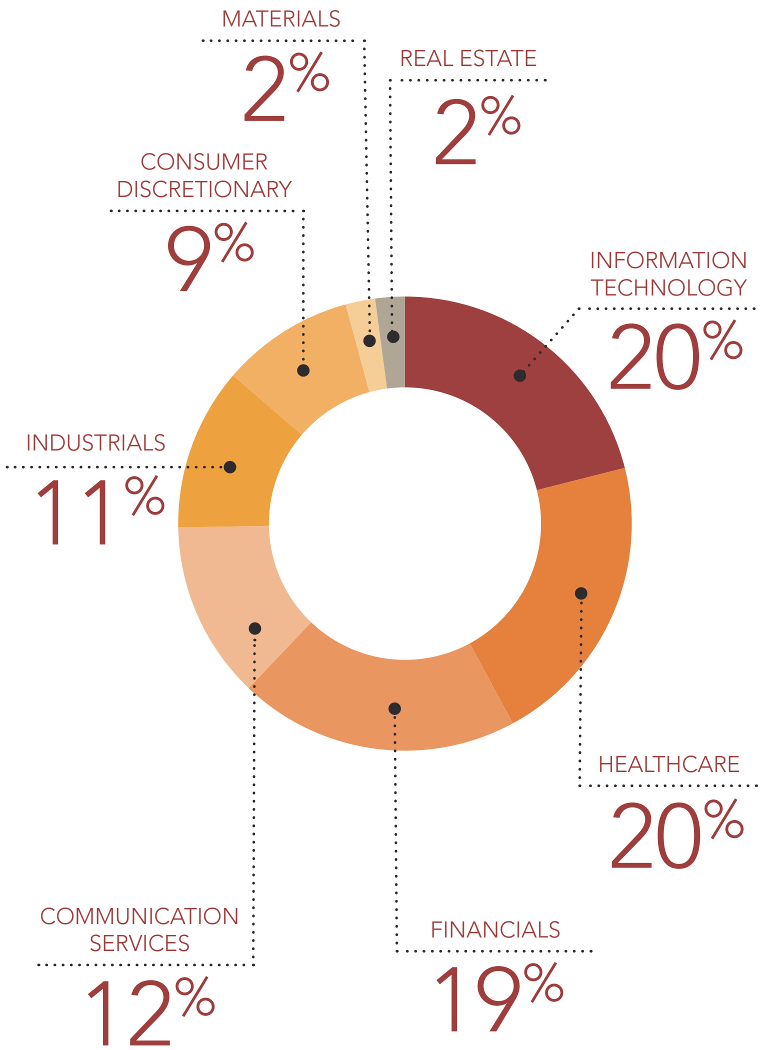
# Key Details

## as at 30 November 2019

| | |
|---|---|
| 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 FEE HURDLE | Changes in the NZ 90 Day Bank Bill Index + 7% |
| PERFORMANCE FEE | 10% of returns in excess of benchmark and high water mark |
| HIGH WATER MARK | $0.61 |
| PERFORMANCE FEE CAP | 1.25% |
| SHARES ON ISSUE | 204m |
| MARKET CAPITALISATION | $145m |
| GEARING | None (maximum permitted 20% of gross asset value) |

# Sector Split

## as at 30 November 2019




The Barramundi portfolio also holds cash.

# November's Biggest Movers in Australian dollar terms

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

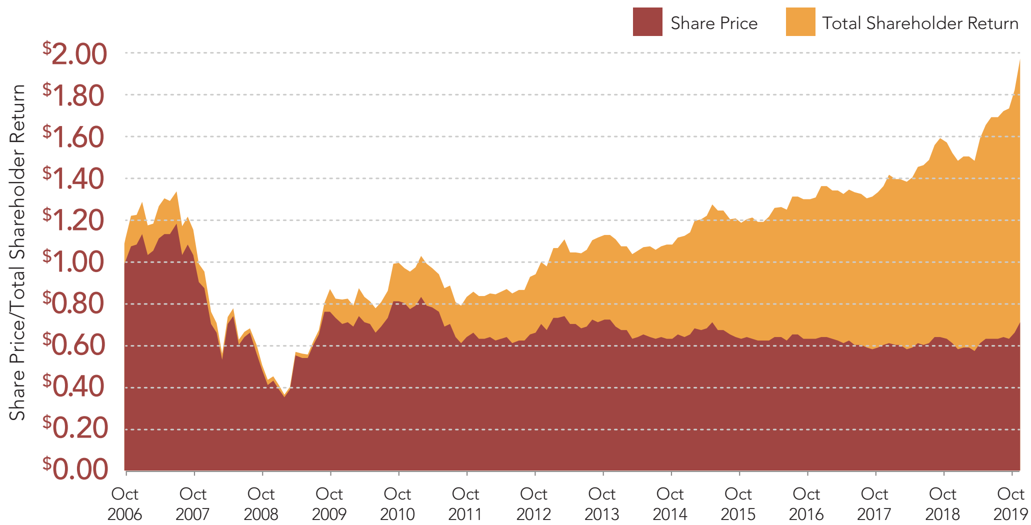
| TECHNOLOGY ONE | XERO LIMITED | OOH MEDIA LIMITED | CSL LIMITED | WESTPAC BANKING CORPORATION |
|---|---|---|---|---|
| +26% | +18% | +13% | +11% | -10% |

# 5 Largest Portfolio Positions as at 30 November 2019

| CSL LIMITED | SEEK | CARSALES.COM | XERO LIMITED | COMMONWEALTH BANK |
|---|---|---|---|---|
| 7% | 7% | 7% | 5% | 5% |

The remaining portfolio is made up of another 20 stocks and cash.

# Total Shareholder Return to 30 November 2019




# Performance to 30 November 2019

| | 1 Month | 3 Months | 1 Year | 3 Years (annualised) | 5 Years (annualised) |
|---|---|---|---|---|---|
| Company Performance | | | | | |
| Total Shareholder Return | +8.5% | +14.8% | +29.5% | +14.8% | +12.1% |
| Adjusted NAV Return | +3.0% | +6.0% | +29.3% | +14.7% | +11.5% |
| Portfolio Performance | | | | | |
| Gross Performance Return | +4.2% | +7.7% | +33.8% | +18.2% | +15.2% |
| Benchmark Index^ | +2.7% | +4.4% | +25.7% | +13.1% | +11.4% |

^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, 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 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 8.6m of its shares on market in the year to 31 October 2020

» 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



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