Barramundi

LANDING TOMORROW'S TROPHIES

Monthly Update

February 2019

BRM NAV **$0.63** | SHARE PRICE **$0.59** | WARRANT PRICE **$0.01** | DISCOUNT[1] **6.0%**

as at 31 January 2019

A word from the Manager

Market Overview

Following the torrid December quarter the ASX200 rebounded +3.9% during January. The rebound was broad based with all but one of the GICS[2] sectors finishing in the green during the month. Buoyed by rising crude oil prices, Energy (+11.5% in A$) was the best performing sector, followed by Information Technology (+9.3%), Communication Services (+7.8%) and Materials (+7.0%).

Only Financials bucked the trend, falling -0.2% for the month as the market braced for the final Royal Commission report into the sector which is being released in early February.

Portfolio News

Barramundi also had a broad based, solid start to the year, with 20 out of 26 portfolio positions finishing the month in the green.

A feature of the sell-off in the December quarter was that high growth companies share prices fell more than the market. As risk sentiment towards higher growth companies improved in January, their share prices typically rebounded more strongly than the market.

A similar pattern was observed across our portfolio companies. Although there was no substantive news related to the individual companies, it was pleasing to see the share prices of a number of our higher growth companies also rebound strongly in January. These companies included **Wisetech** (+20.4% in A$ for the month), **Nanosonics** (+17.6%), **Carsales** (+14.6%) and **Technology One** (+13.2%).

During the month we had two companies (Credit Corp and Resmed) report financial results.

Credit Corp (+17.2% in A$ for the month) reported a solid set of results, and upgraded their earnings guidance for the full year. The company continues to do well in organically growing its profitability in the US purchased debt ledger market, and was added to a further two panels including one of the largest purchased debt ledger sellers in the US. Closer to home, in Australia, management are also successfully growing the consumer lending business, attracting new customers without compromising their credit standards. This financial discipline was also evident in the Australian purchased debt ledger results. Credit Corp has elected not to chase business in this division at the cost of price. While this results in slower earnings growth in the near-term, in the long run we think the company and its shareholders will be rewarded for this discipline.

Resmed (-17.9%) fell after reporting its second quarter financial year result. Sales of Resmed devices in markets outside the US were substantially below expectations in Q2. Resmed had benefited in 2018 from some regulatory changes in France and Japan, and it became apparent that this one-off benefit was larger at the time than the market had appreciated. We do not think that this 'miss' is a reflection of a negative structural shift in the longer run outlook for sales. Outside of this division, the market also had some question marks about the recent step-up in Resmed's investment in software related to the provision of medical care to patients. The execution and pay-off of these software related investments is long dated. In the near-term large earnings growth from this expansion won't be evident and this also disappointed the market. We think that the logic and investment rationale behind this software strategy is sound. As long as it is well managed, this investment in software adds another plank to Resmed's growth profile. We remain comfortable with our investment in the company.

Industry reports released in January suggest that **Aristocrat's (+12.8%)** digital social casino operations grew faster than market growth rates during the December quarter. Similarly, from these reports Aristocrat looks to have continued winning market share within the North American land based casino market across the December quarter.

Diversified miners **Rio Tinto (+11%)** and **BHP (+6.1%)** continued their strong share price performance of recent months. Both benefited from strengthening iron

[1] Share Price Discount to NAV (including warrant price on a pro-rated basis)

[2] The Global Industry Classification Standard (GICS) is the MSCI & Standard & Poors sector classifications, including Energy, Materials, Industrials, Consumer Discretionary, Consumer Staples, Health Care, Financials, Information Technology, Real Estate, Communication Services and Utilities Sector.

ore prices on the back of signs in January of seasonal inventory re-stocking by Chinese steel mills. BHP was also a beneficiary of rising oil prices with Brent (+12.6%) and WTI Crude (+18%) up strongly across the month. Most poignantly, both companies are indirect beneficiaries of the collapse of a tailings dam wall at one of Vale's mining sites in Brazil. The collapse of the dam wall, which has come with a high human and environmental cost is expected to disrupt the seaborne iron ore market. This led to a spike in iron ore pricing (up +16% over the month) and has underpinned the rise in both RIO and BHP's share prices.

Portfolio Changes

Outside of topping up our Resmed position post their Q2 results, there were no substantive changes to the portfolio composition in January.

Robbie Urquhart
Senior Portfolio Manager
Fisher Funds Management Limited

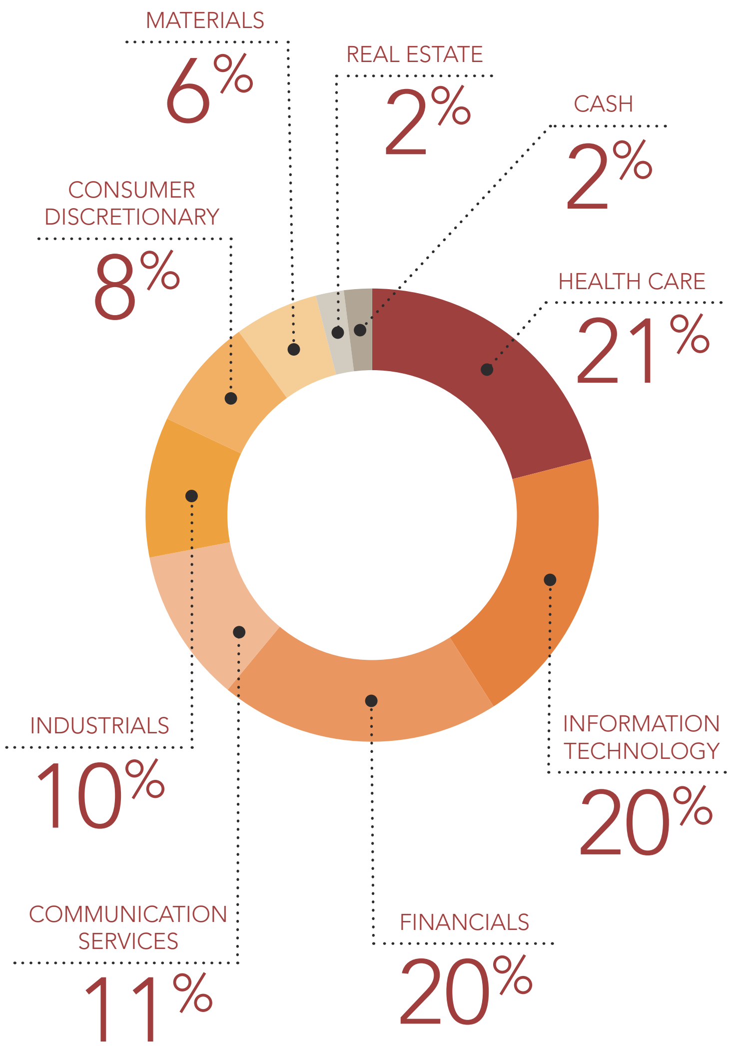
Key Details

as at 31 January 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 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	$0.67
SHARES ON ISSUE	170m
MARKET CAPITALISATION	$100m
GEARING	None (maximum permitted 20% of gross asset value)

Sector Split

as at 31 January 2019



January's Biggest Movers in Australian dollar terms

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

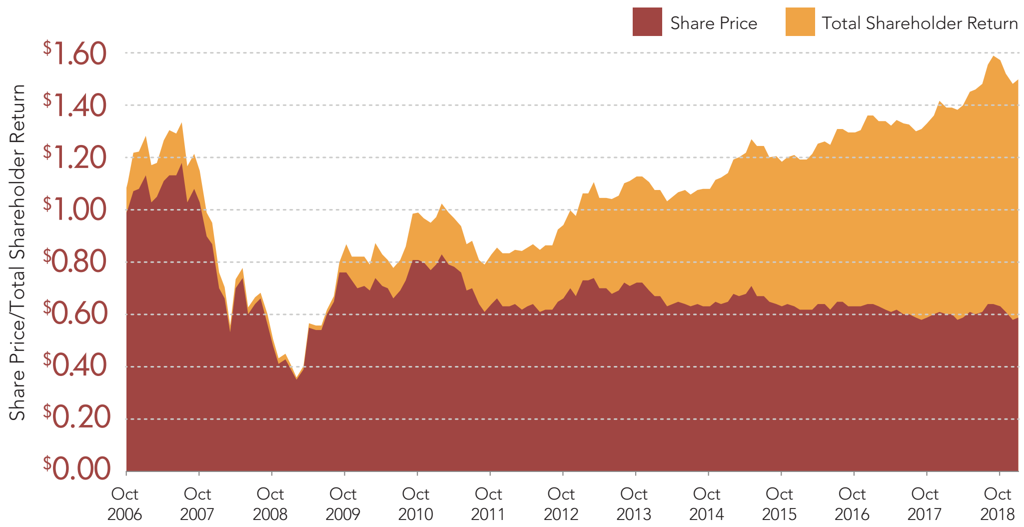
WISETECH GLOBAL	NANOSONICS	CREDIT CORP GROUP	CARSALES.COM	RESMED
+20%	+18%	+17%	+15%	-18%

5 Largest Portfolio Positions as at 31 January 2019

CARSALES.COM	CSL LIMITED	SEEK	COMMONWEALTH BANK OF AUSTRALIA	XERO LIMITED
7%	7%	7%	5%	5%

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

Total Shareholder Return to 31 January 2019



Performance to 31 January 2019

	1 Month	3 Months	1 Year	3 Years (annualised)	Since Inception (annualised)
Company Performance					
Total Shareholder Return	+1.7%	(4.1%)	+8.0%	+8.1%	+3.4%
Adjusted NAV Return	+5.3%	(0.7%)	(0.4%)	+6.1%	+3.6%
Portfolio Performance					
Gross Performance Return	+5.4%	+0.3%	+2.8%	+9.5%	+6.9%
Benchmark Index^	+3.9%	+0.5%	+0.4%	+10.1%	+2.6%

^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 8.4m of its shares on market in the year to 31 October 2019
- 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

- On 16 October 2018, a new issue of warrants (BRMWE) was announced
- The warrants were issued 1 November 2018 at no cost to eligible shareholders and in the ratio of one warrant for every four Barramundi shares held
- Exercise Price = $0.64 per warrant, to be adjusted down for dividends declared during the period up to the Exercise Date
- Exercise Date = 25 October **2019**
- The final Exercise Price will be announced and an Exercise Form will be posted to warrant holders in September **2019**

Barramundi

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