

# Quarter Update Newsletter

1 October 2018 – 31 December 2018



- » A tough quarter for Australian equities with the S&P/ASX200 Index (70% hedged to NZD) falling 9.2%
- » The Barramundi portfolio fell 13.2% for the quarter (gross), resulting in a total return of -1.8% on a gross performance basis for the calendar year 2018

The December quarter can be (and was) a relatively quiet quarter from a company news flow perspective, nestled as it is between the data-heavy 30 June and 31 December financial reporting periods for many of our portfolio companies. That said, share price moves across this 2018 December quarter were anything but quiet. In concert with the broader market (especially those companies with a 'growth' bent) Barramundi portfolio companies experienced sharp share price moves, with the majority of them finishing the quarter in the red.

As highlighted above, looking at the return across the year as a whole, while still negative, the picture is better. While we encourage our investors to invest with longer-term time horizons in mind, it is clearly not soothing for investors when markets sell-off the way the ASX 200 did in the December quarter. We are very respectful of the potential negative signals that the equities market is sending us in periods such as these, and do not take the share price movements lightly. We are also cognisant that sharp market moves and dislocations such as these can provide us with investment opportunity as well. When married with our tried and tested investment process this can in turn generate strong returns for our investors over time.

Our investment team has consequently had a busy quarter remaining focussed, as always, on implementing our investment process. We've met with the management teams of our portfolio companies, their customers and competitors, and have vigilantly looked to parse the risk from the opportunity in these share price moves.

At a portfolio company level, the announcements and data points from these calls, meetings and presentations on the whole have not been as eventful as the share price moves would suggest.

## Company Focus: AUB Group Ltd

The management team of insurance broker and risk management solutions provider, AUB Group Ltd, was one of the executive teams that we caught up with during what was an eventful quarter for the company.

Meeting with executives in both their Australian and NZ divisions reinforced our confidence in the personnel overseeing the growth of this company. Barramundi has been an investor in AUB for about 12 years. Since then we have watched the company approximately triple its earnings, (and the share price has responded accordingly) via increasing the scale of its insurance broking and underwriting agency services operations in Australia. In latter years, under CEO

## Notable Returns for the Quarter in Australian dollars

OOH MEDIA	WISETECH GLOBAL	DOMINO'S PIZZA	CARSALES.COM	ARISTOCRAT LEISURE
-33%	-28%	-27%	-27%	-25%

Mark Searles' stewardship, it has taken its business model across the ditch into NZ, and has broadened its product offering, to include people/workplace oriented risk solutions for clients. In doing so, AUB has diversified its earnings base and reduced its reliance on the insurance premium cycle.

AUB has achieved this growth organically and through acquisition. We are generally cautious of companies growing through acquisition. However, we have always taken some comfort in AUB's 'owner-driver' business model. We believe this structure in which vendors, (typically founder-owners) retain equity ownership is central to its culture of alignment and has been key to the success of its disciplined acquisitive-assisted expansion over more than a decade.

AUB raised over A\$100m in equity during the quarter to bolster its capacity to flex its ownership in partner-businesses and to broaden its number of business partners across its divisions. The company is also in the process of finding a successor for Mark Searles who is stepping down as CEO later in 2019. While it remains to be seen who will pick up the reins, we take comfort from the orderly transition that is underway. Importantly, we do not believe that a new CEO will herald a departure from the company's successful and well-trodden pathway of the last decade. We expect the network of business partners to keep increasing in coming years. We also expect collaboration across AUB's different divisions to increase, which, although difficult to quantify, should in time add to shareholder value. Needless to say we participated in AUB's equity raising.

## ASX Market News

In its worst quarter for the calendar year, the ASX200 Index returned -8.3% in A\$ across the quarter.

Led by a fall in crude oil, Energy led the declines with the sector falling -21.3% during the quarter.

Concern over the outlook for advertising spending coupled with competition commission concerns over a proposed merger between two telecommunications companies dragged the Communication Services sector -14.5% lower.

A global sell-off in higher multiple 'growth' companies dragged down the Information Technology sector which fell -13.9% and also impacted a number of the (more cyclical) Consumer Discretionary names with that sector falling -13.8%.

<sup>1</sup> Share price discount/(premium) to NAV (including warrant price on a pro-rated basis)

In contrast, sectors seen as being defensive fared better with Utilities -3.1% and Consumer Staples -3.8% outperforming the market.

## Key Portfolio News

**Sonic Healthcare** (-11.2% in A\$ over the quarter) raised equity in December to complete the acquisition of a US based anatomical pathology business. In line with Sonic's expansion strategy, this elevates Sonic's beachhead in anatomical pathology in the US into a business with reasonable scale and extends its geographical coverage across the US, broadening its platform for growth over the coming years.

**BHP** (-1.2%) completed a US\$5.2bn buyback during December and also announced a US\$5.2bn special dividend. **Rio Tinto** (-0.4%) concluded the previously announced US\$3.5bn sale of its

interest in the Grasberg mine in Indonesia in December, further bolstering its balance sheet strength.

## Portfolio Changes

In addition to selectively topping up some of our positions, and participating in the **AUB** and **Sonic** equity raisings, as discussed last month we initiated a new position in **Aristocrat Leisure** during the quarter and increased both our **Resmed** and **Xero** positions.



**Robbie Urquhart**  
Senior Portfolio Manager  
Fisher Funds Management Limited  
18 January 2019



## Performance

as at 31 December 2018

	3 Months	3 Years (annualised)	5 Years (annualised)
<b>Company Performance</b>			
Total Shareholder Return	(7.2%)	+6.9%	+6.0%
Adjusted NAV Return	(14.0%)	+4.0%	+4.4%
<b>Portfolio Performance</b>			
Gross Performance Return	(13.2%)	+7.2%	+7.6%
Benchmark Index <sup>1</sup>	(9.2%)	+6.9%	+6.7%

<sup>1</sup> 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 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 21 December 2018

A dividend of 1.42 cents per share was paid to Barramundi shareholders on 21 December 2018, under the quarterly distribution policy. Interest in Barramundi's dividend reinvestment plan (DRP) remains high with 36% 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.

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## Portfolio Holdings Summary

as at 31 December 2018

Company	% Holding
Ansell	3.0%
ARB Corporation	3.2%
Aristocrat Leisure	2.4%
AUB Group	3.4%
BHP Billiton	3.5%
Brambles	3.5%
Carsales	6.7%
Commonwealth Bank	5.7%
Credit Corp	3.6%
CSL	7.3%
Domino's Pizza	2.6%
Ingenia Communities	1.6%
Link Administration Holdings	4.6%
Nanosonics	2.5%
National Australia Bank	4.2%
NEXTDC	4.1%
Ooh! Media	3.6%
ResMed	4.0%
Rio Tinto	2.2%
SEEK	7.3%
Sonic Healthcare	3.6%
Technology One	2.5%
Westpac	4.2%
Wise Tech Global	4.3%
Xero Limited	4.8%
<b>Equity Total</b>	<b>98.4%</b>
Australian dollar cash	0.9%
New Zealand dollar cash	0.9%
<b>Total Cash</b>	<b>1.8%</b>
Centrebet Rights Forward foreign exchange contracts	(0.2%)
<b>TOTAL</b>	<b>100.0%</b>

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