

# Quarter Update Newsletter

31 December 2018 – 31 March 2019



- » **Barramundi's gross performance return for the quarter was 11.9%, led by a solid reporting season for portfolio companies and a rebound in equity markets.**
- » **The Adjusted NAV return for the quarter was 10.9%.**
- » **A great quarter for Nanosonics has been a decade in the making.**
- » **Responsible investing is core to our ethos and lies behind our decision to exit BHP.**

The first three months of 2019 have seen global markets and the ASX200 off to a strong start for the year. The ASX200 returned +10.9% in A\$ across the quarter, with all sectors, led by Information Technology (+20.7%) and Materials (+17.8%) finishing in the green.

Given the sharp contrast between this return against the tough December quarter of 2018, you might well ask – what has changed?

Well, there have been some key global macro developments which have positively impacted financial markets. The US Federal Reserve turned notably dovish in December which has resulted in falling interest rates, and improved sentiment towards equities. There have been positive developments in major global trade negotiations and closer to home, signs of Chinese stimulus have helped buoy the materials sector in Australia.

Poignantly, the iron ore industry was also an indirect beneficiary of the collapse of a tailings dam wall at one of Brazilian miner Vale's mining sites in Brazil. This came with a high human and environmental cost. However it disrupted the seaborne iron ore market and underpinned returns in the quarter for the industry.

Also in Australia, the Royal Commission into the banking and finance sector drew to a close with the publication of Commissioner Hayne's final report in February. Relative to expectations, the benign recommendations of the report removed a key risk for the banks and sparked a relief rally in their share prices.

All of this helped lift the ASX200 index's returns in the quarter.

## Company Focus: Nanosonics and Resmed

Through reporting season, it was pleasing to see how well our portfolio companies are weathering what is a tepid operating environment in Australia. In fact, with some of companies their growth rates are showing no signs of slowing down at all.

Nowhere was this more evident than in the results and share price performance of Nanosonics which released its results in February and its share price returned +52% in the quarter.

The result was a good number. Revenue was up +36% and healthy profit margin expansion was evident as the company was able to leverage investments made in previous years.

## Notable Returns for the Quarter in Australian dollars

NANOSONICS	WISETECH GLOBAL	RIO TINTO	TECHNOLOGY ONE	CREDIT CORP GROUP
+52%	+36%	+32%	+29%	+19%

Nanosonics provides a globally leading disinfection solution for ultrasound probes. The company has been in our portfolio since December 2009 and over that time has gone from being a small firm with an emerging technology and a few customers in Australasia to the leading global provider of ultrasound disinfection technology. Its business partners are the who's who of global medical companies.

The company has executed well against a clear and consistent strategy for years. The share price performance however, has been volatile, with the share price up +580% since December 2009, equating to an annualised gain of +23% pa. However, in that time it has had one fall in price of more than 55% and on top of that had four further declines of more than 24% with two of those falls being more than 35%.

As history now shows these were all buying opportunities. Without knowing the fundamentals of the company well, or if one did not have a long-term, patient perspective, it would have been easy to panic and sell. Doing so would have led one to miss out on the wonderful gains that followed.

We kept this in mind when another core portfolio holding, Resmed's share price fell 22% after it reported its quarterly earnings result in January. It has since recovered some of this but was still down 8.9% across the quarter.

Resmed is a global leader in supplying products to people that suffer from sleep-disordered breathing and it is building a position in an adjacent respiratory disease market. It is a high quality business with significant untapped potential in both these markets. More recently the company has been investing in software businesses focussed on the management and delivery of services to patients in the out-of-hospital care setting. This software is used by the likes of Hospice, skilled nursing providers and life plan or aged care community operators.

In Resmed's report, the market was disappointed by two things: 1) some weakness in the sales of sleep-disordered breathing devices; and 2) the lack of profit contribution from Resmed's software businesses.

The weakness in device sales was impacted by one-off medical funding price changes in some of its markets. This is temporary and ultimately does not change the core economic drivers of

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

the division. There are millions of people suffering from sleep disordered breathing who aren't yet being treated. What's more, demographic trends (ageing population and obesity) mean this market will grow in time. As the largest supplier globally, Resmed is in the box seat to keep growing its supply of products to meet this demand.

Regarding the software, this avenue of investment does drag on near term earnings. However, it adds a significant potential new source of predictable, recurring revenue for Resmed. Linked as it is to servicing a healthcare driven need, like the device sales, this software revenue is not completely at the whim of economic cycles.

We invest with a long-term view. We understand that the journey, particularly from a share price perspective can be bumpy at times as we highlight with Nanosonics. However, with patience we think we will be rewarded for owning high quality, growing companies. In line with this thinking we took advantage of the fall in Resmed's price post the result and added to our position.

## Portfolio Changes

The largest change for our portfolio in the quarter involved the sale of our BHP position in March. As we discuss in the March monthly newsletter, we exited our BHP position because we deemed it to be in contravention of our Responsible Investing Policy by virtue of being a significant producer of thermal coal.

Outside of this, we reduced our position sizing in Technology One in the quarter on valuation grounds.



**Robbie Urquhart**  
Senior Portfolio Manager  
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18 April 2019



## Performance as at 31 March 2019

	3 Months	3 Years (annualised)	5 Years (annualised)
<b>Company Performance</b>			
Total Shareholder Return	+0.3%	+7.0%	+7.5%
Adjusted NAV Return	+10.9%	+7.4%	+8.0%
<b>Portfolio Performance</b>			
Gross Performance Return	+11.9%	+10.9%	+11.3%
Benchmark Index <sup>1</sup>	+10.6%	+11.2%	+8.9%

<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 28 March 2019

A dividend of 1.25 cents per share was paid to Barramundi shareholders on 28 March 2019, 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 March 2019

Company	% Holding
Ansell	3.1%
ARB Corporation	3.3%
Aristocrat Leisure	2.4%
AUB Group	3.2%
Brambles	3.7%
Carsales	6.8%
Commonwealth Bank	5.1%
Credit Corp	3.9%
CSL	6.9%
Domino's Pizza	3.1%
Ingenia Communities	1.5%
Link Administration Holdings	4.5%
Nanosonics	3.0%
National Australia Bank	4.0%
NEXTDC	3.5%
Ooh! Media	4.4%
ResMed	4.3%
Rio Tinto	2.5%
SEEK	7.0%
Sonic Healthcare	3.1%
Technology One	2.2%
Westpac	3.9%
Wise Tech Global	3.9%
Xero Limited	5.0%
<b>Equity Total</b>	<b>94.3%</b>
Australian dollar cash	5.1%
New Zealand dollar cash	1.1%
<b>Total Cash</b>	<b>6.2%</b>
Forward foreign exchange contracts	- 0.5%
<b>TOTAL</b>	<b>100.0%</b>



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