Quarter Update Newsletter

30 September 2019 – 31 December 2019

Barramundi
LANDING TOMORROW'S TROPHIES

BRM NAV	SHARE PRICE	PREMIUM [1]
$0.71	$0.72	(1.7%)

as at 31 December 2019

» **Barramundi finished the year on a positive note, gaining +4.2% in the December quarter (gross performance). The adjusted net asset value (Adjusted NAV) return for the three months was +2.7%. This brought total gross return for the calendar year 2019 to +36.3% (Adjusted NAV return +31.9%). This is in excess of the S&P/ASX200 Index (hedged 70% to NZD) which returned +23.2% for the calendar year.**

The Australian market finished the year on a positive note in the December quarter

The S&P/ASX 200 Index (excluding any hedging) lagged global indices by a few percent in returning +1% (A$) in the December quarter. Healthcare (+14%), Energy (+6%) and Materials (+4%) led the market higher, while Financials (-6%), Consumer Staples (-3%) and Real Estate (-1%) were the sector laggards.

Key Portfolio News

oOH!Media (+27% in A$ over the quarter) had experienced a torrid few months of share price performance following an earnings downgrade in August. The magnitude of the downgrade surprised the market. At the time, management put the earnings softness down in part to a soft advertising market but noted that forward bookings were showing signs of turning around. This improving trend in forward bookings continued through the fourth quarter. Coupled with evidently good execution by the oOH!Media team, this was the source of the profit upgrade in December and led to a surge in the share price.

The Australian advertising market remains relatively subdued. However we think outdoor advertising as a category will continue to win market share over the next few years from traditional advertising channels (like TV). In addition, we like the rational, competitive market structure of the outdoor advertising industry.

When the domestic Australian economic environment picks up and the advertising cycle strengthens, oOH!Media should benefit.

Technology One (+17%), Xero (+28%) and **Aristocrat (+10%)** all reported strong financial results during the quarter. In addition to winning new customers, Technology One continues to convert on premise customers to its cloud-based offering. It also continues to make progress turning its lossmaking UK division around. Xero similarly delivered strong results including subscriber growth in key markets including Australia and the UK. Aristocrat's North American land-based gaming division showed evidence of successfully expanding into adjacent gaming markets, and the result of its digital division allayed market concerns over its growth and earnings trajectory.

Share prices of our bank holdings were weak throughout the last three months. **Westpac (-16%), NAB (-15%)** and ANZ (which we added to the portfolio in December) reported full year financial results in the quarter. Similar themes were evident with all of them. Operating conditions and loan growth remain tepid. As a sector the banks are still building up capital buffers as required by regulators. To do so they have raised capital either through cutting their dividends or issuing equity through dividend reinvestment plans. Westpac went a step further and undertook a $2.5bn equity raising in November. Shortly after this, the anti-money laundering and counter-terrorism financing regulator AUSTRAC began civil proceedings against Westpac for breaching anti money laundering and counter-terrorism regulations. (We touched on this case in December's update). All these factors weighed on the performance of bank share prices in the past few months.

Although there are specific company related regulatory challenges, for the banking sector as a whole, regulatory certainty continues to improve. Key in this regard was the finalisation of the Hayne Royal Commission's report into the sector in February 2019. And the Reserve Bank of New Zealand also released the review of NZ banks' regulatory capital requirements in December. This improved regulatory certainty and reduces some key risks for the banks as we head into 2020.

Wisetech's (-33%) share price fell over the quarter after the release of a couple of independent research reports which raised perceived concerns about the company. These included the accounting practices employed by Wisetech, the strength of its product offering as well as its acquisition strategy. A number of these points are not new and have been raised by market commentators over the last few years. Management responded (as they have before) with a comprehensive rebuttal of these points. Wisetech also re-affirmed earnings guidance for FY20. The logistics industry continues to increase its reliance on software to efficiently manage the flow of goods between countries. This provides Wisetech with a foundation to continue growing its revenue for many years to come.

Portfolio Changes

The largest portfolio changes in the December quarter involved our positioning in the Australian banks.

We added ANZ to our portfolio in December. We like its strong capital position and the improving track record of its

Notable Returns for the Quarter in Australian dollars

XERO	OOH! MEDIA	INGENIA	CSL	WISETECH
+28%	+27%	+24%	+18%	-33%

[1] Share price (premium)/discount to NAV (using NAV to four decimal places)

management team. With the RBNZ clarifying its stance on capital requirements for banks in NZ a key risk underpinning the sector has now been removed.

Separately we reduced our position in Westpac based on the management upheaval and uncertainty affiliated with the AUSTRAC civil case. We also reduced our NAB position given the uncertainty affiliated with the ongoing investigation into NAB by AUSTRAC. NAB does not have as strong a capital position as the likes of ANZ and CBA. We reduced our CBA positioning based on valuation.

We also exited Aristocrat during the quarter. As we discussed in November's monthly update, although Aristocrat has performed adequately, it has missed some of our expectations (especially in the digital division) that we had when we first invested in the company. We also get the sense that the competitive environment may be starting to get tougher for the company based on improved results (and some hiring decisions) by a few of its key competitors. Mostly though, 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.

Robbie Urquhart
Senior Portfolio Manager
Fisher Funds Management Limited
20 January 2020

Performance

as at 31 December 2019

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+18.1%	+14.7%	+12.7%
Adjusted NAV Return	+2.7%	+13.3%	+11.0%
Portfolio Performance			
Gross Performance Return	+4.2%	+16.6%	+14.4%
Benchmark Index[1]	(0.2%)	+10.6%	+11.5%

[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, 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 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 19 December 2019

A dividend of 1.44 cents per share was paid to Barramundi shareholders on 19 December 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.

Portfolio Holdings Summary

as at 31 December 2019

Company	% Holding
Ansell	3.0%
ANZ Banking Group	3.0%
ARB Corporation	3.6%
AUB Group	4.2%
Brambles	3.5%
Carsales	7.2%
Commonwealth Bank	4.0%
Credit Corp	3.4%
CSL	7.3%
Domino's Pizza	4.0%
Ingenia Communities	1.7%
Link Administration Holdings	4.8%
Nanosonics	2.3%
National Australia Bank	2.9%
NEXTDC	3.6%
Ooh! Media	4.5%
PWR	2.0%
ResMed	4.0%
Rio Tinto	1.9%
SEEK	7.2%
Sonic Healthcare	2.9%
Technology One	2.2%
Westpac	3.0%
Wise Tech Global	4.0%
Xero Limited	5.4%
Equity Total	**95.6%**
Australian dollar cash	3.2%
New Zealand dollar cash	1.3%
Total Cash	**4.5%**
Centrebet Rights	0.0%
Forward foreign exchange contracts	(0.1%)
TOTAL	**100.0%**

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