

# MONTHLY UPDATE

June 2021



Share Price

\$1.07

BRM NAV

\$0.84

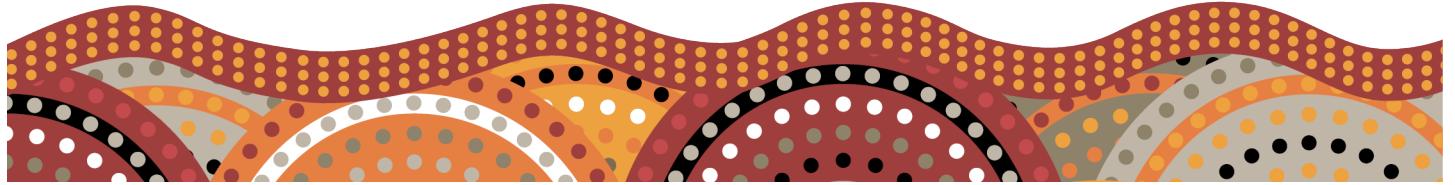
Warrant Price

\$0.30

PREMIUM<sup>1</sup>

36.6%

as at 31 May 2021



## A WORD FROM THE MANAGER

In May Barramundi returned gross performance of +0.2% and an adjusted NAV return of (0.0%). This compares to the ASX200 Index which returned +2.0% (70% hedged into NZ\$).

Driven by strong trading updates for the banks, Financials (+4.4%) led the market higher in the month. Market bellwether CSL (+7.0%) helped lift the Healthcare (+3.5%) sector higher as well.

May saw a continuation of the share market rotation out of high growth companies into 'value' companies with Information Technology (-9.9%) the worst performing sector in the month. In a sign that investors remain focussed on the potential for inflation to rise during the year, the interest sensitive Utilities (-7.0%) sector also lagged the market returns.

Countering these concerns, the Australian 10yr Government bond yield fell slightly from 1.75% to 1.71% in the month.

### Portfolio News

Led by **CBA (+12.0% in A\$)**, the share prices of all our major banks including **ANZ (2.5%)**, **NAB (+3.4%)** and **Westpac (+8.2%)** rose in the month. All four provided earnings updates for the market. Themes common to these updates included lower credit impairments as the Australian economy continues to grow robustly. This has resulted in earnings upgrades across the sector. The banks are also focussed on reducing costs and improving their operating efficiency. Westpac in particular has set out some clear goals in improving its cost base which the market liked. Bank management teams and regulators have become increasingly comfortable with the state of the underlying economy. In line with this, the banks have increased their dividends which was welcomed by shareholders.

**CSL (+7.0%)** continues to benefit from the rebound in the volume of plasma collections in the US. Falling new COVID-19 case numbers and the easing of COVID-19 related restrictions has seen plasma donors return to plasma collection centres. As noted previously, we expect plasma collections to continue to recover throughout 2021. This reduces the extent to which CSL's earnings growth in 2022 will be impeded by a lack of plasma supply which has been a key concern in the market.

**Woolworths (+5.9%)** provided details of the demerger of Endeavour Group, its hotels and drinks business. If approved by shareholders at the general meeting in June, the demerger will create two, focussed independent ASX-listed companies, Endeavour Group and Woolworths Group ("WOW"). Shareholders

will receive 1 share in Endeavour for every share owned in Woolworths at the date of the demerger. WOW will continue to operate the #1 supermarket in Australia, Countdown in New Zealand, and big box retailer Big W.

**SEEK (-0.7%)** reported record high job ad volumes for a second month running. April 2021 job ads rose +264%, highlighting the impact of COVID-19 on the labour market last year. More meaningfully, job ads were up +31% on April 2019. Many of the jobs being advertised currently are for roles that were displaced in 2020, with the Hospitality & Tourism sector showing the largest growth month-on-month (+22%).

**Carsales (-1.4%)** acquired a 49% shareholding in Trader Interactive ("TI") for circa A\$800m during May with an option to buy the other 51% in the future. TI owns a number of online classified advertising websites for recreational vehicles (campervans), commercial trucks, powersports (jet skis and snowmobiles) and industrial equipment.

Carsales has paid a relatively full price for the business. There is also some scepticism in the market about the extent to which TI's websites have benefitted from a COVID-related boost to advertising which could prove to be temporary.

While we share some of these concerns, we think this is a positive, measured step for the company. This acquisition opens up the US as a new market for Carsales. It offers a new avenue for future growth. Carsales has successfully expanded into the South Korean and Brazilian markets with this same 'playbook' and arguably have earned the right to enter the US in the same way.

Importantly, TI's websites are the clear #1 / #2 leader in market share for the respective classified advertising categories. In our experience from investing in online advertising platforms, there is a strong competitive advantage to being the category leader. A virtuous circle develops whereby consumers looking to buy a campervan for example will visit the site because they know that's where most of the sellers advertise their campervans so they'll get to view the biggest range of models on the site. This in turn entices new sellers to advertise campervans on the site because they know that's where most of the buyers look for campervans. This characteristic acts as a strong competitive advantage for the advertising portal. So, we can understand why TI managed to extract a full price from Carsales. There is no substitute for being a leader in the online classified advertising industry.

<sup>1</sup> Share Price Premium to NAV (including warrant price on a pro-rated basis and using NAV to four decimal places).

Speaking with the Carsales management team it was clear that TI's websites could also benefit from Carsales technology and its international experience in running advertising portals. This should boost TI's profitability in due course.

To fund the acquisition, Carsales raised approx. \$600m from the share market. We participated in the equity raising.

**AUB Group's** share price fell by -5.0% in May. This was despite providing an upbeat March quarter trading update early in the month. Possibly there was some disappointment that guidance for an 18-22% increase in underlying earnings for the June 2021 year was only reaffirmed and not raised. The key period for insurance renewals in Australia is the month of June. Thus, we can understand AUB's reluctance to prematurely upgrade, particularly as the impact on small businesses of the withdrawal of Jobkeeper support at the end of March is still unclear.

**Xero (-6.3%)** reported financial results in the month. Xero reined in marketing costs in the 1H FY21 as COVID descended on the world. As telegraphed by management, the company reversed course and increased marketing expenditure in the 2H FY21 as COVID restrictions eased and companies adapted to the post-

COVID working environment. This drove an outstanding 6 months of subscriber growth particularly in key international markets for Xero. However it came at the short-term cost of suppressing near-term profitability which received a mixed reception by investors.

From our perspective, Xero is doing the right thing. We are pleased to see that when the company steps up marketing, it visibly translates into strong subscriber growth. The long-term economics and hence shareholder value creation of acquiring customers is compelling for Xero. We think the company should be 'reinvesting' its cash flow in marketing to attract new subscribers.

## Portfolio Changes

We had no significant portfolio changes in the month.

Robbie Urquhart  
Senior Portfolio Manager  
Fisher Funds Management Limited



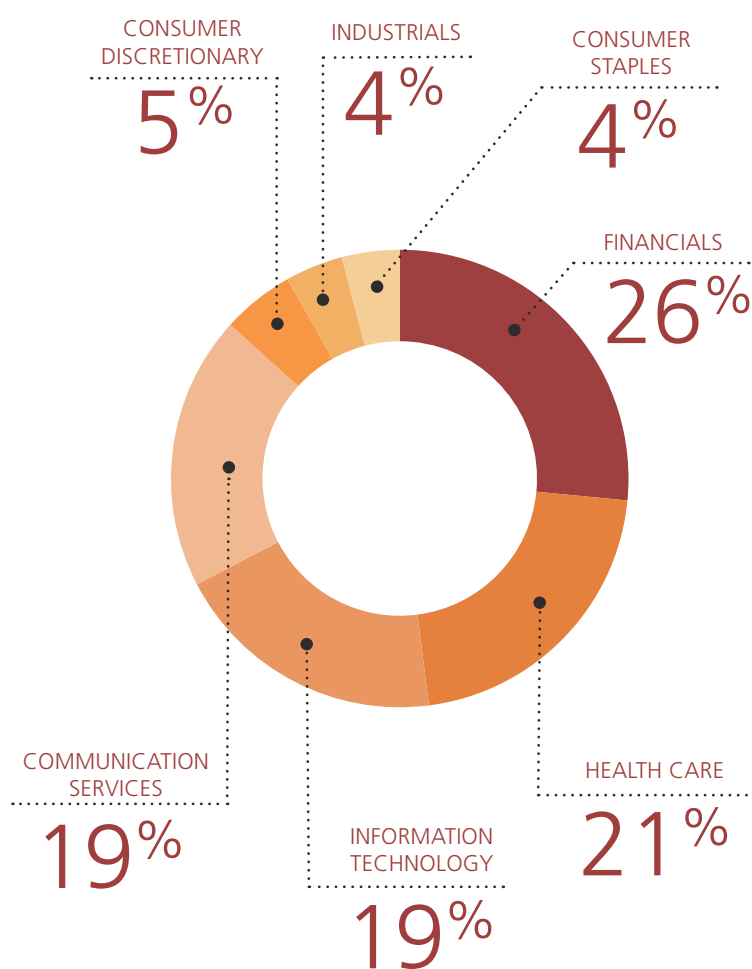
## KEY DETAILS

as at 31 May 2021

FUND TYPE	Listed Investment Company
INVESTS IN	Growing Australian companies
LISTING DATE	26 October 2006
FINANCIAL YEAR END	30 June
TYPICAL PORTFOLIO SIZE	20-35 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	\$0.64
PERFORMANCE FEE CAP	1.25%
SHARES ON ISSUE	213m
MARKET CAPITALISATION	\$227m
GEARING	None (maximum permitted 20% of gross asset value)

## SECTOR SPLIT

as at 31 May 2021



The Barramundi portfolio also holds cash.

# MAY'S SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO

during the month in Australian dollar terms

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

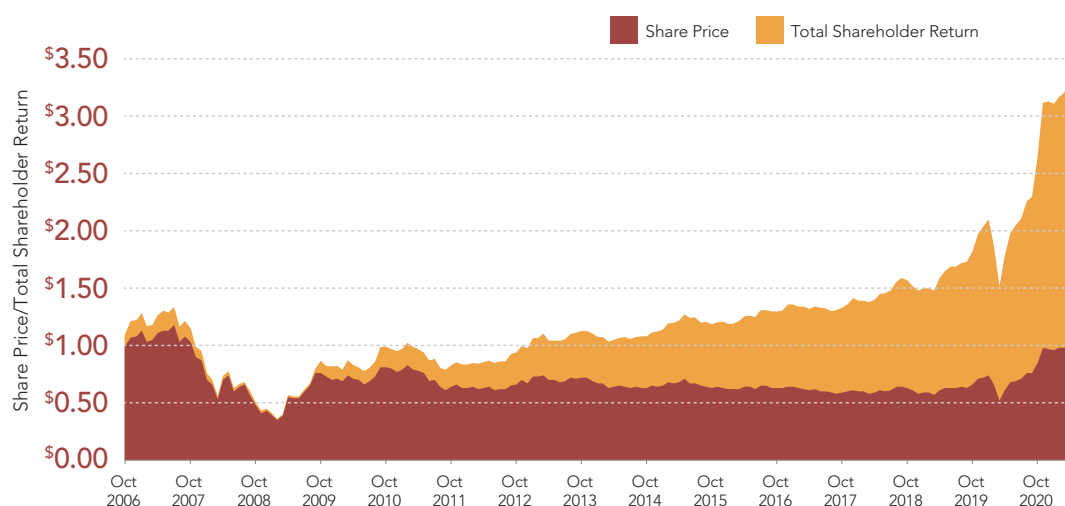
CBA	WESTPAC BANK	CSL	NANOSONICS	WISETECH
+12%	+8%	+7%	-8%	-10%

## 5 LARGEST PORTFOLIO POSITIONS as at 31 May 2021

CSL LIMITED	CARSALES.COM	CBA	SEEK	XERO
9%	7%	6%	6%	5%

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

## TOTAL SHAREHOLDER RETURN to 31 May 2021



## PERFORMANCE to 31 May 2021

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
<b>Company Performance</b>					
Total Shareholder Return	(0.9%)	+12.7%	+79.9%	+35.0%	+23.1%
Adjusted NAV Return	(0.0%)	+8.6%	+35.2%	+16.6%	+12.8%
<b>Portfolio Performance</b>					
Gross Performance Return	+0.2%	+9.2%	+39.6%	+20.4%	+16.1%
Benchmark Index <sup>^</sup>	+2.0%	+8.5%	+28.1%	+10.0%	+10.4%

<sup>^</sup>Benchmark index: S&P/ASX Small Ords Industrial Gross Index until 30 September 2015 & S&P/ASX200 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 combines the share price performance, the warrant price performance, the net value of converting any warrants into shares, and the dividends paid to shareholders. It assumes all dividends are reinvested in the company's dividend reinvestment plan, and that shareholders exercise their warrants, (if they were in the money), at warrant expiry date

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 20 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

The Manager has authority delegated to it from the Board to invest according to the Management Agreement and other written policies. 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 Board of Barramundi comprises independent directors Alistair Ryan (Chair), Carol Campbell, Andy Coupe and 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 its shares on market
- » 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

### Warrants

- » On 26 August 2020 a new issue of warrants (BRMWF) was announced
- » The warrants were issued at no cost to eligible shareholders in the ratio of one warrant for every four Barramundi shares held
- » The warrants were allotted to shareholders in October 2020 and the warrants listed on the NZX Main Board from early October 2020. (Information pertaining to the warrants was mailed/mailed to shareholders in September 2020)
- » The Exercise Price of each warrant is \$0.70, adjusted down for the aggregate amount per Share of any cash dividends declared on the Shares with a record date during the period commencing on the date of allotment of the Warrants and ending on the last Business Day before the final Exercise Price is announced by Barramundi. Dividends totalling 4.66 cents per share have been declared to date and there is one more dividend expected to be declared in the remaining period up to the announcement of the 29 October 2021 exercise price.
- » The Exercise Date for the new warrants (BRMWF) is **29 October 2021**
- » The final Exercise Price will be announced and an Exercise Form sent to warrant holders in September **2021**

Disclaimer: The information in this update has been prepared as at the date noted on the front page. The information has been prepared as a general summary of the matters covered only, and it is by necessity brief. The information and opinions are based upon sources which are believed to be reliable, but Barramundi Limited and its officers and directors make no representation as to its accuracy or completeness. The update is not intended to constitute professional or investment advice and should not be relied upon in making any investment decisions. Professional financial advice from a financial adviser should be taken before making an investment. To the extent that the update contains data relating to the historical performance of Barramundi Limited or its portfolio companies, please note that fund performance can and will vary and that future results may have no correlation with results historically achieved.



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