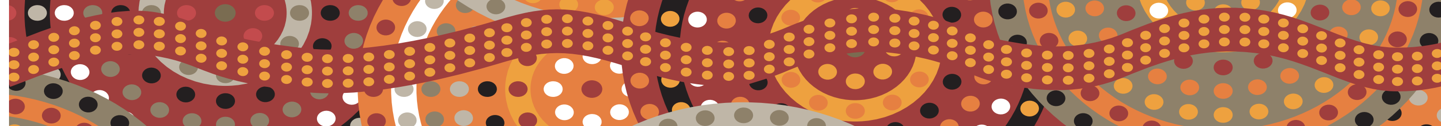
QUARTERLY NEWSLETTER

1 April 2023 – 30 June 2023

Share Price	BRM NAV	DISCOUNT[1]
$0.71	$0.72	1.6%

as at 30 June 2023



Barramundi built on its strong start to the year, rising a further +7.2% (gross performance) in Q2, (adjusted NAV return was up 6.6%), well ahead of the +1.8% return of the benchmark index. This takes Barramundi's gross performance return to +16.1% in the 2023 calendar year to date, a pleasing six months after a difficult 2022.

Q2 performance across the broader Australian market was mixed. Information Technology was by far the strongest sector, rising 21% in the period. Constituent companies generally delivered strong trading updates (see below). The sector was further helped by positive investor sentiment to companies deemed to benefit from Artificial Intelligence ("AI") as well as modestly improving global inflation data.

The worst performing sector, Healthcare (-3.2%), was weighed down by bellwether **CSL's** (-4.0%) profit downgrade (see below) and some poor updates from other sector constituents. Softer economic data out of China weighed on the Materials sector (-2.6%). In addition, having been relatively cautious in its fight against inflation, the Reserve Bank of Australia ("RBA") became more hawkish, lifting interest rates by 0.5% across the last two months of the period. This weighed on companies with a focus on the domestic Australian economy.

Against this backdrop we were pleased with the overall performance of our portfolio.

It wasn't only AI that drove information technology share prices higher

There has been a lot of talk about AI in the past few months. This may have contributed positively to the performance of some of our technology shareholdings. However, many of our technology companies are also performing well operationally. Strong reported revenue growth has been supported by a disciplined focus on costs (a recent, welcome development for technology businesses). This has resulted in a strong increase in underlying profitability which has been taken well by investors.

Life insurance claims software provider **Fineos** (+66% in A$ in Q2) was a clear case in point. The company has had a busy period of announcements. It guided to strong revenue growth in FY23 from expansion within its existing client base. It has also converted customers using legacy on-premise versions of its software to a cloud based version, which incrementally also adds to its revenues. Most importantly, after a few years of having its sales cycle impacted by the pandemic, Fineos has also announced new multi-year landmark contracts with a couple of large new North American customers. And Fineos' cost-cutting initiatives are on track to also meaningfully improve its cash flows.

Accounting software provider **Xero's** (+33%) FY23 financial result released in May similarly demonstrated a strong growth in revenue (+28%) during the year. This included a re-acceleration in subscriber growth in the UK, a key growth market for the company. Like Fineos, Xero has also undertaken a broad cost-cutting initiative. It is actively prioritising profitability and cash generation over a historic focus of reinvesting every spare cent into growth initiatives. Xero also announced another round of price increases in the ANZ markets to take effect in September 2023 which has been well received.

NEXTDC (+21%) clearly benefits from the rise of generative AI which will likely require vastly increased data storage and computing power to be housed in data centres like those built by NEXTDC. However, during Q2, NEXTDC also announced its largest level of incremental customer contract wins in its history. It announced a 43% increase in the total level of contracted utilization of its facilities, the majority of which has been sold at its Sydney (S3) data centre site. The increased growth in demand for data centre capacity globally also saw NEXTDC raise A$618m in new equity in May to accelerate its expansion within Australia and international markets including Malaysia and New Zealand.

How bad are profit downgrades? The devil lies in the detail!

It has not been all plain sailing for our portfolio companies in Q2. A handful of companies announced disappointing trading updates, weighing on their returns.

In **oOH!Media** (-27%) and CSL's (-4%) cases, the reasons for their downgrades lie largely out of the control of management. The headwinds facing them will abate and we think the growth outlook for both companies is sound.

After rising strongly during Q1, **oOHMedia!'s** share price fell sharply in May in what we view as an overreaction to a trading update early in the month. This update indicated March quarter revenue was up by 3% on the prior year and that the June quarter to that date was slightly ahead of 2022. At the company's AGM a week later, the June quarter was reported as running 3% ahead of last year, with May and June pacing at double digit growth. This was a meaningful offset to April's 10% decline which was a key source of the downgrade. Softer Government-related spend versus last year (COVID & Federal election advertising) are obvious current headwinds.

Near-term, as the impact of higher interest rates continues to hurt consumer spending, the advertising market has showed signs of softening. Within this, we think oOH!Media is doing a credible job managing what it can control – including most recently securing the strategically important new Sydney Metro City and Southwest contract in late June.

Over the longer term, we remain optimistic about oOh!Media's future prospects. We think out-of-home advertising should continue to take share from other media formats. This will be driven by ongoing digitisation of its asset base, increasingly sophisticated audience measurement giving advertisers confidence of the return on their spend, and greater programmatic trading of out-of-home inventory giving advertisers more flexibility.

In CSL's case, it announced in June that currency headwinds would detract from its FY23 financial results. Excluding the currency impact, it guided to the top end of its previous profit range. It also dampened down expectations for FY24 profit growth noting it expects to still grow profits a healthy 13%-18%. Although this was below market expectations, the currency headwinds are clearly out of CSL's control. The slower than expected recovery in post-pandemic profit margins is also somewhat out of management's control.

Overall, the CSL management team are performing well. Throughout the pandemic they continued investing in adding manufacturing capacity and improving the efficiency of their operations – essentially widening the moat of the business. They have given the business a great platform to be successful. Even if it is a bit slower than the market would like, CSL's profit margin recovery and earnings growth is heading in the right direction.

In contrast, in **Domino's** (-7%) case, another disappointing earnings downgrade in June followed on from the profit warning delivered in February and which we discussed in the March quarterly newsletter. The inflationary cost pressures and Domino's response to these pressures such as, increasing menu pricing and introducing delivery fee surcharges, continues to weigh on its sales and profit margins.

The management team has taken a number of steps to address these challenges. However, the trading update in June highlighted that, while it has made progress, these measures are yet to bear any meaningful fruit. Domino's announced that it is taking further steps to reduce costs and improve profitability during FY24. It has also decided to close a handful of unprofitable stores across its network.

We are still of the view that Domino's results are a function of a very unusual operating environment. We recognise that management are working hard to address their errors around pricing and performance. And we think the shares do look attractively priced, should management achieve their objectives. Hence, we have topped up our shareholding in the business. That said, for us to add more meaningfully to our position, we would like to see evidence of management delivering on these objectives.

Portfolio changes

During Q2 we exited our Cochlear position and downweighted our Woolworths position, both on valuation grounds.

In contrast, we have upweighted and added to our Resmed position, and topped up our CSL, oOH!Media and Domino's shareholdings post their trading updates.

We also participated in the equity raisings undertaken by NEXTDC and AUB Group during the period.

Robbie Urquhart
Senior Portfolio Manager
Fisher Funds Management Limited
17 July 2023

[1] Share price discount to NAV (using the net asset value per share, after expenses, fees and tax, to four decimal places).

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER IN AUSTRALIAN DOLLARS

FINEOS CORP	XERO	JAMES HARDIE INDUSTRIES	WISETECH GLOBAL	oOH!MEDIA
+66%	+33%	+25%	+23%	-27%

PERFORMANCE

as at 30 June 2023

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+5.0%	+11.5%	+14.3%
Adjusted NAV Return	+6.6%	+12.4%	+10.6%
Portfolio Performance			
Gross Performance Return	+7.2%	+14.9%	+13.6%
Benchmark Index[1]	+1.8%	+11.7%	+7.5%

[1] Benchmark Index: S&P/ASX 200 Index (hedged 70% to NZD)

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 percentage change in the adjusted NAV value,*
- *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 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 23 June 2023

A dividend of 1.41 cents per share was paid to Barramundi shareholders on 23 June 2023, 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 30 June 2023

Company	% Holdings
Ansell	2.1%
ANZ Banking Group	2.1%
AUB Group	6.3%
Audinate Group	2.0%
Brambles	4.0%
Carsales	5.7%
Commonwealth Bank	4.4%
Credit Corp	4.0%
CSL	9.3%
Domino's Pizza	4.3%
Fineos Corporation Holdings	2.3%
James Hardie Industries	3.4%
Macquarie Group	4.2%
Nanosonics	1.8%
National Australia Bank	2.6%
NEXTDC	4.4%
oOh! Media	3.0%
PWR Holdings	2.0%
REA Group	4.5%
ResMed	4.5%
SEEK	4.1%
Westpac	2.3%
WiseTech Global	6.4%
Woolworths Group	2.4%
Xero Limited	4.8%
Equity Total	**96.9%**
Australian cash	2.5%
New Zealand cash	0.4%
Total cash	**2.9%**
Forward foreign exchange contracts	0.2%
Total	**100.0%**

FOREIGN TAX COMPLIANCE ACT (FATCA) AND COMMON REPORTING STANDARD (CRS)

As a result of the New Zealand Government agreeing to participate in the exchange of information with other jurisdictions under the Foreign Tax Compliance Act (FATCA) and Common Reporting Standard (CRS), Financial Institutions are required to undertake due diligence to determine the account holders' jurisdiction of tax residence. If shareholders have not previously self-certified, they will receive a Tax Residency Self-Certification form from Computershare depending on when they first purchased their securities. Please ensure you complete and return this important document if you have not already done so. For more information please visit the IRD website: https://www.ird.govt.nz/international-tax/exchange-of-information/crs/registration-and-reporting or contact Computershare if you are unsure of whether you have completed your form.

Disclaimer: The information in this newsletter 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 newsletter 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 newsletter 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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