

Monthly Update

August 2017

KFL NAV

\$1.42

SHARE PRICE

\$1.29

DISCOUNT

8.9%

as at 31 July 2017



Ownership of Fisher Funds

On 3 August, TSB Community Trust announced it had reached an agreement to acquire the remaining 51% of Fisher Funds that they do not already own, taking them to 100%. As part of the agreement, the Trust will sell approximately 25% of Fisher Funds to TA Associates. TA Associates is a global growth private equity firm based in the United States which specialises, amongst other things, in investment in funds management businesses around the world.

Other than the shareholding change, it is business as usual here at Fisher Funds and as Manager for Kingfish we would like to reassure you that the portfolio remains in safe hands. There are no changes to the personnel or operations as a result of the transaction, and our STEEPP investment approach remains at the core of our investing philosophy.



Bruce McLachlan
Chief Executive

A word from the Manager — Kingfish and currency

Fisher Funds' Chief Investment Strategist, Mark Brighthouse, provides insights into what impact currency has on the Kingfish portfolio.

"There is no sphere of human thought in which it is easier to show superficial cleverness and the appearance of superior wisdom than in discussing questions of currency and exchange."

— **Winston Churchill, House of Commons, 1949**

Winston Churchill was ready to acknowledge that while many people will be prepared to offer views on the direction of exchange rates, in reality very few will have superior foresight on something that is so notoriously hard to predict.

While Kingfish has no direct currency exposure, investing in only New Zealand dollar denominated shares and cash, the companies we invest in often have diverse array of international operations exposing them to currency risks.

Corporates typically protect against movements in currency in three different ways: hedging using an array of financial instruments, matching offshore assets against offshore liabilities (borrowing in the country/currency you are investing in) or by matching offshore revenues against offshore costs (shifting operating costs to the country/currency you receive your revenue in).

Portfolio company, Delegat's is very focused on growing its wine sales in the US as it is a relatively immature but sizeable wine market compared to New Zealand and Australia, and provides strong opportunities for growth. To protect against movements in the New Zealand dollar against the US dollar, Delegat's uses forward and options contracts (hedging via financial instruments) which helps to ensure their cash flows from foreign operations are somewhat protected against currency movements which they cannot control.

Rather than a formal hedging program using financial instruments, many companies use what we call a 'natural hedge'. For example, Restaurant Brands, has recently expanded its offshore operations in Australia. When borrowing money to fund expansions like this, Restaurant Brands will typically borrow in the same currency it is investing in.

The third approach is to match the currency that revenues are earned in with the costs that support those revenues. For example, iconic jewellery retailer, Michael Hill has a strong presence in Australia. The revenues generated in Australia are matched against operating costs in Australia, so most transactions are in one currency, the Australian dollar, which means the risks associated with making money in one currency and paying bills in another is diminished.

Over recent years, the New Zealand dollar has been relatively stable against many trading partners so currency hasn't had an outsized impact on company profitability. If the polls are to be relied upon, the looming New Zealand election will be close and could deliver a range of outcomes. If there isn't a clear result on Election Day, we may see a protracted period of coalition negotiations and this uncertainty may see the New Zealand dollar lose some of its recent strength and be more volatile.

Thankfully the management of companies in Kingfish portfolio have clear strategies in place to manage risk if the New Zealand dollar goes through a period of heightened volatility. In our view having a carefully crafted currency strategy is the best way for Kingfish portfolio companies to manage currency risk while avoiding having to guess which way the dollar will go. Winston would approve.

Mark Brighthouse | Chief Investment Strategist

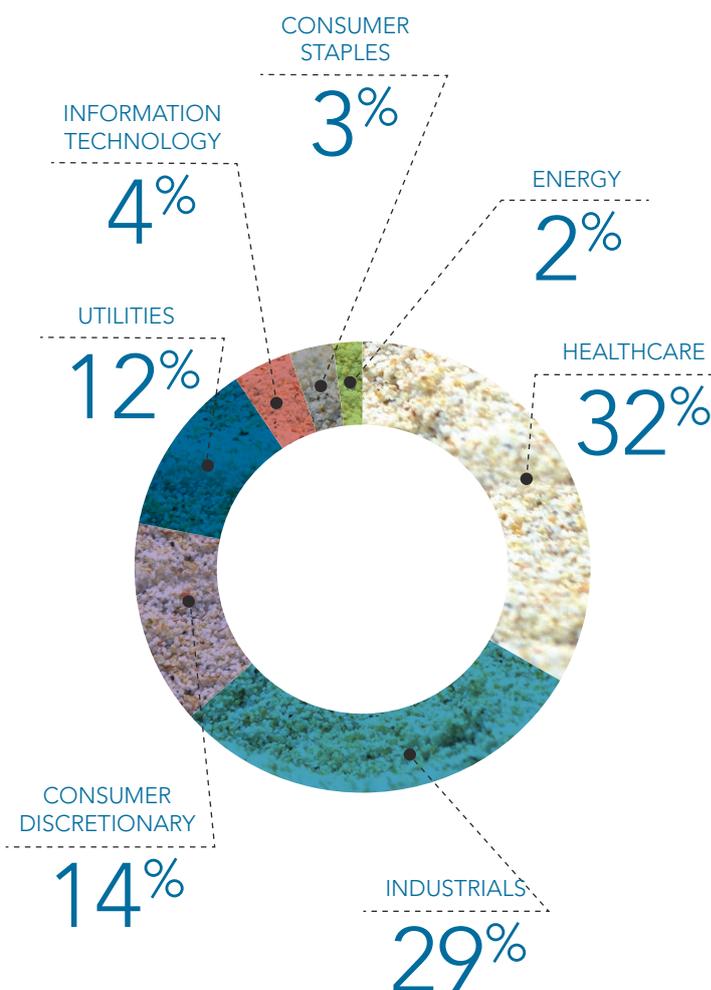
Key Details

as at 31 July 2017

FUND TYPE	Listed Investment Company
INVESTS IN	Growing New Zealand companies
LISTING DATE	31 March 2004
FINANCIAL YEAR END	31 March
TYPICAL PORTFOLIO SIZE	15-25 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	15% of returns in excess of benchmark and high water mark
HIGH WATER MARK	\$1.36 per share
SHARES ON ISSUE	188m
MARKET CAPITALISATION	\$243m
GEARING	None (maximum permitted 20% of gross asset value)

Sector Split

as at 31 July 2017



The Kingfish portfolio also holds cash.

July's Biggest Movers

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

MICHAEL HILL

+13%

ABANO HEALTHCARE

+10%

RYMAN HEALTHCARE

+6%

PORT OF TAURANGA

+5%

MAINFREIGHT

+4%

5 Largest Portfolio Positions

as at 31 July 2017

MAINFREIGHT

12%

FISHER & PAYKEL
HEALTHCARE

12%

FREIGHTWAYS

8%

INFRATIL

8%

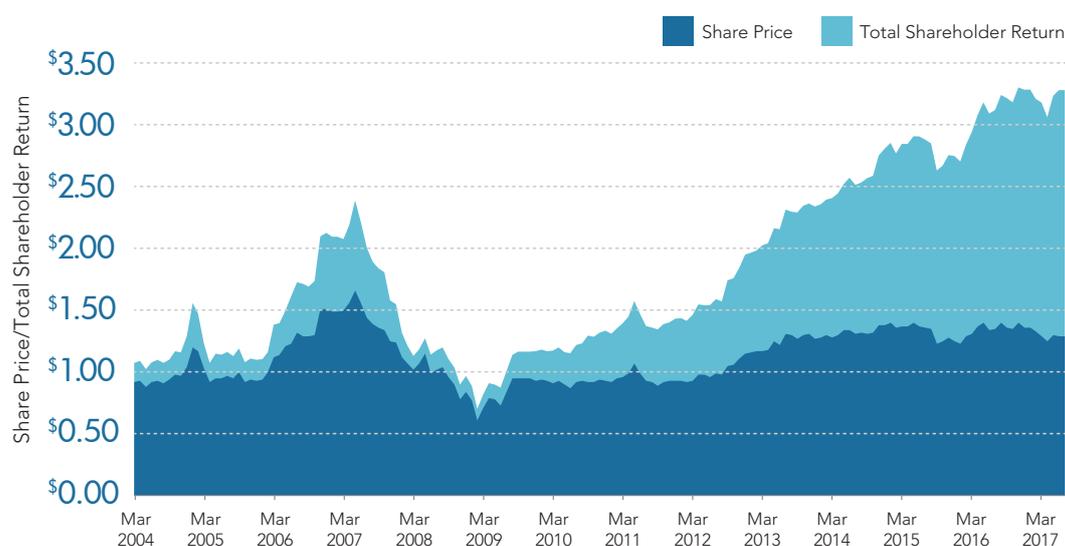
RYMAN HEALTHCARE

8%

The remaining portfolio is made up of another 13 stocks and cash.

Total Shareholder Return

to 31 July 2017



Performance

to 31 July 2017

	1 Month	3 Months	1 Year	3 Years (accumulated)	5 Years (accumulated)
Corporate Performance					
Total Shareholder Return*	+0.0%	+7.2%	+5.2%	+30.5%	+106.3%
KFL Adjusted NAV*	+2.5%	+6.1%	+7.4%	+40.2%	+102.0%
Manager Performance					
Gross Performance [^]	+2.7%	+6.7%	+9.9%	+50.6%	+136.2%
S&P/NZX50G Index	+1.1%	+4.3%	+4.7%	+48.9%	+117.0%

[^] Gross of fees and tax and adjusting for capital management initiatives

***Definitions of non-GAAP measures:**

Adjusted Net Asset Value (Adjusted NAV)

The adjusted NAV per share represents the total assets of Kingfish (investments and cash) minus any liabilities (expenses and tax), divided by the number of shares on issue. It adds back dividends paid to shareholders and adjusts for:

- » the impact of shares issued under the dividend reinvestment plan at the discounted reinvestment price;
- » shares bought on-market (share buybacks) at a price different to the NAV, and;
- » warrants exercised at a price different to the NAV at the time exercised.

Adjusted NAV assumes all dividends are reinvested in the company's dividend reinvestment plan and excludes imputation credits.

The directors believe this metric to be useful as it reflects the underlying performance of the investment portfolio adjusted for dividends, share buybacks and warrants, which are capital allocation decisions and not a reflection of the portfolio's performance.

Total Shareholder Return (TSR)

The TSR combines the share price performance, the warrant price performance (when warrants are on issue), the net value of converting warrants into shares and dividends paid to shareholders.

TSR assumes:

- » all dividends paid are reinvested in the company's dividend reinvestment plan at the discounted reinvestment price and exclude imputation credits, and;
- » all shareholders that have received warrants (for free), have subsequently exercised their warrants at the warrant expiry date and bought shares (if they were in the money).

The directors believe this metric to be useful as it reflects the return of an investor who reinvests their dividends and, if in the money, exercises their warrants at warrant maturity date for additional shares. No metric has been included for investors who choose other investment options.

About Kingfish

Kingfish 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 15 and 25 quality growing New Zealand companies through a single, professionally managed investment. The aim of Kingfish is to offer investors competitive returns through capital growth and dividends.

Management

Kingfish's portfolio is managed by Fisher Funds Management Limited. Sam Dickie (Senior Portfolio Manager), Zoie Regan (Senior Investment Analyst) and Matt Peek (Investment Analyst) have prime responsibility for managing the Kingfish portfolio. Together they have over 40 years combined experience and are very capable of researching and investing in the quality New Zealand companies that Kingfish targets. Fisher Funds is based in Takapuna, Auckland.

Board

The Manager has authority delegated to it from the Board to invest according to the Management Agreement and other written policies. The Board of Kingfish comprises independent directors Alistair Ryan (Chair), Carol Campbell and Andy Coupe; and non-independent director Carmel Fisher.

Capital Management Strategies

Regular Dividends

- » Quarterly distribution policy introduced in June 2009
- » Under this policy, 2% of average NAV is targeted to be paid to shareholders quarterly
- » Dividends paid by Kingfish 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
- » Kingfish 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

- » Kingfish has a buyback programme in place allowing it (if it elects to do so) to acquire up to 7.7m of its shares on market in the year to 31 October 2017
- » 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 and to pay performance fees

Warrants

- » Warrants put Kingfish in a better position to grow further, improve liquidity, operate efficiently and pursue other capital structure initiatives as appropriate
- » A warrant is the right, not the obligation, to purchase an ordinary share in Kingfish at a fixed price on a fixed date
- » There are currently no warrants on issue

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 Kingfish 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 an authorised financial adviser should be taken before making an investment. To the extent that the update contains data relating to the historical performance of Kingfish 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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