



# Monthly Update

July 2018

KFL NAV

\$1.52

SHARE PRICE

\$1.39

DISCOUNT

8.6%

as at 30 June 2018



## A word from the Manager

June was another positive month for the New Zealand share market. Against a backdrop of high oil prices, growth scares, escalating tariffs and the threat of a full blown trade war, the New Zealand market was a relative safe haven rising 3.3% and outperforming all major global equity markets.

Interestingly, for the six months to 30 June 2018, the New Zealand market has outperformed emerging equities by c.15%<sup>1</sup>, European equities by c.9%<sup>2</sup>, global equities by c.6%<sup>3</sup> and US equities by c.4%<sup>4</sup>. Those are big numbers when you consider the S&P/NZX50G is only up c.7% for the six months ending 30 June 2018.

Geopolitical risk, primarily currently caused by Trump and his crusade on trade is becoming more concerning and is one of the key reasons we have seen a sharp sell-off in emerging market equities. A decade ago emerging market gyrations were not hugely relevant to New Zealand but given these emerging economies account for 60-80% of global GDP growth and that New Zealand is a small and open economy, it is important to keep a watchful eye on these developments.

The Kingfish portfolio was up 4.3% on a gross performance basis.

### Know what you own and know why you own it

While macro factors are important, there is no substitute for meeting industry participants, companies and their competitors.

Peter Lynch, the renowned former manager of the rockstar Magellan Fund, famously quoted *"There is absolutely no better investment technique than wearing out shoe leather and visiting companies."* and *"Know what you own and know why you own it."*

As the manager of the Magellan Fund between 1977 and 1990, Lynch averaged a 29.2% annual return (consistently more than doubling the S&P500 and making it the best performing mutual fund in the world). Decades on, we still agree whole-heartedly with Lynch's advice and believe there is no substitute to looking in the eye of business heads – it accelerates the knowledge process and gives us confidence that there are layers of quality management below the "C" suite.

We have previously discussed that over 50% of the revenue from the Kingfish portfolio is derived offshore. Given this, we recently visited several of the offshore operations of Kingfish portfolio companies as well as a number of their key competitors. This gave us the chance to look into the eyes of a number of business heads including those at Mainfreight and Fisher & Paykel Healthcare.

Mainfreight is currently growing revenues rapidly in Australia and Europe. On revisiting the large Epping site in Melbourne two years after the 2016 investor day hosted there, it was pleasing to see the warehouse full and the quality of the operations at the site have been used to attract a significant number of new customers. As a result, the company is already expanding onto an adjacent site. It is also encouraging that this year's investor day was hosted in the Netherlands, which is testament to the progress the team is currently making in the European business. We are pleased to see the company continuing to foster its unique culture offshore and intensify its network both within, and between, regions.

Fisher & Paykel Healthcare (FPH) generates almost 10% of its revenue from Europe so it was extremely helpful to spend some time with Patrick McSweeney, FPH's long standing head of European operations. Patrick has been in the industry for 30 years and has been with FPH for 15 years. In business generally, but especially in the world of medical technology, where timeframes to get products approved and into commercial production are measured in decades, not years, that sort of experience is worth its weight in gold. Patrick reminded us that the European and global penetration of high flow oxygen therapies into the hospital is still very low and FPH remains very well positioned to dominate this significant opportunity for many years to come.

Sam Dickie  
Senior Portfolio Manager  
Fisher Funds Management Limited



<sup>1</sup> MSCI Emerging Markets Index

<sup>2</sup> Stoxx Europe 600 Index

<sup>3</sup> MSCI World Index

<sup>4</sup> S&P500 Index

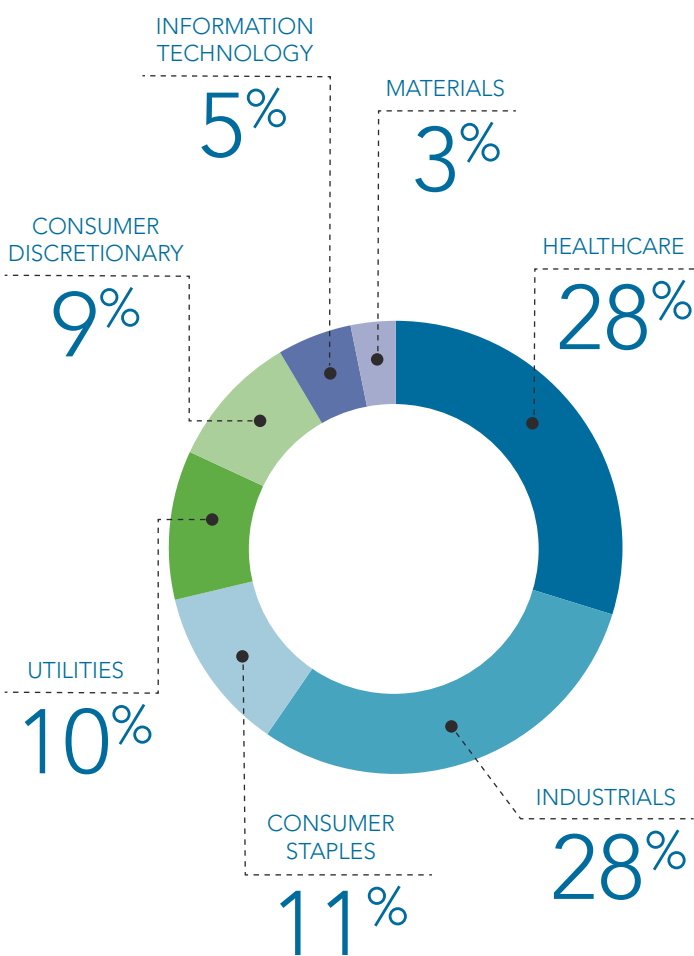
# Key Details

as at 30 June 2018

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	\$1.41
SHARES ON ISSUE	193m
MARKET CAPITALISATION	269m
GEARING	None (maximum permitted 20% of gross asset value)

# Sector Split

as at 30 June 2018



The Kingfish portfolio also holds cash.

# Performance

to 30 June 2018

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
<b>Corporate Performance</b>					
Total Shareholder Return	+2.9%	+8.4%	+17.7%	+9.9%	+12.4%
Adjusted NAV Return	+4.1%	+7.2%	+19.3%	+15.6%	+13.4%
<b>Manager Performance</b>					
Gross Performance Return	+4.3%	+8.2%	+21.3%	+18.3%	+16.2%
S&P/NZX50G Index	+3.3%	+7.5%	+17.5%	+16.0%	+15.0%

## Non-GAAP Financial Information

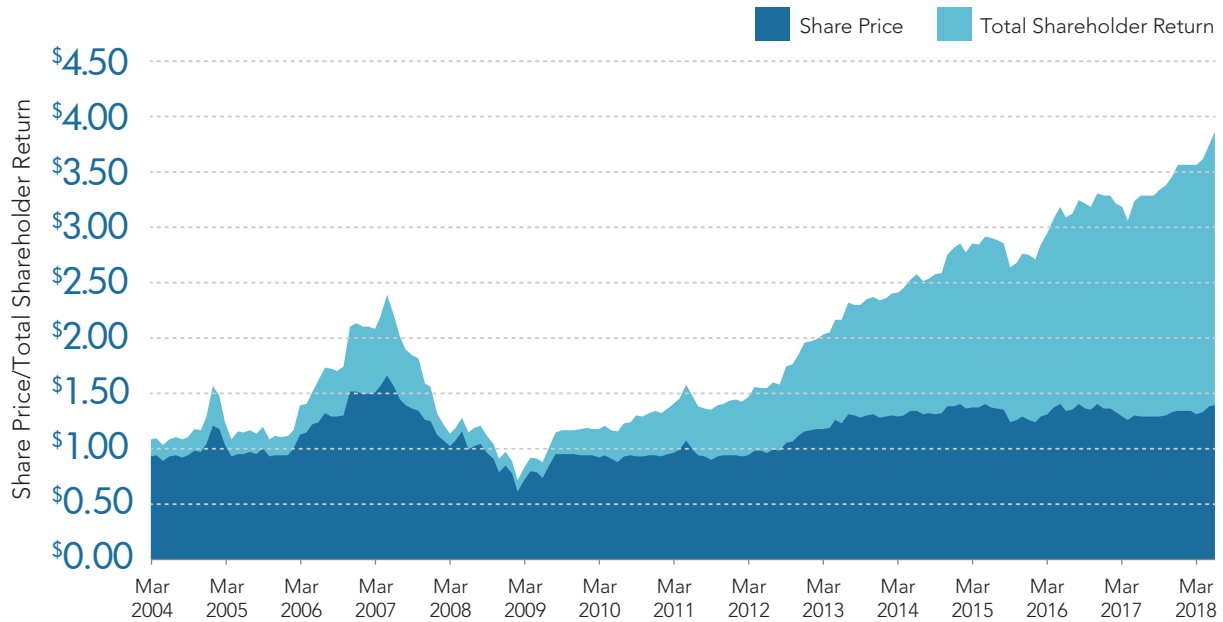
Kingfish uses non-GAAP measures, including adjusted net asset value, adjusted NAV return, gross performance return and total shareholder return. The rationale for using such non-GAAP measures is as follows:

- » adjusted net asset value – the underlying value of the investment portfolio adjusted for capital allocation decisions after fees and tax,
- » adjusted NAV return – the net return to an investor after fees and tax,
- » gross performance return – the Manager's portfolio performance in terms of stock selection, 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 monthly update are to such non-GAAP measures. The calculations applied to non-GAAP measures are described in the Kingfish Non-GAAP Financial Information Policy. A copy of the policy is available at <http://kingfish.co.nz/about-kingfish/kingfish-policies/>

# Total Shareholder Return

to 30 June 2018



## June's Biggest Movers

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

FISHER & PAYKEL  
HEALTHCARE

+13%

VISTA GROUP

+9%

RYMAN HEALTHCARE

+6%

FLETCHER BUILDING

+5%

THE A2 MILK COMPANY

+5%

## 5 Largest Portfolio Positions

as at 30 June 2018

FISHER & PAYKEL  
HEALTHCARE

12%

MAINFREIGHT

11%

FREIGHTWAYS

9%

RYMAN HEALTHCARE

8%

THE A2 MILK COMPANY

8%

The remaining portfolio is made up of another 11 stocks and cash.

## 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 9.4m of its shares on market in the year to 31 October 2018
- » 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

- » On 2 July 2018, a new issue of warrants (KFLWE) was announced
- » Warrants will be issued at no cost to eligible shareholders and in the ratio of one warrant for every four Kingfish shares held on the record date (18 July 2018)
- » Exercise Price = \$1.37 per warrant, to be adjusted down for dividends declared during the period up to the Exercise Date
- » Exercise Date = 12 July **2019**
- » The final Exercise Price will be announced and an Exercise Form will be posted to warrant holders in June **2019**

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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