

Monthly Update

March 2018

KFL NAV

\$1.46

SHARE PRICE

\$1.34

DISCOUNT

8.0%

as at 28 February 2018



A word from the Manager

Recently, I've been writing about the 1963 dream - where the market recorded 16 positive return months in a row before finally peaking in 1965. The more modern version of this dream died in February. After 13 positive return months, the S&P NZX 50 gross index closed down 0.8% ending what has been a phenomenal run for the New Zealand market.

In addition to being the first down month we have seen for some time, there was also a spike in volatility in equity markets around the world in early February. A good example of this was in the United States where the S&P 500 share market index shed 4.1% in a single day – while we expect volatility in markets, this is the first serious bout we have seen for some time.

Inevitably, the New Zealand market got caught up in the global equity sell-off. While we think that the sell-off was most likely kick-started by fears about inflation and interest rates rising too fast, we believe it was exacerbated by the collapse in the 'short volatility' trade and the ensuing spike in volatility as investors closed positions.

Put simply, technical factors caused forced selling which turned into a global panic and drove the New Zealand market down 5% intramonth. Such volatility, particularly when driven by technical reasons, often throws up good buying opportunities and we used this market correction to add to high quality positions in the Kingfish portfolio at discounted prices. By the end of the month, most of the dust settled, global markets largely rebounded and the S&P NZX 50 regained most of its lost ground.

There was plenty of positive news for the Kingfish portfolio during the month, with a number of portfolio companies reporting their results. Of the eleven portfolio companies that reported results during the month, five were largely in line with expectations, while five (**a2 Milk, Auckland Airport, Delegat, Port of Tauranga and Summerset**) reported results that were ahead of expectations – always a positive outcome. As flagged ahead of its result, Michael Hill's performance was below expectations, primarily as a result of its underperforming US and Emma & Roe divisions, which are being addressed.

We added **The a2 Milk Company** to the portfolio ahead of its interim 2018 result. The company reported an outstanding result, comfortably beating already high expectations with revenue +70% and EBITDA +123% versus last year. The company's strong result was driven primarily through growth in its China infant formula business where it has rapidly increased market share. a2 Milk also unexpectedly announced an agreement with Fonterra to accelerate growth into new markets and products, such as nutritionals, butter, and cheese. We increased the size of the position in a2 Milk on the back of the result and announcement.

a2 Milk's agreement with Fonterra should leverage Fonterra's logistics and distribution network to help the company access markets in South East Asia and the Middle East, as well as provide fresh a2 milk in New Zealand. The agreement also creates new milk pools and diversifies a2 Milk's manufacturing base. Fonterra has historically opposed a2's progress so the validation of its product proposition is also a strong endorsement of the a2 milk category and its global growth potential.

During February, we exited our position in **Z Energy**. The original thesis for the investment was predicated on a strengthening of the business's market position and material synergies following its Caltex acquisition. These investment storylines and catalysts have now largely played out and we believe there are now better uses of your capital elsewhere.



Sam Dickie
Senior Portfolio Manager,
Kingfish



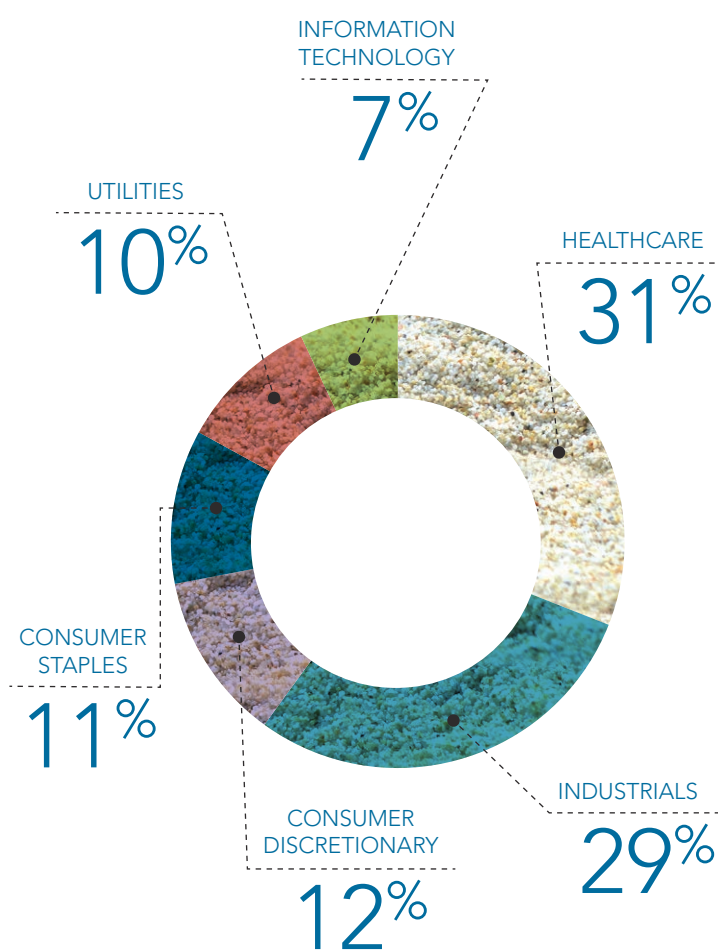
Key Details

as at 28 February 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	\$1.27
SHARES ON ISSUE	189m
MARKET CAPITALISATION	254m
GEARING	None (maximum permitted 20% of gross asset value)

Sector Split

as at 28 February 2018



The Kingfish portfolio also holds cash.

Performance

to 28 February 2018

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
Corporate Performance					
Total Shareholder Return	+0.0%	+3.0%	+10.9%	+8.7%	+12.4%
Adjusted NAV Return	(1.2%)	+1.8%	+14.7%	+11.6%	+12.9%
Manager Performance					
Gross Performance Return	(1.2%)	+2.5%	+17.9%	+14.5%	+15.9%
S&P/NZX50G Index	(0.8%)	+2.3%	+16.8%	+12.5%	+14.2%

Non-GAAP Financial Information

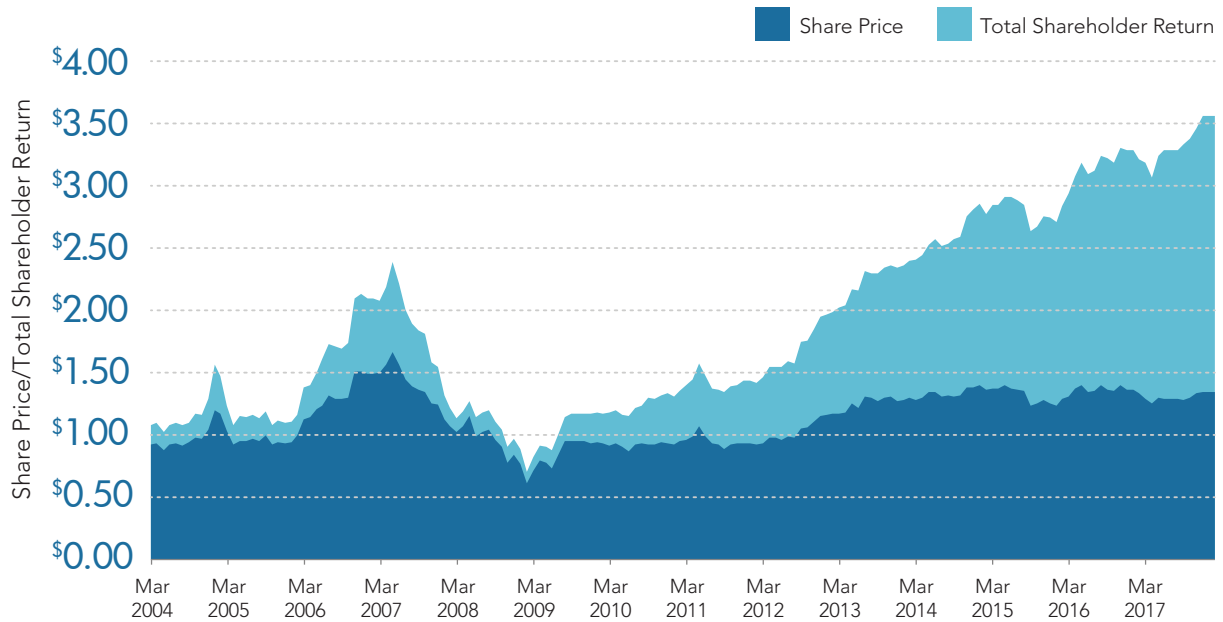
Kingfish uses non-GAAP measures, including adjusted net asset value, gross performance return and total shareholder return. The rationale for using such non-GAAP measures is as follows:

- » adjusted net asset value – the underlying value of the investment portfolio adjusted for capital allocation decisions,
- » 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, 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 Global 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 28 February 2018



February's Biggest Movers

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

THE A2 MILK COMPANY	SUMMERSET GROUP	Z ENERGY	XERO	MICHAEL HILL
+44%	+11%	-9%	-9%	-13%

5 Largest Portfolio Positions

as at 28 February 2018

FISHER & PAYKEL HEALTHCARE	MAINFREIGHT	FREIGHTWAYS	THE A2 MILK COMPANY	INFRATIL
12%	12%	9%	8%	7%

The remaining portfolio is made up of another 13 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

- » 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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