



# Monthly Update

November 2018

KFL NAV	SHARE PRICE	WARRANT PRICE	DISCOUNT <sup>1</sup>
\$1.44	\$1.34	\$0.05	6.0%
as at 31 October 2018			

## A word from the Manager

### Market Environment

New Zealand equities as measured by the S&P/NZX50 fell sharply in October, down 6.4%. This was the second largest monthly fall in NZ equities since the depths of the GFC in early 2009, (the largest was in May 2010).

New Zealand was one of the more insulated markets globally, with global equities down approximately 7.5% and emerging markets equities down approximately 9.0%. While it's always hard to pin down the precise causes for a sharp correction like we have experienced - no doubt excessive optimism, low volatility and overbought conditions were factors - the expected pace of economic growth lurks in the background as the main fear driving market participants. We remain cautious of the overall global economic environment, rather than pessimistic.

Unsurprisingly, defensive sectors (telecommunications, utilities and real estate) were the better performing sectors, down circa 3% for the month. The worst performing sectors were energy and healthcare, as crude oil fell in price and growth stocks were sold off sharply globally.

### Portfolio Changes

During the month we exited our position in **Abano Healthcare**. Ongoing disappointing same store sales growth from its Australian dental business (Maven) and limited margin improvement has meant Abano has been on watch over the last year and we have been decreasing our investment. Two of the key attractions of a roll-up<sup>2</sup> story are the ability to take organic market share and the delivery of operating leverage via scale, and Abano continues to struggle to deliver on both of these. As always, capital is precious and we have better uses for our capital currently.

We took the opportunity to add cautiously to our positions in **The a2 Milk Company**, **Fisher & Paykel Healthcare**, and **Auckland International Airport** following the volatility in share prices during the month.

We slightly reduced our position in **Mainfreight** as the company is definitely not immune to the downshift in global growth we expect into 2019, coupled with the fact that its valuation was elevated on multiple counts.

### Other Portfolio News

**The a2 Milk Company** released a presentation at a broker conference with updates on several KPIs. There was no financial update other than commenting that revenue for first quarter 2019 is "consistent with company expectations, reflecting strong growth in infant formula and milk products". The lift in market share quoted was in line with our expectations and we expect a solid trading update at the Annual Meeting in November.

**Freightways** gave its first quarter 2019 update at its AGM, which was mixed. Positively, the courier business has delivered good growth and the various initiatives new CEO Mark Troughear has launched appear to be gaining traction and will accelerate into second half 2019 and beyond. Restructuring driver rates per package has improved last-mile efficiency and reduced driver top-ups. The "pricing effort" campaign is gaining traction and in addition geo-mapping is nearly complete which will enable surcharges for higher cost B2C deliveries.

**Michael Hill** announced first quarter 2019 sales, which revealed a sharp -11% decline in same store sales growth, as it cut back its practice of allowing store staff the autonomy to discount to close sales. This move was part of its change in strategy to move away from price-

<sup>1</sup> Share Price Discount to NAV (including warrant price on a pro-rated basis)

<sup>2</sup> Being a business that buys lots of other similar small businesses.

based competition on generic product and towards more unique collections. We were very disappointed by the worse-than-expected decline, which suggested a loss of share to competitors and loss of volume and margin dollars. The company has flagged a greater promotional pipeline in the important December quarter, which is expected to improve results. We have engaged with the company to better understand the merit of the strategy and how it expects to achieve improved performance moving forward.



Sam Dickie  
Senior Portfolio Manager  
Fisher Funds Management Limited



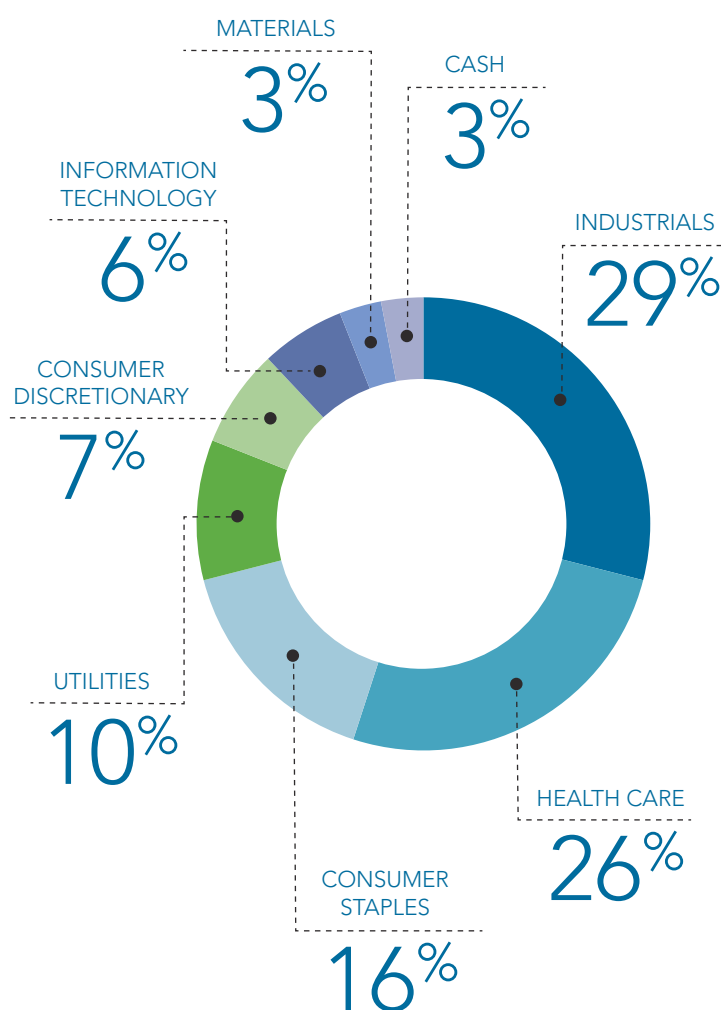
## Key Details

as at 31 October 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	\$1.37
SHARES ON ISSUE	195m
MARKET CAPITALISATION	261m
GEARING	None (maximum permitted 20% of gross asset value)

## Sector Split

as at 31 October 2018



# October's Biggest Movers

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

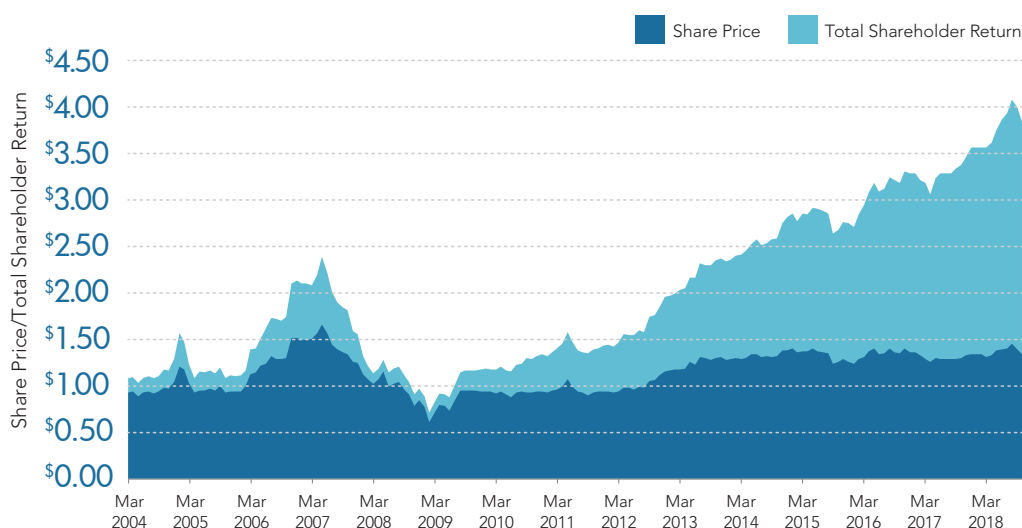
RESTAURANT BRANDS	PUSHPAY HOLDINGS	RYMAN HEALTHCARE	SUMMERSET GROUP	MICHAEL HILL
+10%	-13%	-14%	-15%	-28%

## 5 Largest Portfolio Positions as at 31 October 2018

FISHER & PAYKEL HEALTHCARE	THE A2 MILK COMPANY	MAINFREIGHT	FREIGHTWAYS	INFRATIL
13%	12%	10%	9%	7%

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

## Total Shareholder Return to 31 October 2018



## Performance to 31 October 2018

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
<b>Company Performance</b>					
Total Shareholder Return	(3.9%)	(2.4%)	+13.5%	+12.8%	+10.3%
Adjusted NAV Return	(7.0%)	(3.8%)	+10.1%	+12.6%	+10.8%
<b>Portfolio Performance</b>					
Gross Performance Return	(7.2%)	(3.4%)	+11.8%	+15.2%	+13.4%
S&P/NZX50G Index	(6.4%)	(1.9%)	+7.4%	+13.5%	+12.3%

### 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, before fees and tax, 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/>

## 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 9.7m of its shares on market in the year to 31 October 2019
- » 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
- » The warrants were issued at no cost to eligible shareholders and in the ratio of one warrant for every four Kingfish shares held
- » 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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