



# Monthly Update

October 2014

A number of the companies in our Kingfish portfolio are exporters or have operations outside of New Zealand. So it is important that we understand not only their domestic business but also their international activities and markets. Furthermore, some companies' future growth aspirations are strongly correlated to the success of their international business.

During September, Portfolio Manager, Murray Brown, travelled to the USA to check in on two of our bigger New Zealand holdings with growing global footprints, **Fisher & Paykel Healthcare** and **Mainfreight**. Murray visited Fisher & Paykel Healthcare's Tijuana manufacturing plant, had a presentation from its USA-based sales staff and visited a sleep lab to see some of its products out in the marketplace. He also took the opportunity to visit Mainfreight's Los Angeles freight operations, a division which is a key part in its goal of becoming a global logistics company.

In 2010 Fisher & Paykel Healthcare decided to add to its New Zealand-based manufacturing operations in Auckland with a manufacturing plant in the northern hemisphere to provide geographic diversity for the production of mainstream consumable products (mainly masks) and to lower its cost of production. Tijuana, Mexico was chosen for its close access to the large US market, skilled and relatively low cost work force and close proximity to major shipping lanes for access to other major northern hemisphere markets (predominantly Europe).

The Tijuana plant has been such a success that it is now looking

to expand this plant by around two-thirds with the addition of another six production lines, so that eventually half of its consumable products will be manufactured in the plant within the next 2-3 years. Tijuana is home to many medical device manufacturers, so employees generally have a choice of employer. Speaking to some of the staff during a tour of the plant, it was evident how proud and connected to the company they are. Fisher & Paykel Healthcare offers medical and dental services on-site at no cost to the employee and these factors have resulted in staff turnover well below the industry average.

Fisher & Paykel Healthcare's relative success lies in its ability to design and manufacture innovative healthcare products that make a real difference to patients with respiratory and sleep disorders, both in the hospital but increasingly in the home. Although it has large and well-funded competitors, it is increasing market share in an industry that has a tailwind from an ageing population and the increasing incidence of respiratory conditions. The company has been able to gain market share through its product development, with many successful product releases over the last 2-3 years and many more planned.

Over the last few years we have doubled the size of our Fisher & Paykel Healthcare holding and it is now one of the largest positions in the Kingfish portfolio.

## Performance to 30/09/14

|                             | 1 Month | 3 Months | 1 Year | 3 Years (accumulated) | 5 Years (accumulated) |
|-----------------------------|---------|----------|--------|-----------------------|-----------------------|
| KFL Adjusted NAV*           | +0.8%   | +1.2%    | +10.2% | +59.9%                | +76.6%                |
| <b>Relative Performance</b> |         |          |        |                       |                       |
| NZX50 Gross Index (NZX50G)  | +0.6%   | +2.2%    | +11.0% | +57.2%                | +66.2%                |
| Total Shareholder Return*   | +1.3%   | -0.2%    | +12.1% | +90.7%                | +117.4%               |

\*Adjusted NAV and Total Shareholder Return assume all dividends are reinvested, but exclude imputation credits.  
NB: NAV and Adjusted NAV are net of fees and tax, and include the dilution effect of warrants exercised.

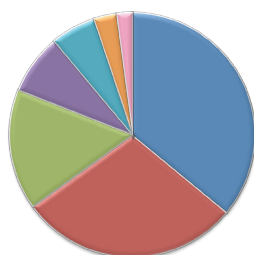
## September's Biggest Movers

(from Bloomberg)

- +20%** Delectat's
- +17%** Infratil
- +7%** Metro Performance Glass
- 5%** Summerset Group
- 7%** Opus International

## Sector Split as at 30/09/14

- **36%** Healthcare
- **29%** Industrials
- **16%** Consumer Discretionary
- **8%** Utilities
- **6%** Financials
- **3%** Consumer Staples
- **2%** Materials



## At a Glance as at 30/09/14

|             |        |
|-------------|--------|
| KFL NAV     | \$1.33 |
| Share Price | \$1.31 |
| Discount    | 1.7%   |

At \$1.31 Kingfish currently trades at a discount to NAV of 1.7%. The discount could provide value, as investors are able to purchase a portfolio with a NAV of \$1.33 per share for only \$1.31 per share.

## Continued

Mainfreight has recently leased substantial premises adjacent to its existing operations in Carson, Los Angeles for its first dedicated warehousing operations in the USA. Mainfreight has been successfully managing clients' warehousing logistics in New Zealand, Australia and Europe for many years, but Carson is the first of many similar operations it plans to roll-out over the next few years in the USA as it expands its footprint and provides an integrated offering to its growing client base. Although not yet operational, the

warehouse is large by New Zealand standards (190,000sqft, more than 2.2x the size of its Australasian warehouses) and will free-up space for its pure domestic freight. Mainfreight remains a core holding in the Kingfish portfolio.

These visits reaffirmed our conviction in the future prospects of both Fisher & Paykel Healthcare and Mainfreight.

**Murray Brown, Senior Portfolio Manager**

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

fisher funds 

## A word from the Manager

After months of relatively sedate markets and news that wasn't that newsworthy, September had us sitting on the edge of our seats, donning our thinking caps, sharing our opinions and sinking our teeth into some meaty issues. For all but the million Kiwis who chose not to vote, September was captivating with a close, ugly but ultimately satisfying election battle with the National party winning a mandate to lead the country for another three-year term. In the northern hemisphere, another close but satisfying (at least for 54% of Scots) battle raged, as Scotland contemplated ending its 307 year union with Britain.

September was exciting for those involved in the listing of Chinese e-commerce company Alibaba on the New York Stock Exchange. The company, which is described as a hybrid of Amazon and eBay, debuted with a market capitalisation of \$US230 billion, making it the largest initial public offering in history, and valuing it ahead of 22 of the 30 companies in the Dow Jones Industrial Index.

This was a milestone for Alibaba's founder and executive chairman Jack Ma, the one time English teacher from Hangzhou who once struggled to raise a few thousand dollars to finance a translation business, and is now China's richest man with a personal wealth of over US\$10 billion.

Demand for Alibaba shares was so strong that its shares didn't begin trading for more than two hours as the company waited for a seller to emerge! Investors who bought shares during the IPO process at \$US68 were rewarded with a 30% gain in a matter of days as the shares peaked at \$US99 and settled at around \$US90 at the end of the month.

Another newsworthy event during September was the launch of the Apple iPhone 6. Ordinarily the launch of a new smartphone would be of passing interest to investors, however, this launch was significant enough to move markets. Actually, it was less the launch and more "Bendgate" or the phone's propensity to bend in the pocket (in the case of nine phones out of ten million sold) that resulted in the Apple share price falling 3.8% and the Nasdaq Index falling 1.9% dragging down even the new kid on the block, Alibaba, which fell by 1.8%. Bendgate coincided with, or perhaps triggered, a change in market sentiment towards the end of the month that saw the market finish on a negative note. The S&P500 ended September down 1.5% prompting headlines about "the September stock slump" and "the worst performance since January".

Sentiment was not helped by ongoing concerns about the US Federal Reserve (Fed) raising interest rates, with much hand-wringing over the possible removal of the words "considerable time" from the Fed's statement about how long interest rates will likely remain low. Ongoing strife in many parts of the world from Ukraine to the places ISIS is terrorising, including our close neighbour Australia, and the increased risk of global terrorist activity made September a rather more noteworthy month than most of us would care for.

Currency was also centre stage during September as concerns were raised about the strong US dollar and its negative impact on US exports and therefore economic growth. The Reserve Bank of New Zealand (RBNZ) surprised the market releasing a statement calling the level of the New Zealand dollar "unjustified and unsustainable", particularly given falling milk prices. Usually statements from the RBNZ are seen as jawboning and are relatively ineffective. However, this statement worked and the bank managed to push the NZD/USD exchange rate from 0.8075 to a low of 0.7887 in what was regarded as an effective intervention, with rather more bite than usual.

So, an interesting September, but October looks set to be even more interesting with the 2014 Fisher Funds Roadshow about to hit your town. We do look forward to seeing you and thank you for your continued support.

**Carmel Fisher, Managing Director**

## 5 Largest Portfolio Positions

as at 30/09/14

 14%

 12%

 11%

 8%

 8%

**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.