KINGFISH

LANDING TOMORROW'S TROPHIES

Monthly Update

October 2016

KFL NAV	SHARE PRICE	WARRANT PRICE	DISCOUNT
$1.46	$1.36	$0.06	6.8%

as at 30 September 2016

A word from the Manager

Any investor who enjoys the thrill of finding an overlooked, undervalued gem has had a miserable time of late. Markets haven't been about individual gems. The focus is back on central bank policy, with the will-they-won't-they speculation resulting in increased volatility in both bond and stock markets.

As we know, unconventional central bank monetary policies have underpinned markets for some years. We have enjoyed a period of relative calm since the wobbles around the Brexit vote in June.

Recently though there has been increasing concern about the longer-term impact of central banks' involvement in financial markets, and in particular, what happens when they realise that ever lower interest rates aren't working to stimulate economic growth.

One commentator described a 'distinctly mixed feeling' in markets during September with 'more stick than carrot, more push than pull and more frustration than joy'.

We should prepare for more mixed markets and more volatility in coming months, particularly when the US election tension is thrown into the mix.

A columnist's recent description of the 'parenting approach' of central banks helped put their influence on market behaviour into perspective.

In *Miller's Market Musings* Jeffrey Miller discussed what a parent's goal might be. One answer might be to provide guidance and life lessons so that your children become good people. A near term goal might be for them to be safe, or healthy or happy.

But you probably wouldn't answer 'My goal is for my children to always be happy, to never experience pain, or sadness or disappointment. To always get what they want, and to never hear the word 'No'.'

That sort of parent spoils their kids and you know they're probably going to turn out badly.

Yet central bankers around the world are those parents. The ones you don't let your kids play with. Those spoiled kids take greater risks and do dumber things because there are never any consequences for their actions.

Miller says the Federal Reserve is encouraging people to do riskier things because they fear upsetting them with a few interest rate hikes and a fall in asset prices. They want markets to be happy and hope that happy markets will translate into a happy and growing economy.

But the bad parents at the Federal Reserve don't realise that if they take away someone's 'safe' income (by lowering interest rates) they aren't going to have any money to spend; and forcing them to buy yield producing but-not-100%-safe assets is not going to make them comfortable enough to spend.

Miller suggests the Fed should have raised rates a while ago and markets would have ultimately got used to the idea, just like children get used to hearing the occasional 'No'.

Continuing his parenting theme, Miller discussed college homecoming parties, saying 'at some point, most people realise they should leave a party.' Some have been taught to leave early, when people start to get drunk and obnoxious. Some leave only when *they* are drunk and obnoxious. Others don't leave until the cops show up — they're the ones who get arrested.

'Don't be an idiot. Protect your portfolio. Don't stay at the party thinking you can leave before the cops show up. They always show up eventually.'

I agree with Miller that investors who assume central banks will keep supporting markets are in for a rude awakening. Some assets have become expensive, some investors have overlooked the riskiness of assets, and some have not positioned their portfolios for a quick getaway!

We're taking care of your portfolios to ensure we don't overpay, we are mindful of risk, and we are well positioned whatever central banks do from here. But we should be prepared for a rowdy few months — not everyone has the same parenting skills!

Carmel Fisher
Managing Director, Fisher Funds

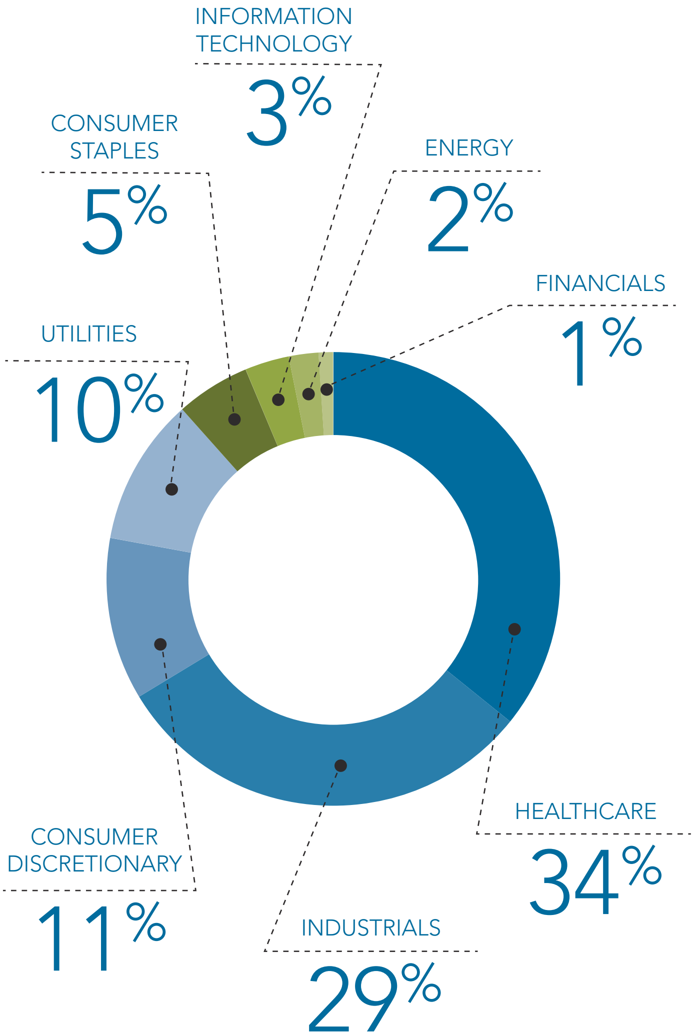
Key Details

as at 30 September 2016

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	$1.30 per share
SHARES ON ISSUE	155m
MARKET CAPITALISATION	$211m
GEARING	None (maximum permitted 20% of gross asset value)

Sector Split

as at 30 September 2016



The Kingfish portfolio also holds cash.

Performance

to 30 September 2016

	1 Month	3 Months	1 Year	3 Years (accumulated)	5 Years (accumulated)
KFL Adjusted NAV*	+0.2%	+6.7%	+27.5%	+44.7%	+116.3%
S&P/NZX50G Index	(0.5%)	+6.7%	+31.6%	+55.4%	+120.2%
Total Shareholder Return*	(0.8%)	+4.0%	+22.3%	+40.4%	+138.9%

***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 off the 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 a capital allocation decision 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.

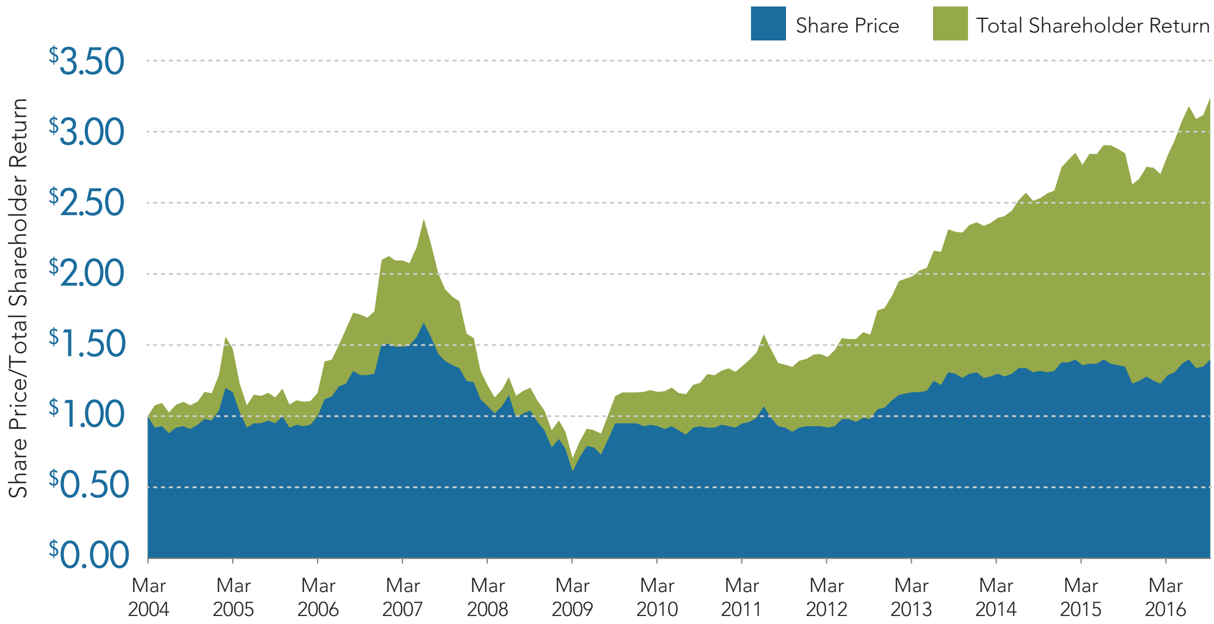
TSR assumes:

- » 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.

Total Shareholder Return

to 30 September 2016



September's Biggest Movers

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

EBOS GROUP LIMITED	NZX LIMITED	INFRATIL LIMITED	MERIDIAN ENERGY LIMITED	TEGEL GROUP HOLDINGS LTD.
+8%	+5%	-4%	-7%	-14%

5 Largest Portfolio Positions

as at 30 September 2016

MAINFREIGHT	RYMAN HEALTHCARE	FISHER & PAYKEL HEALTHCARE	FREIGHTWAYS	INFRATIL
11%	10%	9%	8%	7%

The remaining portfolio is made up of another 16 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 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. Murray Brown (senior portfolio manager) and Ashley Gardyne (senior investment analyst) take the prime management responsibilities and are highly experienced in researching and investing in New Zealand growth companies with over 40 years combined experience. Fisher Funds are 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 (Chairman), 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

» This policy is well received by shareholders as it provides an attractive and regular return that is referable to the NAV

» 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 6.2m of its shares on market in the year to 31 October 2016

» 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 19 April 2016, a new issue of warrants (KFLWD) was announced

» The warrants were issued at no cost to shareholders and in the ratio of one warrant for every four Kingfish shares held

» Exercise Price = $1.32 per Share on the exercise of each Warrant (adjusted for dividends declared during the period up to the Exercise Date)

» Exercise Date = 5 May 2017

» The final Exercise Price will be announced and an Exercise Form will be posted to warrantholders in April 2017

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