KINGFISH
LANDING TOMORROW'S TROPHIES

Quarter Update Newsletter

1 April 2017 — 30 June 2017

NAV	SHARE PRICE	DISCOUNT
$1.38	$1.29	6.6%

as at 30 June 2017

- **A strong June 2017 quarter for the New Zealand share market**
- **Portfolio heavyweight Fisher & Paykel Healthcare led the way as it reported robust results and continued to recover from its oversold levels late last year**
- **Successful warrant issue in May, with fund inflows being utilised to add to the largest positions in the Kingfish portfolio**

The June quarter was an upbeat one with the Kingfish portfolio gaining 3.9%, and our confidence in a number of core portfolio holdings including **Fisher & Paykel Healthcare**, **Mainfreight** and **Restaurant Brands** being reaffirmed. The successful warrant issue resulted in $35 million of fund inflows to Kingfish in May 2017, and we have used this inflow of capital to increase our positions in portfolio companies, including materially adding to the Fisher & Paykel Healthcare, Mainfreight and Restaurant Brands positions. The S&P/NZX50G index rose 5.8%, partly boosted by Spark Limited, a company we are not likely to own in the near term.

Fisher & Paykel Healthcare was the biggest contributor to performance with its share price lifting around 20% in the quarter. It has now rallied around 45% from its oversold lows last November when a competitor, Resmed, announced litigation against them. We took advantage of this weakness and have increased our weighting by more than a third since then enjoying the rebound. Investors also reacted positively to the company's strong final result reported during the June quarter. Fisher & Paykel Healthcare has continued to take more market share than expected in its sleep apnea mask business, and the new non-invasive ventilation products in its hospital business should continue to grow at a robust clip. The company firmed up the forecast growth rate of new products to 25% at the result; which was great to hear.

We also increased our weighting in **Mainfreight** during the quarter, another portfolio heavyweight. The transport and logistics operator delivered another quality result. The Australian business, in particular, is gaining solid market share and delivering strong operating leverage, and the European business is now starting to deliver decent revenue and profit growth.

Our increasing conviction in **Restaurant Brands** saw us lift our weighting in that company too; it is now the sixth largest position in our portfolio. The company has done a fantastic job in New Zealand, especially with the KFC brand. It has grown sales by an average of 5% per annum for the past decade; significantly faster than broad economic growth.

What encourages us even more though is that Restaurant Brands is using that expertise and proven business model to grow in both Australia and Hawaii. The company bought 42 KFC stores in Australia at much lower valuations than are prevailing in the market today and since then these stores have performed 10% -15% ahead of expectations.

Notable Returns in the Quarter

FISHER & PAYKEL HEALTHCARE	RESTAURANT BRANDS	Z ENERGY	ABANO HEALTHCARE	MICHAEL HILL INTERNATIONAL
+19%	+17%	+16%	+9%	-25%

Restaurant Brands also bought 38 Taco Bell stores and 44 Pizza Hutt stores in Hawaii. The market structure in Hawaii for Taco Bell looks similar to the KFC market structure in New Zealand in that Restaurant Brands is the sole owner of the Taco Bell franchise. This allows Restaurant Brands to solely control the brand, the marketing and the pricing. There is ample opportunity to refurbish the Taco Bell stores and drive strong sales growth and returns, just as they did with the KFC stores in New Zealand. We also appreciate that management consistently under-promise and over-deliver. They have beaten their own guidance for the last three years and analysts have upgraded 2018 earnings by 30%.

Portfolio company Michael Hill detracted from performance as it was down 25% for the quarter on the back of concerns about the pressure on Australian consumers and that Amazon's pending entry into Australia will hurt all bricks and mortar retailers. Michael Hill is a very experienced retailer and its business model has weathered many cycles. We're confident they'll rise to the challenge again.

During the quarter we exited our position in Tegel as our investment thesis changed. At the time of initiating our investment we took comfort in the concentrated industry structure with Tegel being the dominant player in the oligopoly. However, over time, it became evident that Tegel lacked the dominant pricing power we had initially expected due to the dominance of supermarkets and fast food chains coupled with the apparent irrational pricing by Tegel and/or its competitors.

Overall, a good quarter for investors with several positive developments for portfolio companies.

Sam Dickie
Senior Portfolio Manager, Fisher Funds Management Limited
24 July 2017

Performance
to 30 June 2017

	3 Months	3 Years (accumulated)	Five Years (accumulated)
Total Shareholder Return*	+3.2%	+27.6%	+112.7%
Kingfish Adjusted NAV*	+3.1%	+36.5%	+101.8%
Gross Performance^	+3.9%	+46.7%	+136.0%
S&P/NZX50G Index	+5.8%	+48.0%	+123.9%

^ Gross of fees and tax and adjusting for capital management initiatives

***Definitions of non-GAAP measures:**

Adjusted Net Asset Value (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 on-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.

Company News
Dividend Paid 29 June 2017

A dividend of 2.79 cents per share was paid to Kingfish shareholders on 29 June 2017 under the quarterly distribution policy. Interest in Kingfish's dividend reinvestment plan (DRP) remains high with 45% of shareholders participating in the plan. Shares issued to DRP participants are at a 3% discount to market price. If you would like to participate in the DRP, please contact our share registrar, Computershare on (09) 488 8777.

Portfolio Holdings Summary
as at 30 June 2017

LISTED COMPANIES	% Holding
ABANO HEALTHCARE	2.8%
AUCKLAND INTERNATIONAL AIRPORT	4.5%
DELEGAT GROUP	2.8%
EBOS GROUP	4.6%
FISHER & PAYKEL HEALTHCARE	12.8%
FREIGHTWAYS	8.5%
INFRATIL	8.0%
MAINFREIGHT	12.0%
MERIDIAN ENERGY	4.0%
MICHAEL HILL INTERNATIONAL	3.3%
PORT OF TAURANGA	4.5%
RESTAURANT BRANDS	6.4%
RYMAN HEALTHCARE	7.8%
SUMMERSET	4.4%
TRADE ME	3.0%
VISTA GROUP INTERNATIONAL	3.4%
Z ENERGY	2.1%
NON-LISTED COMPANY	
WATERMAN HOLDINGS	0.0%
EQUITY TOTAL	**94.9%**
NEW ZEALAND DOLLAR CASH	5.1%
TOTAL	**100.0%**

KINGFISH
LANDING TOMORROW'S TROPHIES

Kingfish Limited
Private Bag 93502, Takapuna, Auckland 0740
Phone: +64 9 489 7094 | Fax: +64 9 489 7139
Email: enquire@kingfish.co.nz | www.kingfish.co.nz

The Kingfish quarter update newsletter is produced for the June and December quarters only. The annual and interim reports cover the March and September periods. If you would like to receive future newsletters electronically please email us at enquire@kingfish.co.nz