

Quarter Update Newsletter

31 March 2018 – 30 June 2018



- » The June quarter was a positive one for the New Zealand market with the S&P/NZX50G up +7.5%, a strong rebound after the volatile March quarter.
- » The Kingfish portfolio delivered a gross performance return of +8.2% for the quarter with the majority of portfolio companies delivering positive returns.
- » We spent some time abroad recently, visiting the operations of several of Kingfish's core holdings and hearing from management about key developments in their offshore businesses.

The New Zealand share market performed strongly for the three months to 30 June, with gains increasing steadily each month. This was in contrast to the volatile first quarter of the 2018 calendar year, and made the New Zealand market one of the best performing globally for the six months to 30 June 2018.

The Kingfish portfolio also performed strongly over the quarter, rising 8.2% on a gross performance basis. Kingfish's performance was supported by the standout performance of **Vista Group** which rose +34% over the period, while nine other portfolio companies posted double digit returns including **Fisher & Paykel Healthcare** (+14%) and **Mainfreight** (+13%). Recent portfolio addition, **Fletcher Building**, contributed positively to performance rising 13% since the position was first initiated in April.

Fisher Funds hits the road

Various investing legends have long espoused the virtues of 'wearing out your shoe leather' and visiting businesses first hand to gain a more direct perspective. It certainly makes a welcome change from reading financial reports and searching for unique insights from the terabytes of information constantly circulating the internet.

We are often talking and meeting with companies locally, but with around half of Kingfish's portfolio companies' revenue generated offshore, we think it is also important to get overseas and see the offshore operations and key staff of these businesses first hand. So in June we hit the road and visited a number of the offshore business units of some of Kingfish's core holdings, gaining valuable insights into operations and hearing from local management directly.

As part of our trip, we were fortunate to see progress in **Mainfreight's** burgeoning European and Australian operations, and attend the most recent investor day held in the Netherlands. Currently, Mainfreight is growing revenues rapidly in Australia and Europe and the company's progress was evident. We spent time at the large Epping site in Melbourne where the warehouse was full and the quality of the operations at the site have been attracting a significant number of new customers. As a result, the company is already expanding onto an adjacent site. We

Notable Returns in the Quarter

VISTA GROUP	RYMAN HEALTHCARE	FISHER & PAYKEL HEALTHCARE	MAINFREIGHT	FLETCHER BUILDING
+34%	+14%	+14%	+13%	+13%

were also encouraged by the recent investor day being held in the Netherlands - a testament to the progress in the European business, and were pleased to see the company continuing to foster its unique culture offshore and intensify its network both within, and between, regions.

When we were in Europe we visited Fisher & Paykel Healthcare's Head of European Operations, Patrick McSweeney, who is based in France. Fisher & Paykel Healthcare generates almost 10% of its revenue from Europe so it was extremely helpful to spend some time with Patrick who has been in the medical technology industry for 30 years and with Fisher & Paykel Healthcare for 15 years. In business generally, but especially in the world of medtech, where timeframes to get products approved and into commercial production are measured in decades, not years, Patrick's experience is worth its weight in gold. We gained a number of valuable insights into the European business. Patrick also reminded us that the European and global penetration of high flow oxygen therapies into hospitals is still very low and that there are significant growth runways available to the company. We agree with Patrick that Fisher & Paykel Healthcare remains very well positioned to dominate this significant opportunity for many years to come. As at 30 June, Fisher & Paykel Healthcare was the largest position in the Kingfish portfolio.

We also had a number of meetings with **The a2 Milk Company** distributors based in China and Hong Kong, which gave us the opportunity to see the daigou channel in action and get on the ground insights. During the quarter, we chose to increase the Kingfish investment in The a2 Milk Company as new data shows the company increasing its market share in China.

Fletcher Building added to the portfolio

As discussed in the recent Kingfish Annual Report, we added Fletcher Building to the portfolio early in the quarter, taking an initial 3% position size. Despite the well-publicised and somewhat turbulent events of the last couple of years, we think several key things have changed at Fletcher Building which have acted as a catalyst for Kingfish taking a position.

Fletcher Building has undertaken a strategic review guided by the new management team and committed to a "back to the future" strategy - selling its overseas business, refocusing on the strong New Zealand and Australian core.

We think the company's decision to sell its overseas businesses (Formica and Roof Tiles are currently up for sale) is likely to generate in excess of \$1bn for the company and may result in it being able to return capital to shareholders. Additionally, the New Zealand and Australian core comprises a number of key operations such as Golden Bay Cement, Winstone Wallboards and PlaceMakers which dominate their respective markets. These core businesses have clear moats and help the company to deliver solid cash flow.

We are encouraged by Fletcher Buildings new CEO, Ross Taylor. To date, we think Ross has made the right moves to strengthen and refocus the business through repairing the balance sheet and plans to divest the non-core international operations. The

recently presented strategic plan is logical and sets expectations of improved performance across the portfolio, with investment where necessary. 2018 earnings guidance has been reiterated with no new provisions expected for the problematic Building and Interiors division, which is being wound down.

Ultimately, we believe the extent of Fletcher Building's success will be determined by how well its new strategy is executed. So far the right building blocks appear to be in place and the stock has performed well since we initiated the Kingfish portfolio position.



Sam Dickie
Senior Portfolio Manager
18 July 2018



Performance as at 30 June 2018

	3 Months	3 Years (annualised)	Five Years (annualised)
Corporate Performance			
Total Shareholder Return	+8.4%	+9.9%	+12.4%
Adjusted NAV Return	+7.2%	+15.6%	+13.4%
Manager Performance			
Gross Performance Return	+8.2%	+18.3%	+16.2%
S&P/NZX50G Index	+7.5%	+16.0%	+15.0%

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, 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 newsletter 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://www.kingfish.co.nz/about-kingfish/kingfish-policies/>

Company News Dividend Paid 29 June 2018

A dividend of 2.89 cents per share was paid to Kingfish shareholders on 29 June 2018 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 2018

LISTED COMPANIES	% Holding
Abano Healthcare	1.8%
Auckland International Airport	5.0%
Delegat Group	3.3%
Fisher & Paykel Healthcare	12.1%
Fletcher Building	3.1%
Freightways	9.2%
Infratil	7.1%
Mainfreight	10.7%
Meridian Energy	3.0%
Michael Hill International	3.9%
Port of Tauranga	2.5%
Restaurant Brands NZ	5.0%
Ryman Healthcare	7.7%
Summerset	6.2%
The a2 Milk Company	7.5%
Vista Group International	4.9%
Equity Total	93.0%
New Zealand dollar cash	7.0%
TOTAL	100.0%

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