



# Monthly Update

September 2017

KFL NAV	SHARE PRICE	DISCOUNT
\$1.42	\$1.29	9.0%
as at 31 August 2017		



## A word from the Manager – numbers are only half the story

Remember the days of the old schoolyard. Exam results. Sweaty palms, a beating heart, the thrill of success, the worry of failure. For the Kingfish investment team the “reporting season” has echoes of exam results. Reporting seasons is that time of the year when companies announce profit results for the past six months or, in the case of the United States, the past quarter.

When we invest in a company we develop a clear road map of where we think that company is heading. We look at this primarily from a strategic perspective. What is a company doing to beat its competition, how will it sell more goods and services and can it improve profit margins? The litmus test of strategy is profitability. A good strategy means over time a company earns higher profits and higher profits generally mean a higher share price and happy investors.

Reporting season is one of those litmus tests; it helps us assess if a company remains on the road to investment success or if things are beginning to stray. This is often a time that we make active changes to the portfolio.

While the media commentary on company results often looks at the headline numbers the real insights may be buried much deeper. On the surface, Freightways, the New Zealand based courier and document storage company, downgraded earnings expectations for next year. In a knee jerk reaction, the market sent Freightways shares down. For us this presents an opportunity. Freightways profitability next year is expected to be impacted by investments the company is making in more airfreight and warehouse capacity. In our view, these investments will fuel future growth and result in a more valuable business over the long term.

Fisher & Paykel Healthcare is a great example of a company that continues to invest in research and boosting its production base. This company’s intellectual property edge in the growing hospital care and obstructive sleep apnoea market is at the heart of why we like the company. While the company didn’t report results in the recent reporting season it did hold its Annual General Meeting and reaffirmed its guidance for the year despite the headwind from the strong

New Zealand dollar. The strength of the company’s product pipeline was highlighted with Optiflow nasal high flow oxygen therapy system and Brevida sleep apnoea masks being singled out by the CEO. This is an example of smart investment by a company leading to long term gains for shareholders.

Sometimes reporting season can also be a chance to see if decisions we have already made were right. In March we exited our investment in Metro Performance Glass. The key promise in investing in Metro was the growth in demand for its products as the double glazed window market blossomed - both for new builds, as well as retrofitting existing homes. Metro had invested heavily in new capacity that would improve productivity and help it meet this demand. Following a visit to the company we became cautious. The new capacity was not operating as smoothly as we would have liked and the company had made the decision to do more commercial work which we felt was further pressuring its productivity. We exited our investment in Metro Performance Glass. The company just posted poor results and the stock fell over 20%. Sometimes a dollar saved is just as important as a dollar earned.

Overall it was a good reporting season for Kingfish, with more passes than fails. That said, where managing a portfolio is different than the old schoolyard is that we get to retake the exam over and over again. Each results season is a chance to actively manage our portfolio and to drive for even better results next time. Great results are the best way to slow that beating heart.

Frank Jasper  
Chief Investment Officer,  
Fisher Funds



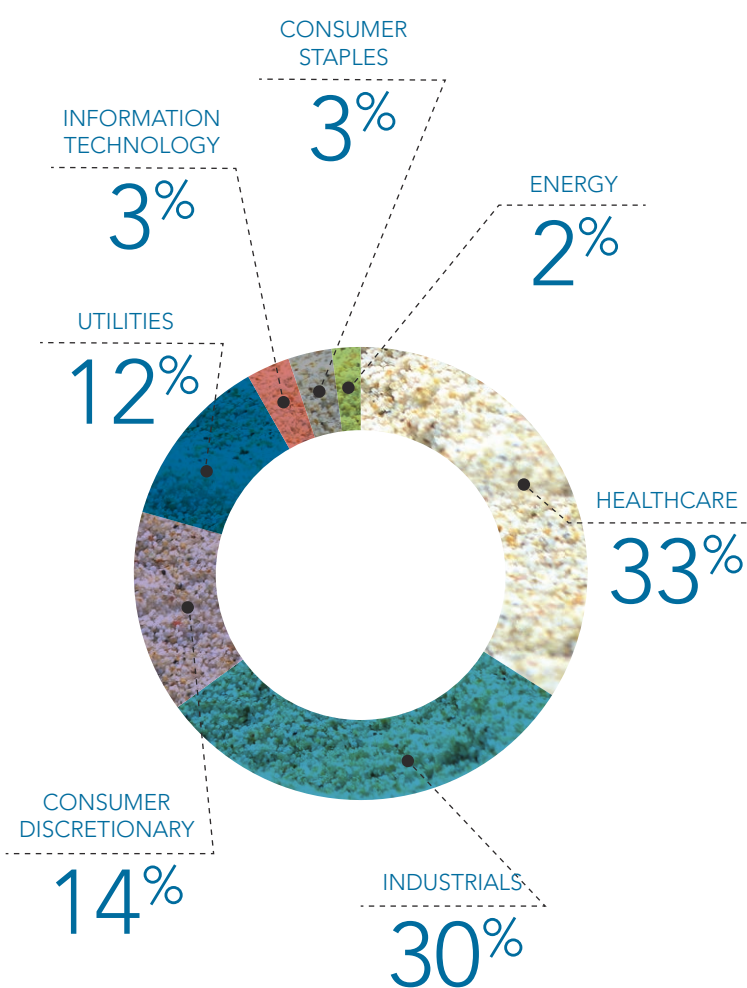
# Key Details

as at 31 August 2017

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	\$1.36
SHARES ON ISSUE	188m
MARKET CAPITALISATION	\$242m
GEARING	None (maximum permitted 20% of gross asset value)

# Sector Split

as at 31 August 2017



The Kingfish portfolio also holds cash.

# Performance

to 31 August 2017

	1 Month	3 Months	1 Year	3 Years (accumulated)	5 Years (accumulated)
<b>Corporate Performance</b>					
Total Shareholder Return	+0.0%	+1.5%	+1.2%	+29.5%	+108.6%
KFL Adjusted NAV	+0.1%	+4.7%	+5.8%	+39.6%	+94.7%
<b>Manager Performance</b>					
Gross Performance	+0.3%	+5.3%	+7.9%	+49.9%	+127.6%
S&P/NZX50G Index	+1.6%	+5.4%	+5.7%	+49.7%	+113.2%

## Non-GAAP Financial Information

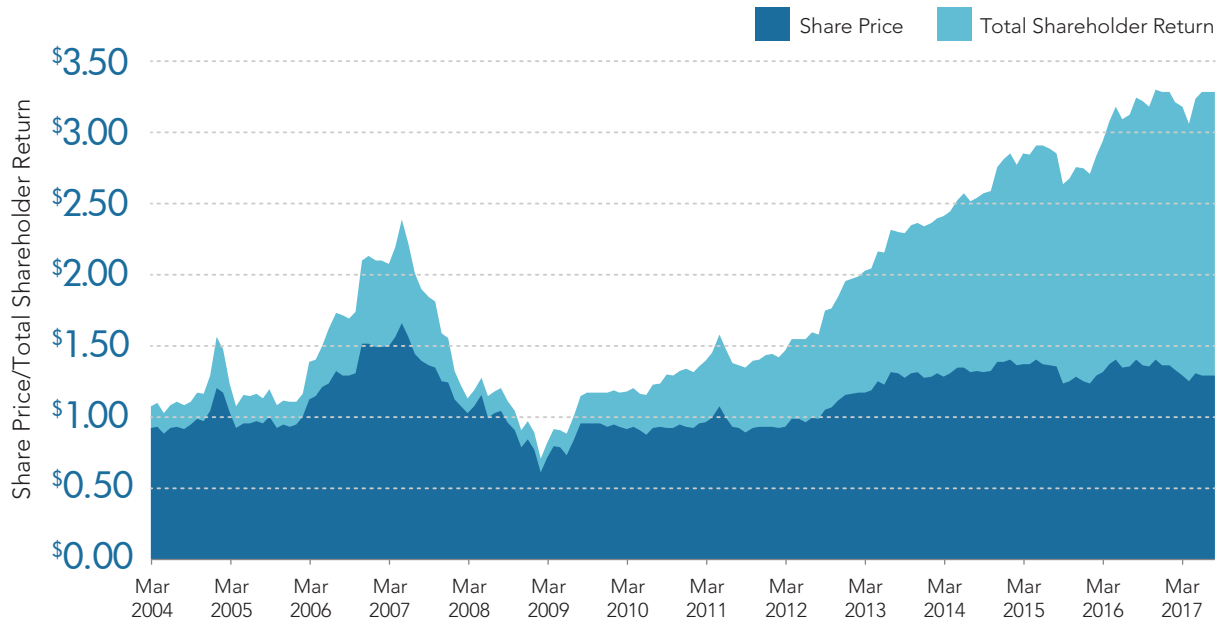
Kingfish uses non-GAAP measures, including adjusted net asset value, gross performance return and total shareholder return. The rationale for using such non-GAAP measures is as follows:

- » adjusted net asset value – the underlying value of the investment portfolio adjusted for capital allocation decisions,
- » gross performance return – the Manager's portfolio performance in terms of stock selection and hedging of currency movements, 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 including adjusted net asset value, 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 Global Non-GAAP Financial Information Policy. A copy of the policy is available at <http://kingfish.co.nz/about-kingfish/kingfish-policies/>

# Total Shareholder Return

to 31 August 2017



## August's Biggest Movers

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

FISHER & PAYKEL  
HEALTHCARE

+7%

SUMMERSET GROUP

+6%

PORT OF TAURANGA

-5%

VISTA GROUP

-13%

TRADE ME

-15%

## 5 Largest Portfolio Positions

as at 31 August 2017

FISHER & PAYKEL  
HEALTHCARE

13%

MAINFREIGHT

12%

FREIGHTWAYS

9%

INFRATIL

8%

RYMAN HEALTHCARE

8%

The remaining portfolio is made up of another 12 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 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 7.7m of its shares on market in the year to 31 October 2017
- » 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

- » Warrants put Kingfish in a better position to grow further, improve liquidity, operate efficiently and pursue other capital structure initiatives as appropriate
- » A warrant is the right, not the obligation, to purchase an ordinary share in Kingfish at a fixed price on a fixed date
- » There are currently no warrants on issue

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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