Quarter Update Newsletter

1 October 2017 — 31 December 2017

NAV **$1.47** | SHARE PRICE **$1.34** | DISCOUNT **8.5%**

as at 31 December 2017

» **The New Zealand share market completed a clean sweep in the December quarter, making it not only four positive quarters in a row but also 12 positive months in a row**

» **The December quarter was the strongest of the year for the market which was up 5.9%. The Kingfish portfolio outperformed the market with a gross performance return of 7.1%**

» **Synchronised global growth combined with a still healthy New Zealand economy underpins our expectation of respectable earnings growth for New Zealand companies for the coming year**

Making history

A "clear round", a "clean sweep" – use whatever sporting analogy you like – the S&P/NZX50G closed out the year with 12 straight positive monthly returns.

We have only seen 12 consecutive months of positive performance in New Zealand once before. According to data from Bloomberg, the only other time we saw this phenomenon was 1963.

Back then the market recorded 16 positive months in a row, but more importantly went on to rally another 15% before finally peaking in 1965. Wouldn't it be nice if history repeated itself 54 years later?

Portfolio news

It was pleasing to see that all but one of our investments were positive contributors over the quarter, and that our heavyweight positions in **Fisher & Paykel Healthcare**, **Ryman Healthcare** and **Infratil** were top contributors.

As discussed in our recent interim report, we added **Xero** to the portfolio in September 2017. During the quarter Xero released its maiden EBITDA break-even result, which affirmed our thesis of EBITDA break-even slightly earlier than expected and highlighted the strong operating leverage in the core Australia/New Zealand business. However, this good result was somewhat overshadowed by the announcement it would be moving to a sole listing on the ASX in February 2018.

Restaurant Brands also continued to do what it does best during the period, delivering strong overall sales growth of almost 8%. KFC in New Zealand remains the main engine, delivering almost 6% same store sales growth. KFC in Australia also contributed with almost 6% same store sales growth and it was especially pleasing to see the recently acquired Taco Bell business deliver a strong result.

Notable Returns in the Quarter

DELEGAT GROUP	PORT OF TAURANGA	RYMAN HEALTHCARE	FISHER & PAYKEL HEALTHCARE	MICHAEL HILL
+18%	+15%	+15%	+13%	+10%

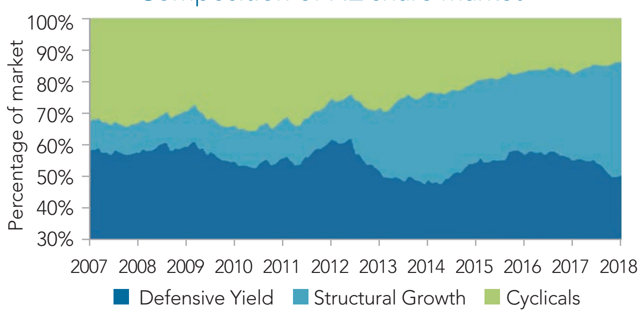
Where to for New Zealand Equities?

The outlook for the New Zealand equity market remains respectable. While economic growth remains supportive of continued earnings growth, a repeat of double-digit market returns is more challenging in 2018 given the strong performance over the last six years and the resulting higher valuations. Having said this, pockets of opportunities always exist and we are optimistic that quality, growth companies (the natural hunting ground for Kingfish) will outperform the broader market.

At a headline level valuations appear lofty but recent analysis by Forsyth Barr provides a timely reminder that, broad brush statements based on averages often hide a deeper truth.

Using analysis from Forsyth Barr, the proportion of companies deemed to have structural growth characteristics has increased from less than 10% of the New Zealand share market in 2007 to 36% currently (at the expense of cyclicals and to a lesser degree defensive yield stocks). This has increased the quality and earnings growth potential of the market. It also means the market should trade at a higher valuation given it is higher

Composition of NZ share market



Source: Forsyth Barr analysis

quality than it was in the past. Relative to history, the current valuation of structural growth companies is within normal ranges.

The New Zealand economy continues to truck along nicely; with the exception of weak business confidence following the change in government. Economic data is generally inline or exceeding expectations and in many instances continues to remain at record levels. In particular, the terms of trade are at record levels driven by strong demand for New Zealand export commodities, and unemployment is at its lowest level since March 2009.

While there remains some uncertainty around government policy, fiscal investment in housing and other infrastructure is expected to provide a further kicker to economic growth. Current forecasts are for 3% real GDP growth in New Zealand for the coming year, which will support short-term earnings growth for New Zealand companies.

The global economy is experiencing synchronised growth for the first time in over a decade and the recovery is accelerating. That bodes well for investor sentiment and given the small, open nature of our economy, should be supportive of the New Zealand economy and our equity market.

Looking beyond 2018, it is possible that New Zealand economic growth will slow relative to global economies, reflecting, in part, the late stage of the economic cycle in New Zealand. We remain well positioned for this ongoing global recovery with approximately 45% of our companies' revenue coming from offshore, and more generally our preference for companies with structural growth.

Sam Dickie
Senior Portfolio Manager
31 January 2018

Performance
as at 31 December 2017

	3 Months	3 Years (annualised)	Five Years (annualised)
Corporate Performance			
Total Shareholder Return	+7.0%	+8.3%	+12.8%
Adjusted NAV Return	+6.1%	+12.6%	+13.8%
Manager Performance			
Gross Performance Return	+7.1%	+15.5%	+17.1%
S&P/NZX50G Index	+5.9%	+14.7%	+15.6%

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

» 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, 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 22 December 2017

A dividend of 2.83 cents per share was paid to Kingfish shareholders on 22 December 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 31 December 2017

LISTED COMPANIES	% Holding
Abano Healthcare	3.1%
Auckland International Airport	4.3%
Delegat Group	3.1%
EBOS Group	3.6%
Fisher & Paykel Healthcare	11.3%
Freightways	8.8%
Infratil	7.8%
Mainfreight	12.6%
Meridian Energy	2.9%
Michael Hill International	4.8%
Port of Tauranga	3.4%
Restaurant Brands NZ	7.1%
Ryman Healthcare	7.0%
Summerset	5.6%
Trade Me	2.5%
Vista Group International	3.7%
Xero	4.0%
Z Energy	1.8%
Equity Total	**97.4%**
New Zealand dollar cash	2.6%
TOTAL	**100.0%**

KINGFISH
LANDING TOMORROW'S TROPHIES

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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