

Monthly Update

April 2018

KFL NAV

\$1.45

SHARE PRICE

\$1.31

DISCOUNT

9.5%

as at 31 March 2018



A word from the Manager

March cemented the end of the recent golden run with the S&P/NZX50 posting its second consecutive down month of the year. Volatility continued throughout the period with the S&P/NZX50 making fresh all-time highs during the month, but finishing on its lows to be down 0.7% for the month ending 31 March 2018.

Interestingly, the New Zealand market's performance in the face of a global correction was again ahead of the majority of global equity markets for the month, exhibiting our market's actual/perceived defensive qualities – the NZ equity market (S&P/NZX50) has twice the dividend yield of the US equity market (S&P500).

For example, the US S&P500 finished down 2.7% for March. During the month, President Trump focused his attention on China with a number of proposed tariffs on steel, aluminium and a \$50 billion list of Chinese imports. He also accused Amazon of not paying its share of taxes and hurting small businesses. The combination of Trump's tweets targeting Amazon and the threat of regulation over the technology sector on the back of news stories regarding Facebook's data breach saw the US technology sector underperform the broader index for the month.

Meanwhile, back in the land of the long white cloud, our technology sector outperformed the global trend, largely buoyed by Vista bouncing from an oversold level. Telcos and utilities also outperformed helping to drive the New Zealand market performance. The Kingfish portfolio was 1.2% ahead of the S&P/NZX50 for the month largely driven by the ongoing stellar performance of **Summerset**. Portfolio companies **Freightways** and **Mainfreight** also contributed positively to the result. After a busy reporting season in February, it was a quieter month with limited news announcements from some Kingfish portfolio companies.

Auckland Airport benefited when Air New Zealand announced a new Auckland-Chicago flight, which coupled together with capacity from joint venture partner, United Airlines, on an Auckland-San Francisco flight, will add approximately 135,000 international seats into Auckland Airport. Such an increase in seats represents an increase of approximately +1% on current airline seat capacity.

Infratil's major holding, Trustpower, benefits from one of its shareholders (the Tauranga Energy Consumer Trust, "TECT") arrangements to distribute dividends for the benefit of consumers. In January, TECT announced a proposal to remove its annual cheques to Trustpower's consumers from 2023 onwards with payments instead going solely towards local charities. This proposal was withdrawn during the month. While Infratil's and Trustpower's share prices have recovered since the proposal was first announced in January, they remain below their previous highs as there is still the possibility that TECT may revisit the terms of its proposal at some point in the future.

GST Update

Fisher Funds has historically charged Kingfish GST at the standard GST rate on the provision of investment services. Last year the IRD confirmed that the lower GST fund manager rate could be charged to Kingfish (and this rate has been applied since 1 August 2017). On 28 March 2018, Fisher Funds received confirmation from the IRD that they would receive a refund for overcharged GST of \$2.9m plus use of money interest of \$0.2m on the provision of investment services to Kingfish for the eight year period from 1 August 2009 to 31 July 2017. On receipt in early April, Fisher Funds passed the refund and use of money interest to Kingfish. The refund and use of money interest receivable from Fisher Funds has been recognised in the Kingfish NAV from 28 March 2018 onwards.

In January, **Michael Hill** indicated a strategic repositioning of its Emma & Roe brand in Australia. On 6 March, Michael Hill released the outcome of its review, announcing that it will close all but six of the current footprint of 30 stores at a cash cost of A\$5.8 - \$7.9m. The focused group of six stores is at the lower end of expectations and should meaningfully reduce trading losses during the trial phase through to the end of FY19. We think this positively demonstrates the willingness of management and the board to better control losses and manage risk during the trial period.

During the month, **Restaurant Brands** announced its sales results through to the end of February (fourth quarter 2018 sales). Overall sales came in marginally ahead of our expectations, driven by solid +6.2% same store sales growth

in the core New Zealand KFC business, with the other New Zealand operations also ahead of expectations. Australian KFC same store sales growth softened slightly to +2.4% (in Australian dollars) from higher levels in previous quarters, but this was more than offset by a robust result from the Pacific Islands operations, with solid performance from Taco Bell and an encouraging pick-up in weekly sales from Pizza Hut.



Sam Dickie
Senior Portfolio Manager,
Kingfish



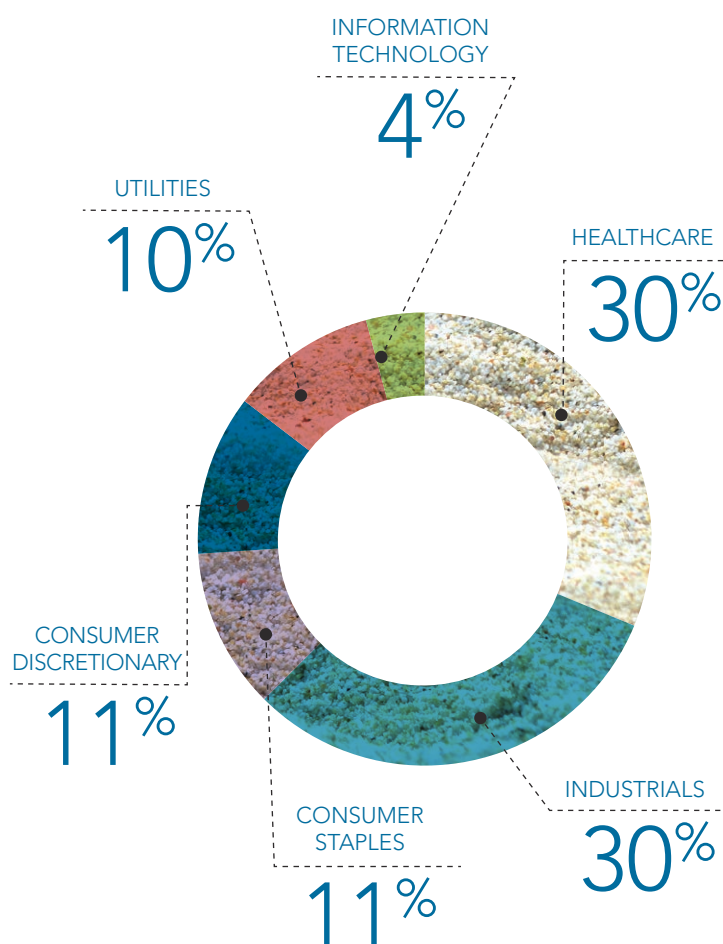
Key Details

as at 31 March 2018

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	\$1.24
SHARES ON ISSUE	191m
MARKET CAPITALISATION	250m
GEARING	None (maximum permitted 20% of gross asset value)

Sector Split

as at 31 March 2018



The Kingfish portfolio also holds cash.

March's Biggest Movers

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

SUMMERSET GROUP

+10%

XERO*

+9%

*Xero was exited during March

MERIDIAN ENERGY

+5%

DELEGAT GROUP

+5%

THE A2 MILK COMPANY

-6%

5 Largest Portfolio Positions as at 31 March 2018

MAINFREIGHT

12%

FISHER & PAYKEL
HEALTHCARE

12%

FREIGHTWAYS

9%

THE A2 MILK COMPANY

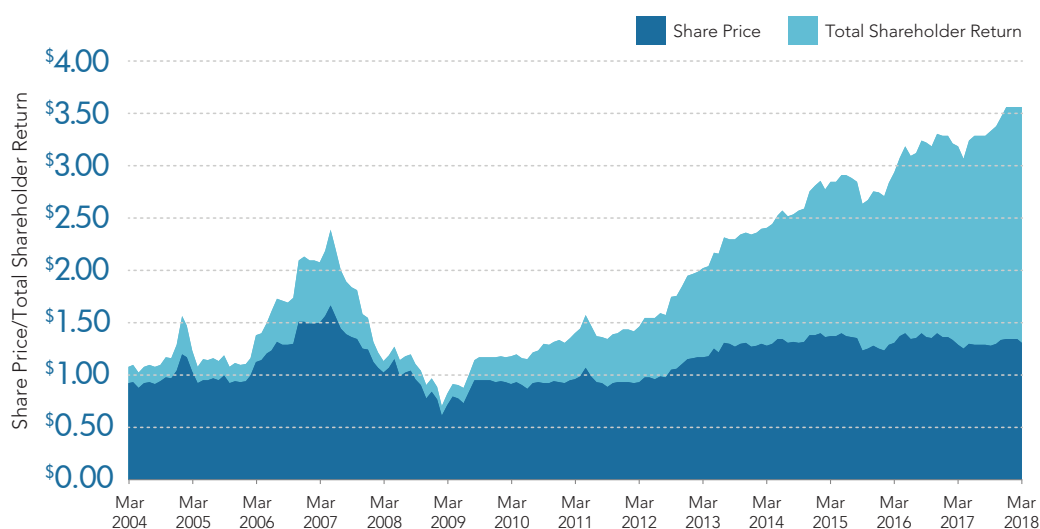
8%

RYMAN HEALTHCARE

7%

The remaining portfolio is made up of another 11 stocks and cash.

Total Shareholder Return to 31 March 2018



Performance to 31 March 2018

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
Corporate Performance					
Total Shareholder Return	(0.0%)	(0.0%)	+12.0%	+7.7%	+11.9%
Adjusted NAV Return	+1.4%	+0.8%	+14.7%	+12.7%	+12.6%
Manager Performance					
Gross Performance Return	+0.5%	+0.1%	+16.5%	+15.2%	+15.6%
S&P/NZX50G Index	(0.7%)	(0.9%)	+15.6%	+12.6%	+13.5%

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 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/>

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 9.4m of its shares on market in the year to 31 October 2018
- » 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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