

Monthly Update

February 2018

KFL NAV	SHARE PRICE	DISCOUNT
\$1.47	\$1.34	9.1%
as at 31 January 2018		



A word from the Manager

Welcome to our first monthly update for 2018

The summer break saw markets continue to shine in January albeit the start of February saw some less rosy stock market performances globally. The US market had its best start to the year since 1987 with the S&P 500 up 5.6%; the MSCI World Index was up 3.7%; and emerging markets were the standout, up 6.7%. The New Zealand S&P/NZX50, while more subdued than its international peers, did still put in a positive performance, up 0.5%. Equities enthusiasm has commentators hinting at a melt up – performance of an asset class driven partly by a stampede of investors who don't want to miss out on the rise.

Going back to fundamentals, while the outlook does continue to remain positive there are some slight nuances creeping in. Investors are getting increasingly concerned about the inflationary impact of the strong and accelerating economic growth rates we are seeing globally. In January we saw local interest rates rise over the month by around 20 basis points, which while a large move, was not as the large as the rises we saw in US and European bond yields for the month.

The New Zealand dollar moved sharply upwards during the month which has the effect of somewhat blunting the revenue generated offshore by Kingfish portfolio companies. Furthermore, the strengthening dollar and rising interest rates flowed into a fairly sharp tightening of financial conditions in New Zealand, which was in contrast to the financial conditions in the United States. We suspect this may have been one of the reasons why the New Zealand equities market was a bit slower than the majority of global equity markets over January.

Portfolio Developments

It was a busy month for Kingfish portfolio companies, with a number of portfolio companies announcing big ticket news items.

On 24 January, **Michael Hill** announced the exit of its US operations (closure of 9 stores) and the strategic repositioning of its Emma & Roe brand in Australia (30 stores). This announcement is positive as it narrows management's focus to the Emma & Roe brand, which has attractive potential in the growing 'demi-fine' fashion jewellery category, but has lacked strong execution so far. While it is a little disappointing to leave the potentially lucrative US market (for now), the company had a sub-scale presence and never turned a profit since entering the market in 2008, so the exit sensibly prevents further losses. Emma & Roe will enter a test and trial phase where the company will revamp and refine the offering, under a smaller network of stores. We are confident these are sound decisions by management, although the success of Emma & Roe will depend on execution of the concept moving forwards.

Auckland International Airport announced the sale of its 25% stake in North Queensland Airports for A\$370m. The potential for a sale had been well signalled, and the cash proceeds are welcomed given the company's capital expenditure requirements over the next 5 years.

Infratil, which specialises in owning energy, transport, data and social infrastructure businesses announced it has a potential blip on the horizon from one of its assets, Trustpower. Since 1993, Trustpower has benefitted

Xero

Late last year Kingfish portfolio company, Xero, announced its intention to transition to a sole listing on the ASX. In the recent Kingfish interim report, it was indicated that the Company was working through the implications of what the Xero transition would mean for the Kingfish portfolio. The Company has decided that given Kingfish's mandate to invest in New Zealand quality, growth companies and Xero's decision to move to a sole listing on the ASX, it is appropriate that Kingfish exits its Xero position in a timely manner.

from one of its shareholders - the Tauranga Energy Consumer Trust (TECT) – arrangement to distribute dividends from the shareholder for the benefit of consumers. TECT has proposed to stop making payments to Trustpower’s Tauranga consumers after 2022, in return for an upfront payment to consumers of \$2,500 and five subsequent annual payments of around \$360 each. This proposal requires 50% consumer approval, so it is not certain to go ahead. However, if the proposal is approved, it suggests a possible 10% hit to Trustpower’s operating earnings overtime, which will by inference impact Infratil (given Trustpower represents approximately 28% of Infratil’s value). The recent share price reaction in both Trustpower and Infratil largely bakes in this outcome despite the decision remaining conditional on consumer approval.

Recently, **Vista Group** announced that its founder and longtime CEO Murray Holdaway will transition into the role of Chief Product Officer in April 2018, with Kimbal Riley stepping into the CEO role. Kimbal is currently the head of Vista Entertainment Solutions, Vista’s largest operating division, and a logical candidate to replace Murray. We think it is a positive that Murray remains involved with the company in an executive role and the transition has been well managed with an experienced internal candidate assuming the CEO role.

Portfolio Changes

In January, we added **The a2 Milk Company**, to the Kingfish portfolio. While we have been following a2 for some time, we are now more comfortable about the company’s outlook given its strengthening brand in China and the quality of management. We have seen a2 make significant progress on diversifying its distribution channels in China, growing a direct business through internet channels and rolling out product to thousands of mother and baby stores. Both of these strategies have achieved real cut through and the a2 of today looks to have a more balanced distribution network and its brand is increasingly recognised by consumers based on independent survey data. We consider a2 is a quality, growth company worthy of a small spot in the Kingfish portfolio.



Sam Dickie
Senior Portfolio
Manager, Kingfish



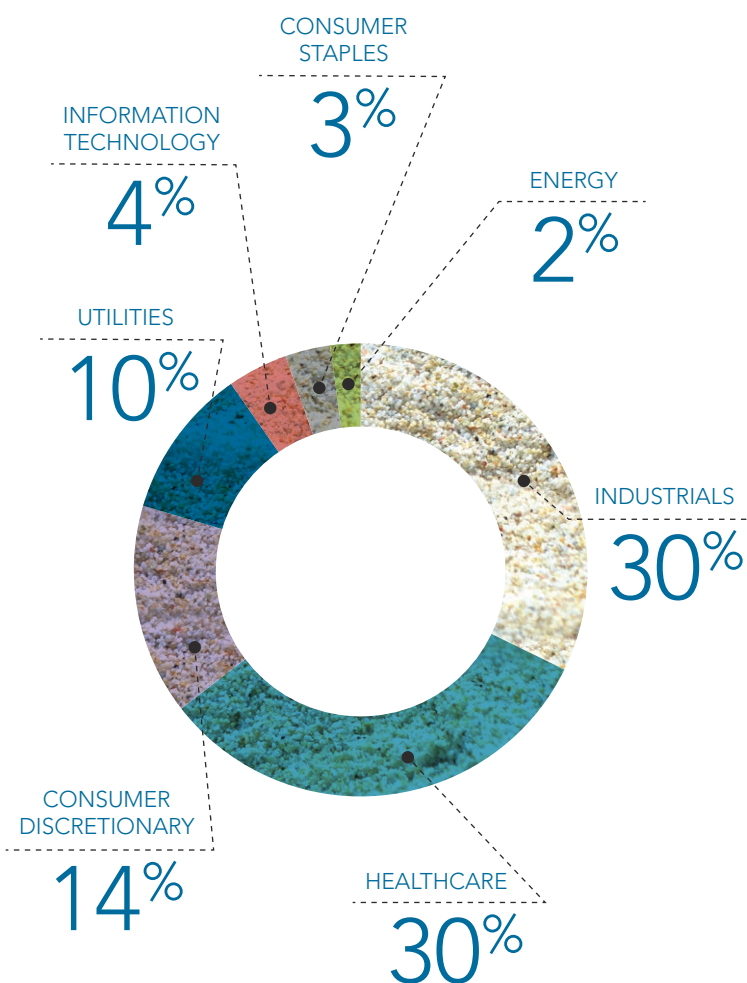
Key Details

as at 31 January 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	\$1.27
SHARES ON ISSUE	190m
MARKET CAPITALISATION	254m
GEARING	None (maximum permitted 20% of gross asset value)

Sector Split

as at 31 January 2018



The Kingfish portfolio also holds cash.

January's Biggest Movers

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

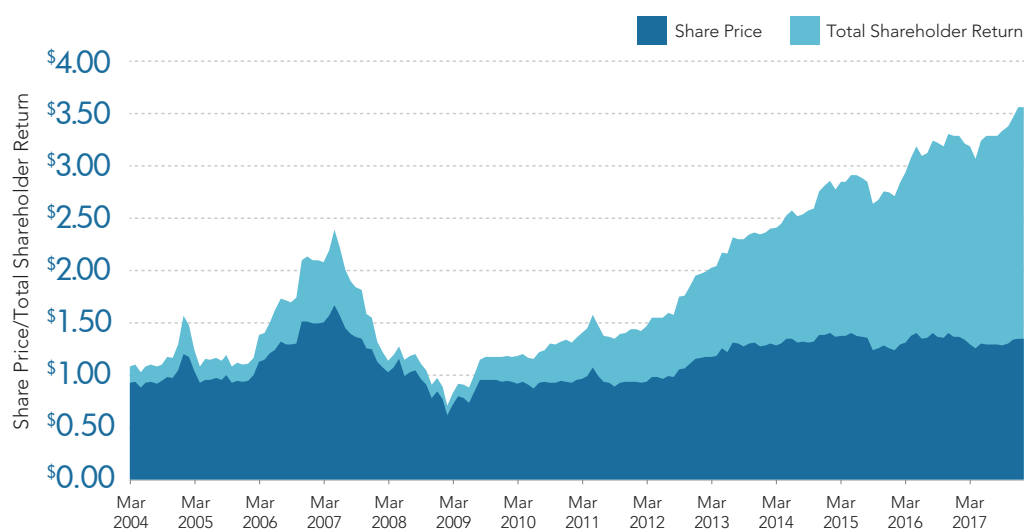
XERO +8%	SUMMERSET GROUP +5%	FREIGHTWAYS +4%	FISHER & PAYKEL HEALTHCARE -7%	TRADEME -7%
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5 Largest Portfolio Positions as at 31 January 2018

MAINFREIGHT 13%	FISHER & PAYKEL HEALTHCARE 11%	FREIGHTWAYS 9%	INFRATIL 8%	RYMAN HEALTHCARE 7%
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The remaining portfolio is made up of another 14 stocks and cash.

Total Shareholder Return to 31 January 2018



Performance to 31 January 2018

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
Corporate Performance					
Total Shareholder Return	+0.0%	+5.3%	+8.4%	+7.7%	+12.6%
Adjusted NAV Return	+0.6%	+6.4%	+17.8%	+12.3%	+13.3%
Manager Performance					
Gross Performance	+0.8%	+7.3%	+21.4%	+15.2%	+16.4%
S&P/NZX50G Index	+0.5%	+3.6%	+19.7%	+13.7%	+14.7%

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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