



Monthly Update

August 2018

KFL NAV

\$1.52

SHARE PRICE

\$1.40

WARRANT PRICE

\$0.06

DISCOUNT¹

7.0%

as at 31 July 2018



A word from the Manager

Market Environment

The New Zealand market finally slowed relative to its international peers in July with the S&P/NZX50G closing down -0.2%. We also saw more variability in performance of individual companies compared to recent times, where a rising tide has lifted most boats.

One reason for the weaker performance by New Zealand (aside from a necessary breather after the recent stellar run) could be the domestic confidence surveys, which showed business confidence levels continuing to weaken during July. While New Zealand's strong economic growth has outperformed other developed economies in the past few years, we are seeing a subtle shift in this trend as other economies around the world (for example the US) have seen a pick-up in growth. The Kingfish portfolio is exposed to this pick-up, with around half the portfolio companies' revenue derived offshore.

Portfolio Developments

July proved a busy one for Kingfish with a number of portfolio companies providing results and announcing meaningful market updates.

Abano modestly beat our expectations at its fiscal year 2018 result, driven by improvement in same-clinic sales in the second half – New Zealand finished the year +3.3% and Australia was flat (after being down -1.6% in the first half). Pleasingly the company is also achieving favourable Net Promoter Scores, ahead of peers, suggesting recent investment in rebranding may be starting to pay off.

The a2 Milk Company provided a fiscal year 2018 trading update, with revenue of \$922 million slightly ahead of the top end of May guidance (\$900-920 million) and earnings margins broadly in line with expectations. The company also indicated that the market should expect a step up in marketing spend in China and the US. The a2 Milk story remains strongly driven by continued sales growth in Chinese infant formula plus the launch of its first products

in conjunction with new joint venture partner Fonterra. Co-branded Anchor and a2 Milk is on its way to a supermarket near you!

Delegat provided net operating profit guidance for its upcoming fiscal year result of \$44.9 million, beating its guidance for "at least \$40.7 million" and ahead of most expectations. This is a vintage result, which reflected the benefits of lower costs per case underpinned by good previous harvests.

Michael Hill announced its fourth quarter sales, which generally showed a deceleration in the three continuing segments (Australia, New Zealand, Canada), albeit Australia and Canada were lapping strong prior periods. The company closed all its US stores and 24 of the 30 Emma & Roe stores, with the balance to close in the first quarter of the new fiscal year as the focus returns to the core Michael Hill brand.

Mainfreight held its Annual Shareholder Meeting during July and reported a generally positive outlook with comments including "a growing confidence due to improved trading results" and that "April to June has seen strong revenue growth; profit has improved accordingly". Other comments indicated that this optimism is likely to translate to a strong first half result with the company "quietly positive" that results will sustain through FY19. This is relatively positive language from a company that tends to set a high bar for performance. All geographies appear to be trucking along well, with particular emphasis that they "expect to see Asia and the Americas improve markedly" after having been below expectations recently.

Sam Dickie
Senior Portfolio Manager
Fisher Funds Management Limited



¹ Share Price Discount to NAV (including warrant price on a pro-rated basis)

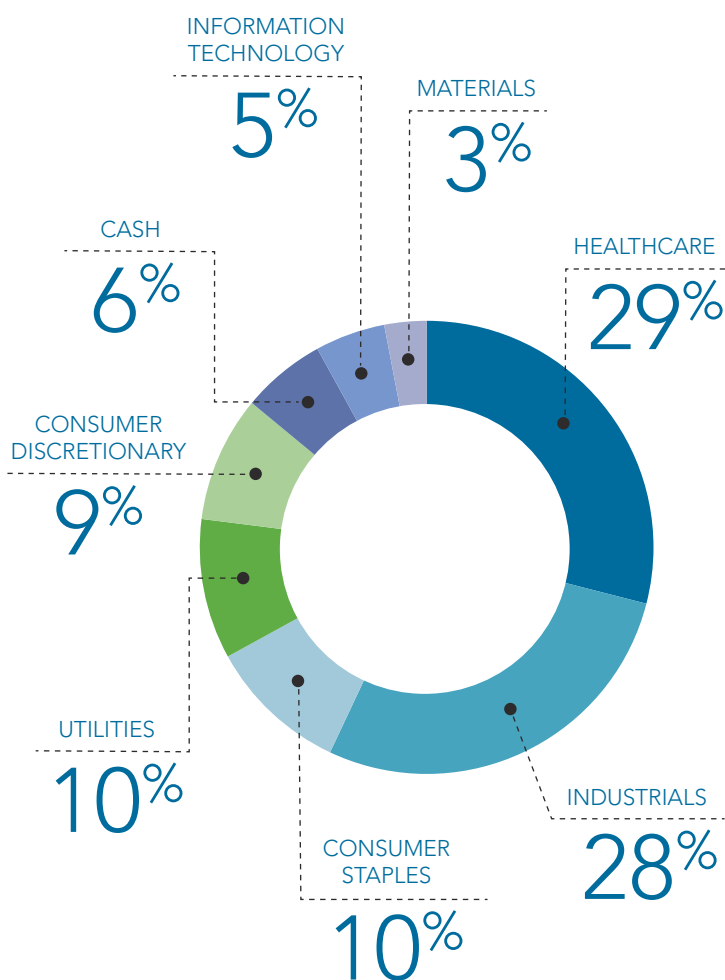
Key Details

as at 31 July 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	\$1.41
SHARES ON ISSUE	193m
MARKET CAPITALISATION	271m
GEARING	None (maximum permitted 20% of gross asset value)

Sector Split

as at 31 July 2018



Performance

to 31 July 2018

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
Corporate Performance					
Total Shareholder Return	+1.8%	+8.7%	+19.8%	+10.9%	+11.2%
Adjusted NAV Return	+0.1%	+8.5%	+16.5%	+14.4%	+12.9%
Manager Performance					
Gross Performance Return	+0.2%	+0.9%	+18.4%	+17.1%	+15.6%
S&P/NZX50G Index	(0.2%)	+5.7%	+16.0%	+14.6%	+14.5%

Non-GAAP Financial Information

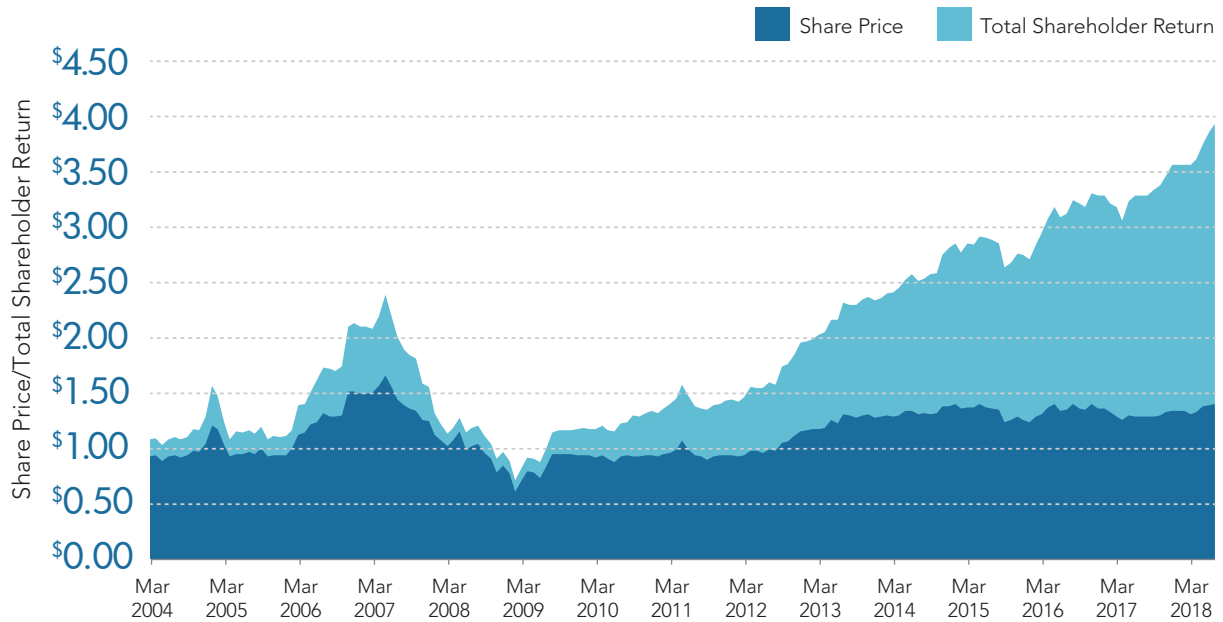
Kingfish uses non-GAAP measures, including adjusted net asset value, adjusted NAV return, gross performance return and total shareholder return. The rationale for using such non-GAAP measures is as follows:

- » 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 monthly update 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://kingfish.co.nz/about-kingfish/kingfish-policies/>

Total Shareholder Return

to 31 July 2018



July's Biggest Movers

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

VISTA GROUP

+10%

DELEGAT GROUP

+6%

INFRATIL

+2%

MICHAEL HILL

-5%

THE A2 MILK COMPANY

-9%

5 Largest Portfolio Positions

as at 31 July 2018

FISHER & PAYKEL
HEALTHCARE

12%

MAINFREIGHT

11%

FREIGHTWAYS

10%

RYMAN HEALTHCARE

8%

INFRATIL

7%

The remaining portfolio is made up of another 11 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 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

- » On 2 July 2018, a new issue of warrants (KFLWE) was announced
- » The warrants were issued at no cost to eligible shareholders and in the ratio of one warrant for every four Kingfish shares held
- » Exercise Price = \$1.37 per warrant, to be adjusted down for dividends declared during the period up to the Exercise Date
- » Exercise Date = 12 July **2019**
- » The final Exercise Price will be announced and an Exercise Form will be posted to warrant holders in June **2019**

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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