



Monthly Update

March 2020

KFL NAV	SHARE PRICE	DISCOUNT ¹
\$1.61	\$1.61	0.1%

as at 29 February 2020

A word from the Manager

The Kingfish adjusted NAV declined -3.5% in February, compared to the local share market which returned -3.9% (S&P/NZX50G). New Zealand outperformed global markets which were down around twice this amount as the Coronavirus outbreak in China began to spread more widely internationally.

Portfolio Company Developments

a2 Milk delivered a first half fiscal 2020 result stronger than expected including revenue of \$807 million, ahead of the top end of its revenue guidance range (\$780-800 million) provided only in mid-November. It also flagged stronger than expected sales in China during January and February, probably due to heightened demand following the Coronavirus outbreak. We continue to back management, who are executing strongly against the strategy to grow market share in China and are continuing to build a meaningful US business.

Auckland Airport delivered its first half fiscal 2020 result and provided updated guidance for the full year, a reduction of \$5 million on previously expected net profit. The guidance incorporates a negative impact of Coronavirus in the second half. The company indicated that the northern runway is likely to be commissioned in the early 2030s rather than 2028, which will likely delay its landing charge beyond 1 July 2020.

Delegat delivered a strong first half fiscal 2020 result off the back of +10% growth in case sales. Disciplined cost control meant the company grew profits at a similar rate despite the headwind of a weaker 2019 harvest (where volumes were down -11% and below long-term averages which elevated the cost base on a per bottle basis). The company continues to execute consistently against its long-term plan to grow case sales at +6.7% annually out to fiscal 2022 and profits commensurately based on continuing to develop its position as a premium wine brand.

Fisher & Paykel Healthcare upgraded earnings expectations again for fiscal 2020, following a number of profit upgrades in 2019 as the company outperforms its conservative guidance. The higher sales have been in both Homecare and Hospital divisions and includes better performance from both legacy

mask sales slowing less rapidly but also sales of its new Vitera mask. However, most of the increase in demand has been from hardware sales to China in its attempt to control the Coronavirus outbreak. It is heartening that a company we are invested in can directly assist some of those suffering from the virus.

Freightways delivered a disappointing first half fiscal 2020 result. The express courier business met expectations but the information management division missed expectations, including the delayed start of its large digitisation project for the Royal Commission which is now underway. The courier business is performing broadly in line with expectations but has suffered a market-based modest decline in same customer volumes that has slowed earnings growth (although healthy industry rate increases and Pricing For Effort have lifted profitability). Management are evaluating opportunities to refine the information management division to the more attractive components. We had recently reduced the size of the position and allocated this capital elsewhere.

Meridian announced its first half fiscal 2020 result, strong on favourable hydro conditions. The far greater focus has been the possible outcome of Rio Tinto's review into the future of the Tiwai Point aluminium smelter. This is expected to conclude in March and is currently creating significant uncertainty around the future of the New Zealand electricity sector. Aside from this, Meridian is operating well including growing its retail, commercial and industrial, and Australian renewable energy businesses. We had earlier reduced our position at a time when little probability of a Rio Tinto exit was being reflected in the share price.

Port of Tauranga announced its first half fiscal 2020 result but also reduced its full year 2020 NPAT guidance by \$2 million. This reflects the extended shutdown of China's ports due to Coronavirus which has meant shipping service disruptions. Log inventories at China ports are at elevated levels and there is some uncertainty around how long it will take for a more normal log export environment to resume from New Zealand. Despite the disruption, the port continued to grow container volumes and extend its position as New Zealand's leading container port.

¹ Share Price (Premium) / Discount to NAV (using NAV to four decimal places)

² SaaS – Software as a service is a method of software delivery that allows access to data from any device with an internet connection.

Summerset confirmed its strong fiscal 2019 result which was widely anticipated given its strong quarterly sales release. It also announced the acquisition of a second development site in Victoria in Torquay. Guidance for underlying net profit for fiscal 2020 was flat as a result of higher care wages, expectations to deliver around 400 units and development margin to ease back to a more typical 20-25% (due to a greater apartment mix and higher land acquisition costs flowing through). We had anticipated these headwinds and trimmed the position following the strong share price run ahead of the result.

Vista delivered its fiscal 2019 result in line with revised expectations. The core business continues to grow solidly, and this was the first step in the journey to rebuild some credibility lost after it missed its original guidance for circa 20% revenue growth by a wide margin. The SaaS² transition project remains in its early days but on schedule. Sentiment has been very negative as Vista China has been losing around 80% of its revenue stream while cinemas in China have closed as a precaution to contain Coronavirus, although costs are highly variable and losses will be limited now that cinemas are reopening.

Portfolio Changes

We have begun to add to several positions which have reacted disproportionately in the broad market selloff. However, we are conscious this is a dynamic environment and so are taking a measured approach.



Sam Dickie
Senior Portfolio Manager
Fisher Funds Management Limited



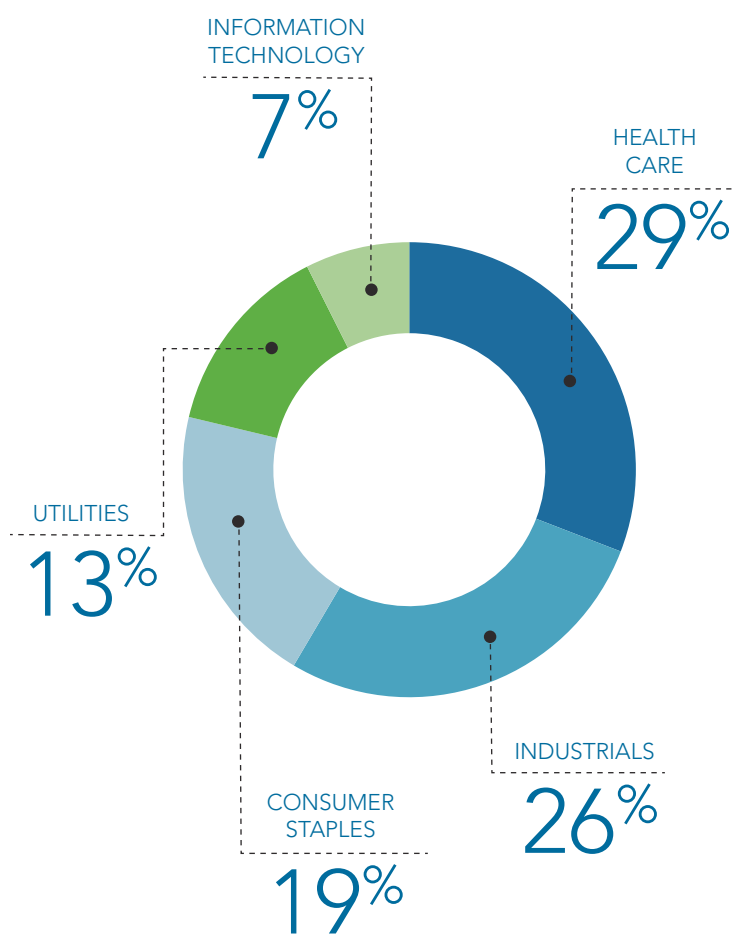
Key Details

as at 29 February 2020

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	10% of returns in excess of benchmark and high water mark
HIGH WATER MARK	\$1.40
PERFORMANCE FEE CAP	1.25%
SHARES ON ISSUE	246m
MARKET CAPITALISATION	\$397m
GEARING	None (maximum permitted 20% of gross asset value)

Sector Split

as at 29 February 2020



The Kingfish portfolio also holds cash

February's Biggest Movers

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

FREIGHTWAYS

-16%

PORT OF TAURANGA

-14%

MERIDIAN ENERGY

-14%

SUMMERSET

-12%

DELEGAT GROUP

-12%

5 Largest Portfolio Positions as at 29 February 2020

THE A2 MILK COMPANY

16%

FISHER & PAYKEL HEALTHCARE

16%

MAINFREIGHT

14%

INFRATIL

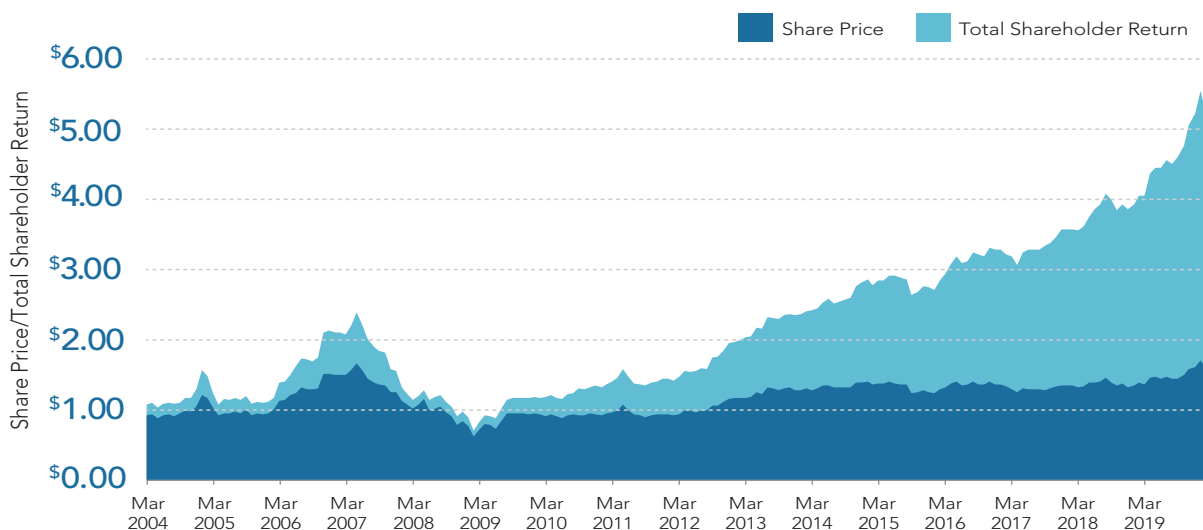
10%

RYMAN HEALTHCARE

7%

The remaining portfolio is made up of another 8 stocks and cash.

Total Shareholder Return to 29 February 2020



Performance to 29 February 2020

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
Company Performance					
Total Shareholder Return	(5.3%)	+4.0%	+29.9%	+17.8%	+13.7%
Adjusted NAV Return	(3.5%)	(0.1%)	+19.3%	+15.9%	+13.5%
Portfolio Performance					
Gross Performance Return	(3.8%)	+0.3%	+23.7%	+19.0%	+16.4%
S&P/NZX50G Index	(3.9%)	(0.5%)	+20.8%	+16.2%	+13.9%

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 expenses, fees and tax,
- » adjusted NAV return – the net return to an investor after expenses, fees and tax,
- » gross performance return – the Manager's portfolio performance in terms of stock selection, before expenses, fees and tax, and
- » total shareholder return – the return combines the share price performance, the warrant price performance, the net value of converting any warrants into shares, and the dividends paid to shareholders. It assumes all dividends are reinvested in the company's dividend reinvestment plan, and that shareholders exercise their warrants, (if they were in the money), at warrant expiry date.

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/>

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) and Matt Peek (Investment Analyst) have prime responsibility for managing the Kingfish portfolio. Together they have over 30 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

Warrants

- » On 5 February 2020 a new issue of warrants (KFLWF) 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.
- » The warrants were allotted to shareholders on 9 March 2020 and the warrants were listed on the NZX Main Board from 10 March 2020. (Information pertaining to the warrants was mailed/emailed to shareholders in February 2020).
- » The Exercise Price of each warrant is \$1.64, to be adjusted down for dividends declared during the period up to the Exercise Date.
- » The Exercise Date for the new warrants (KFLWF) is **12 March 2021**.
- » The final Exercise Price will be announced and an Exercise Form will be sent to warrant holders in late **January 2021**.

Share Buyback Programme

- » Kingfish has a buyback programme in place allowing it (if it elects to do so) to acquire its shares on market
- » 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

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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