Monthly Update

November 2019

KFL NAV **$1.52** | SHARE PRICE **$1.49** | DISCOUNT[1] **2.2%**

as at 31 October 2019

A word from the Manager

Kingfish delivered an adjusted NAV return of +0.4% in October, well ahead of the New Zealand share market return of -1.3% (S&P/NZX50G).

The Portfolio

There was a flurry of news across the portfolio in October.

Fisher & Paykel Healthcare (+10.7%) upgraded its profit guidance for the 2020 fiscal year, in conjunction with announcing it had received approval to sell its new Vitera obstructive sleep apnea mask in the US earlier than expected. This is the second profit upgrade from the company in less than two months and highlights that the management team continues to under-promise and over-deliver.

Infratil (+0.2%) hosted an investor day focused on two of its key portfolio assets, Canberra Data Centres (CDC) and Vodafone. Every time we get further colour on CDC, we are impressed by the moat, the management and the growth runway. Vodafone on the other hand is a turnaround story. Infratil expects to improve the operating profit margins significantly over time through cost reductions, consolidation of legacy IT platforms, leadership in 5G, (where it will be first to market in December), and growth in fixed wireless. The turnaround will take some time but we are optimistic given Infratil's track record here, including its successful investment in Z Energy.

Freightways (-5.2%) announced the conditional acquisition of leading New Zealand refrigerated transport provider Big Chill and also announced its first quarter trading update. The trading update was disappointing and showed that the subdued domestic courier market had slower revenue growth than we expected, although the pricing initiatives that have been implemented provided a boost. The acquisition appears positive based on our initial research and channel checks, with Big Chill a relatively solid business in an adjacent niche market to the courier business with some network overlap. We had trimmed our position in Freightways to a smaller level in earlier months.

Port of Tauranga (+3.6%) provided first time guidance for fiscal 2020 profits below previous expectations. This reflected a soft first quarter of trading for logs and bulk freight, although container volumes continued to grow strongly. The softer log volumes reflect a recent well publicised dip in pricing in China, with some New Zealand forest owners deferring logging in anticipation of a recovery in pricing, which appears to be underway. Regardless, these volumes will still ultimately require harvesting and will still be captured by the port in coming years.

Meridian (-11.5%) and the rest of the New Zealand electricity sector saw sharp share price declines in October, after Rio Tinto initiated a strategic review of its Tiwai Point aluminium smelter (NZAS). It is considering various options including closing down the smelter, which consumes approximately 13% of New Zealand's electricity. It is likely NZAS will attempt to negotiate lower rates for its electricity consumption from its suppliers to make the smelter more financially viable.

Portfolio changes

We exited our small residual position in **Restaurant Brands** during the month of September. The business continues to perform well across the key brands in its portfolio (KFC and Taco Bell), but has repeatedly struggled with minor brands Pizza Hut and Carl's Jr. The company is now trading on a lofty valuation which we believe fully factors in the transformation of Taco Bell stores, a successful US acquisition, and the establishment of Taco Bell as a successful franchise in New South Wales. We will continue to monitor the company as an opportunity going forward.

We exited our minor position in **Fletcher Building** early in the month (before the unfortunate Convention Centre fire broke out). We exited because the investment thesis had changed negatively from the time of our initial entry and several of our catalysts have now played out. We had already reduced our position to a small size,

[1] Share Price Discount to NAV (using NAV to four decimal places)

reflecting the worsening risk/reward. On reflection, the major shortcoming of the investment was that a sharp Australian housing down-cycle impacted that business and severely reduced earnings, with the ultimate benefits of the Australian business improvement strategy now long-dated and more uncertain. In addition, cost inflation in New Zealand without volume or pricing growth ate away corporate cost savings and resulted in lower earnings than we expected. Ultimately, we will do better by redeploying our capital into higher conviction ideas.

We also reduced our position in **Meridian** and increased our positions in **Infratil** and **Summerset** during the month as we deployed proceeds from recent sales.

Sam Dickie
Senior Portfolio Manager
Fisher Funds Management Limited

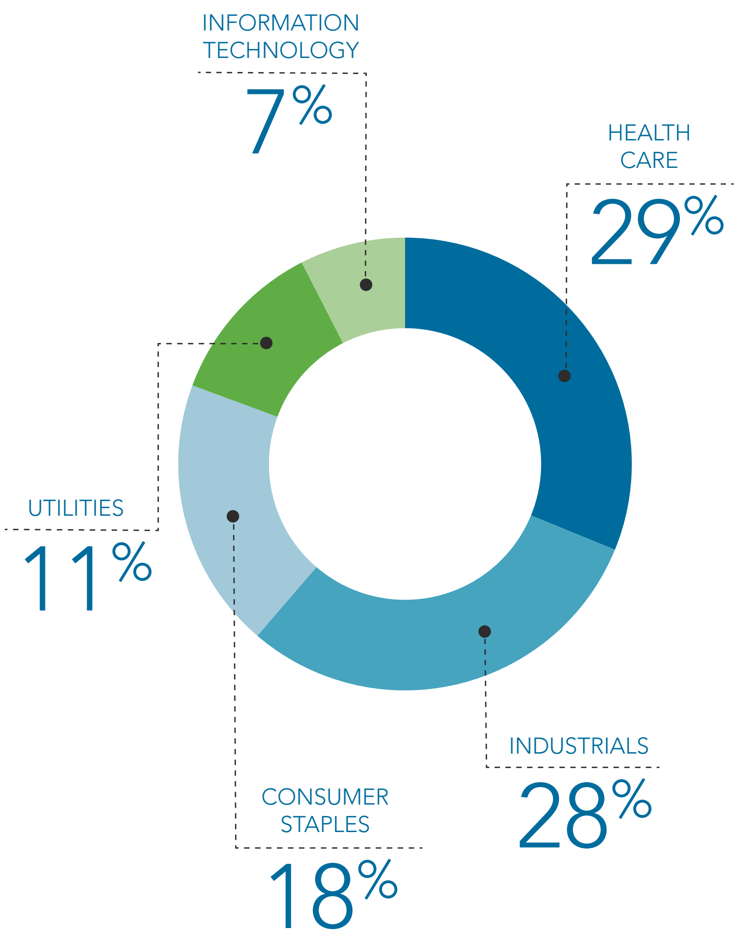
Key Details

as at 31 October 2019

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	$1.43
PERFORMANCE FEE CAP	1.25%
SHARES ON ISSUE	244m
MARKET CAPITALISATION	$364m
GEARING	None (maximum permitted 20% of gross asset value)

Sector Split

as at 31 October 2019



The Kingfish portfolio also holds cash

October's Biggest Movers

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

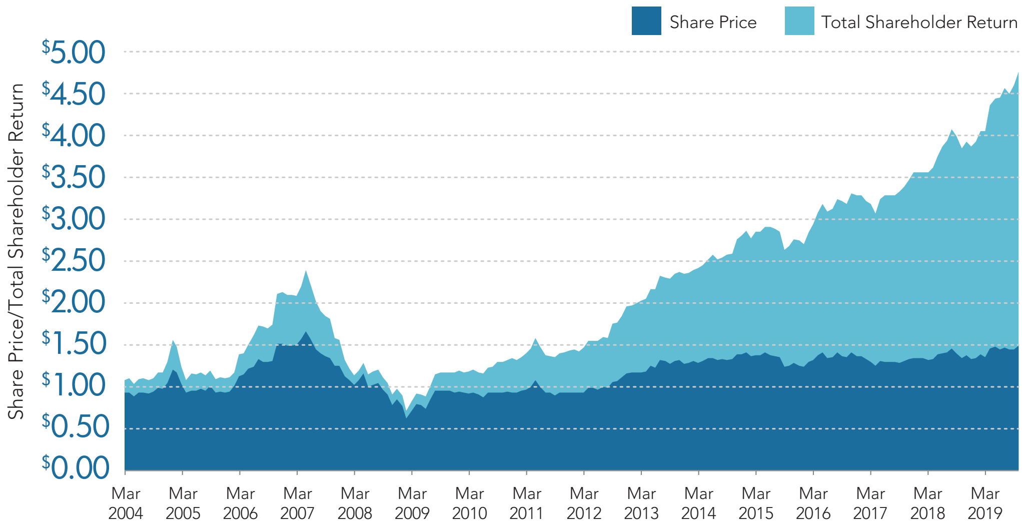
FISHER & PAYKEL HEALTHCARE	FREIGHTWAYS	PUSHPAY HOLDINGS	FLETCHER BUILDING	MERIDIAN ENERGY
+11%	-5%	-6%	-7%	-12%

5 Largest Portfolio Positions as at 31 October 2019

THE A2 MILK COMPANY	FISHER & PAYKEL HEALTHCARE	MAINFREIGHT	INFRATIL	SUMMERSET GROUP
15%	14%	14%	9%	8%

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

Total Shareholder Return to 31 October 2019



Performance to 31 October 2019

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
Company Performance					
Total Shareholder Return	+3.5%	+4.4%	+24.2%	+14.4%	+13.0%
Adjusted NAV Return	+0.4%	(4.0%)	+20.2%	+14.2%	+12.7%
Portfolio Performance					
Gross Performance Return	+0.5%	(3.8%)	+24.3%	+17.1%	+15.4%
S&P/NZX50G Index	(1.3%)	(0.6%)	+23.3%	+15.7%	+14.9%

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 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, before fees and tax, 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/

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

Share Buyback Programme

» Kingfish has a buyback programme in place allowing it (if it elects to do so) to acquire up to 12.2m of its shares on market in the year to 31 October 2020

» 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

Warrants

» Warrants put Kingfish in a better position to grow further, 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

KINGFISH
LANDING TOMORROW'S TROPHIES

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