



Monthly Update

September 2018

KFL NAV

\$1.59

SHARE PRICE

\$1.45

WARRANT PRICE

\$0.07

DISCOUNT¹

7.4%

as at 31 August 2018



A word from the Manager

Market Environment

The New Zealand market resumed its remarkable outperformance relative to its international peers with the S&P/NZX50G up 4.4% in August.

The stock market performance was the best performance during an earnings reporting season in 18 years. Was it justified? In other words, did companies materially outperform consensus earnings expectations and did we see a raft of earnings upgrades? The answer is no. Company earnings in aggregate were basically in line with consensus expectations and the outlook comments resulted in 2% NPAT downgrades for future earnings. A number of companies were slightly ahead of their revenue targets, however higher costs meant that some fell just short of their earnings forecasts.

On the whole, our portfolio scorecard for the results season was OK. We had more companies beating their forecasts than falling short, with five reporting results ahead of target, two in line with target, & four falling short of their targets. (i.e. 60% of results were in-line or better). This compares to the market that had 16 misses, 14 beats and 7 in line. So for the total market 56% of results were in line or better.

Portfolio Developments

August was another busy month for Kingfish with a number of portfolio companies providing results and announcing meaningful market updates.

Auckland International Airport full year result was broadly as expected. Their retail and property was particularly strong, reflecting recent capital expenditure initiatives, but these were offset by greater than expected operating expenses, (largely front-loaded, with growth in FY19 expected to slow) such that the overall result was in line with expectations. AIA's guide for international seat capacity is an uplift of around 6% in FY19, and while they see short-term challenges (jet fuel, local infrastructure constraints etc) they remain generally positive and

confident in the longer-term picture on aviation and NZ tourism. FY19 guidance implies growth of only 3%, reflecting in part the drag from increased interest and depreciation from the ongoing capital expenditure burden. However, we believe that the company has built in an element of conservatism.

Fisher & Paykel Healthcare held its Annual Shareholders Meeting which reported an upgrade of earnings guidance due to currency.

Fletcher Building delivered its FY18 result which was in line with expectations. They announced there would be no further loss provisions. The detail of the result revealed most of the NZ manufacturing businesses deteriorated during the second half of their financial year, as the residential cycle softened and input cost pressures escalated (energy, input costs, labour). Their guidance for next year of \$685m was broadly in line with market expectations, but appears to show a decline in their core NZ businesses, offset by some cost savings and Australian performance improvements helping to maintain, rather than improve earnings.

Meridian delivered an in line result, driven by a recovery in the second half from better hydro inflows. They announced a new capital management plan of \$250 million over two years. This will commence in August 2020 and is a continuation of the existing program that ceases in February 2022. No change to the existing ordinary dividend policy of 75%-90% payout of free cash flow.

Infratil indicated at its Annual Shareholders Meeting that they see earnings at the top end of the guidance range of NZ\$500-540m.

Port of Tauranga result was broadly as expected with strong volumes across all categories and total trade up 10%. After recent weakness the share price rebounded well on the positive news.

Summerset reported a solid interim result, in line with guidance.

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

Vista Group delivered its half year result which demonstrated solid growth albeit slightly behind our expectations. The Cinema business performed ahead of expectations with +22% revenue growth but this didn't deliver margin improvement as the company continues to invest in the likes of migration towards cloud deployment. Movio (the marketing and campaign management company in the group) was slightly behind expectations, while the other ecosystem companies were a mixed bag and corporate overheads grew more than anticipated. The business has

solid growth prospects but this is now reflected in the share price, having gained approximately +60% in the last 12 months following a marked shift in investor sentiment.



Sam Dickie
Senior Portfolio Manager
Fisher Funds Management Limited



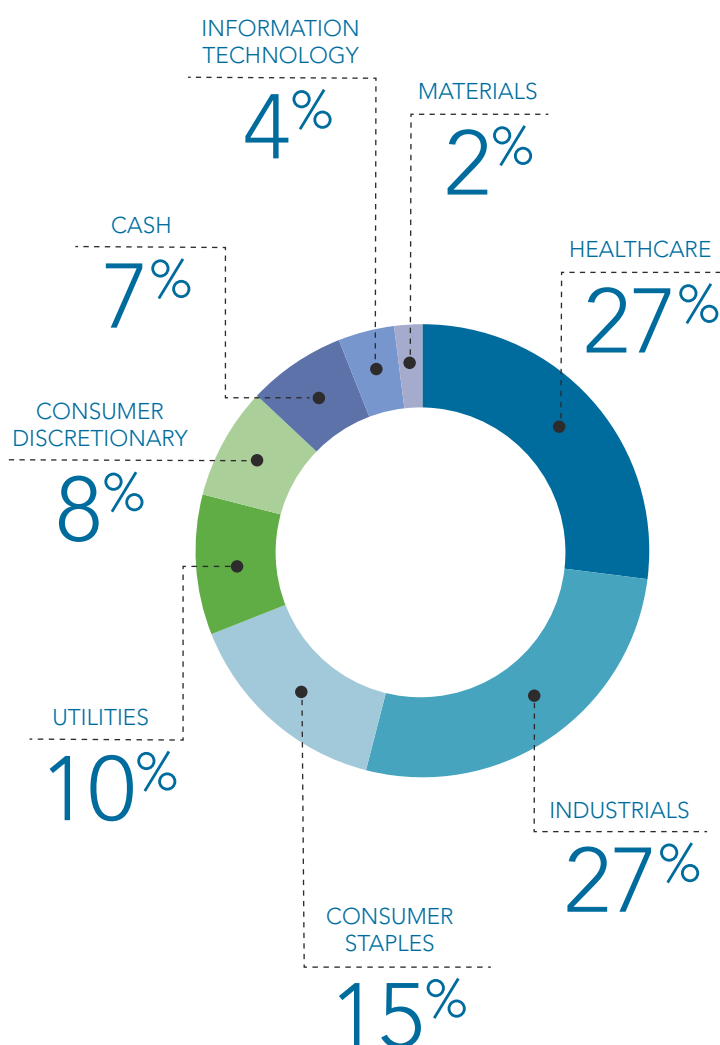
Key Details

as at 31 August 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	280m
GEARING	None (maximum permitted 20% of gross asset value)

Sector Split

as at 31 August 2018



August's Biggest Movers

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

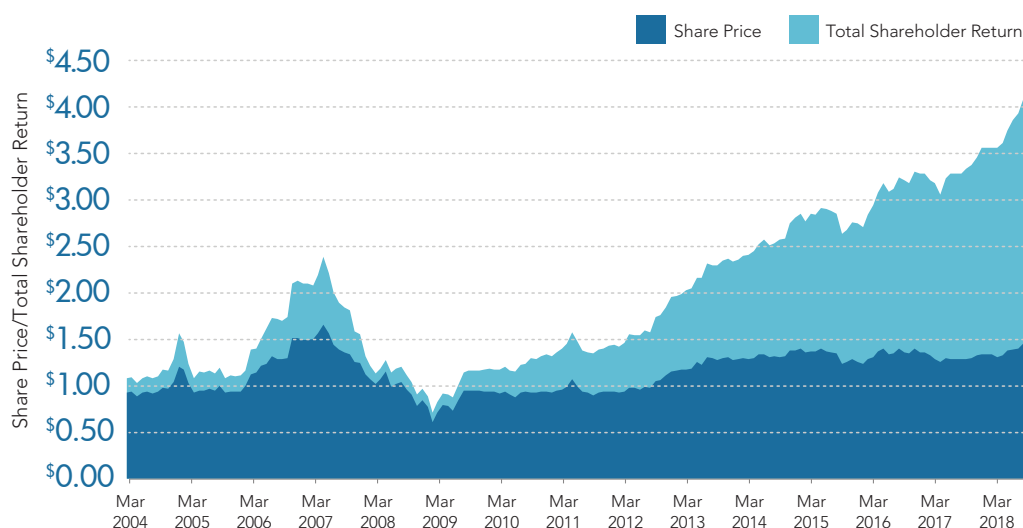
THE A2 MILK COMPANY	DELEGAT GROUP	RYMAN HEALTHCARE	FREIGHTWAYS	FLETCHER BUILDING
+21%	+20%	+16%	-4%	-10%

5 Largest Portfolio Positions as at 31 August 2018

FISHER & PAYKEL HEALTHCARE	THE A2 MILK COMPANY	MAINFREIGHT	FREIGHTWAYS	RYMAN HEALTHCARE
12%	10%	10%	9%	8%

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

Total Shareholder Return to 31 August 2018



Performance to 31 August 2018

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
Company Performance					
Total Shareholder Return	+3.7%	+8.6%	+24.2%	+12.7%	+12.2%
Adjusted NAV Return	+4.1%	+8.5%	+21.1%	+18.4%	+13.9%
Portfolio Performance					
Gross Performance Return	+4.6%	+9.4%	+23.5%	+21.2%	+16.8%
S&P/NZX50G Index	+4.4%	+7.6%	+19.1%	+18.1%	+15.5%

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/>

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.



Kingfish Limited
Private Bag 93502, Takapuna, Auckland 0740
Phone: +64 9 489 7094 | Fax: +64 9 489 7139
Email: enquire@kingfish.co.nz | www.kingfish.co.nz

Computershare Investor Services Limited
Private Bag 92119, Auckland 1142
Phone: +64 9 488 8777 | Fax: +64 9 488 8787
Email: enquiry@computershare.co.nz | www.computershare.com/nz