



# MONTHLY UPDATE

September 2020

Share Price

\$1.75

KFL NAV

\$1.77

WARRANT PRICE

\$0.14

PREMIUM<sup>1</sup>

0.6%

as at 31 August 2020

## A WORD FROM THE MANAGER

In August Kingfish returned gross performance of +2.7% and an Adjusted NAV return of +2.6%. This compares to our benchmark (S&P/NZX50G) which was up +1.8%.

**a2 Milk** delivered its fiscal 2020 result in line with the middle of its guidance range but slightly behind expectations, as investors have become accustomed to the company over-delivering. This was a result of more pantry destocking than expected, following the impact of COVID in China, which had constrained sales. The company guided towards "continued strong revenue growth" supported by increased marketing and initiatives to improve performance in the mother and baby store channel in China.

We added **Contact Energy** to the portfolio during the month. Contact is an example of "quality on sale" and is a solid defensive business with an improving track record. Rio Tinto has terminated its power supply contract and announced it will close the Tiwai Point aluminium smelter in August 2021 (a "hard exit"), which has impacted Contact's share price. Following the closure of the smelter, Contact will shut its breakeven Taranaki Combined Cycle gas power plant and move to 100% renewable baseload electricity generation, supplemented with gas generation to satisfy peak demand (which will become more valuable over time with more renewables). We believe the "hard exit" scenario was largely reflected in the Contact share price, limiting downside risk. However, we think there is significant upside value in the case the smelter negotiates a longer timeframe for exit. We think this has recently become a higher probability after a multi-year offer of lower electricity prices from Meridian, which has rekindled Rio Tinto and government interest. Longer-term, Contact will benefit from being able to move hydro power northwards as grid upgrades take place. The company also has an attractive generation development option in its Central North Island geothermal field at Tauhara. Contact has historically traded at a discounted valuation versus its pure-renewable sector peers (Meridian and Mercury), which we think also has the potential to narrow over time.

**Delegat** delivered a strong fiscal 2020 result, with case sales boosted by COVID related lockdowns. Initial guidance for next fiscal year is for net profit of \$60-65 million, in line with our expectations. We think Delegat can continue to grow case sales in its key markets as New Zealand sauvignon blanc continues to grow off a low base in the US and the company increasingly sells other varietals like pinot gris, leveraging its strong brand recognition.

**Fisher & Paykel Healthcare** provided an update at its Annual Shareholders' Meeting. Sales in July accelerated versus the June quarter results, with hospital hardware sales for the first four months of +390% (versus over +300% for the June quarter) and consumables of +48% (versus over +33% in the June quarter). We had expected this continued strong performance as the global COVID infections and deaths have sadly not tracked down in line with the company's "assumptions".

**Freightways** reported its fiscal 2020 result and provided a solid update on trading in its New Zealand express package business. Network courier volumes has grown at a strong +11% year on year in the first 7 weeks of the new financial year. Firstly, Freightways has gained market share from competitors who performed poorly during the COVID affected period as their shippers experienced long delays. Secondly, there has been a wave of new shippers who are now increasingly trying to reach their customers via ecommerce as part of a permanent shift post COVID.

**Summerset** announced its first half 2020 results. The key positive was a very strong uplift in sales from mid May until the start of August (before Auckland moved to COVID Alert Level 3). The duration of the uplift gives confidence that Summerset's success in keeping residents safe during COVID is driving a permanent uplift in penetration for retirement villages which will be positive in the medium term.

<sup>1</sup> Share Price Premium to NAV (including warrant price on a pro-rated basis and using NAV to four decimal places)

Vista reported, as expected, a weak first half 2020 result, as cinemas around the world were closed due to COVID. The company had hunkered down and reduced monthly cash burn to \$3-4 million with an unexpectedly high \$75 million net cash on the balance sheet at the end of June. The outlook is more positive, with 70-80% of cinemas globally now open. Vista has stayed close to its customers during this period, including deploying a "reopening kit" to facilitate social distancing and contactless purchasing for its moviegoers. We

think that the company is likely to continue to take market share from weakened competitors over the next few years.



Sam Dickie  
Senior Portfolio Manager  
Fisher Funds Management Limited



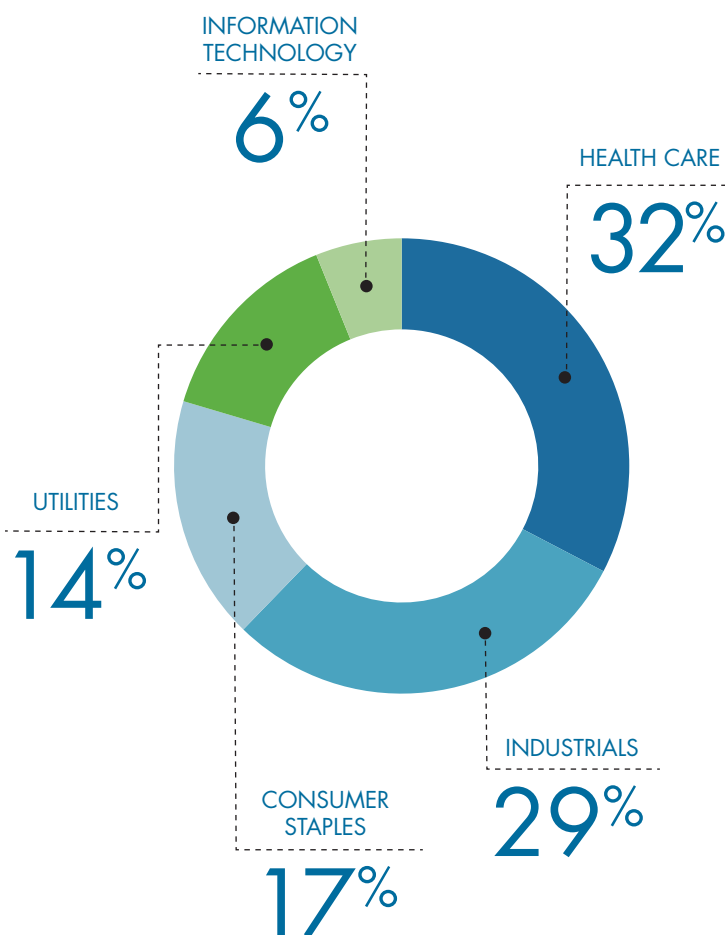
## KEY DETAILS

as at 31 August 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	10-25 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	\$1.34
PERFORMANCE FEE CAP	1.25%
SHARES ON ISSUE	250m
MARKET CAPITALISATION	\$438m
GEARING	None (maximum permitted 20% of gross asset value)

## SECTOR SPLIT

as at 31 August 2020



The Kingfish portfolio also holds cash

# AUGUST'S SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO during the month

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

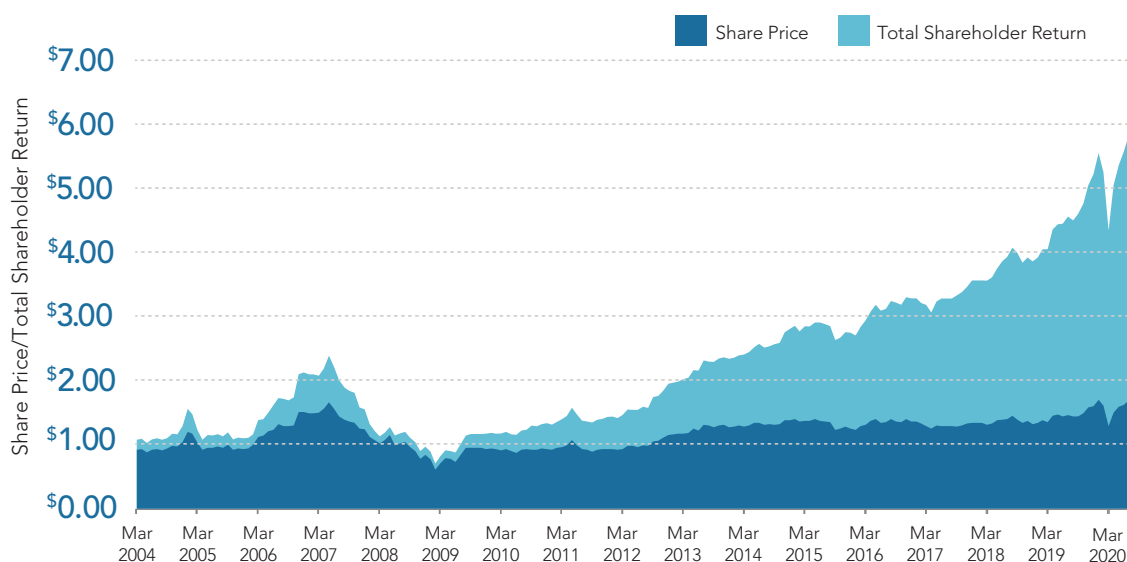
VISTA GROUP <b>+43%</b>	SUMMERSET <b>+11%</b>	PUSHPAY HOLDINGS <b>+10%</b>	DELEGAT GROUP <b>+8%</b>	A2 MILK <b>-11%</b>
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## 5 LARGEST PORTFOLIO POSITIONS as at 31 August 2020

FISHER & PAYKEL HEALTHCARE <b>17%</b>	MAINFREIGHT <b>17%</b>	THE A2 MILK COMPANY <b>13%</b>	INFRATIL <b>11%</b>	SUMMERSET <b>9%</b>
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The remaining portfolio is made up of another 9 stocks and cash.

## TOTAL SHAREHOLDER RETURN to 31 August 2020



## PERFORMANCE to 31 August 2020

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
<b>Company Performance</b>					
Total Shareholder Return	+4.3%	+13.3%	+35.1%	+22.8%	+16.3%
Adjusted NAV Return	+2.6%	+13.2%	+25.4%	+18.5%	+17.9%
<b>Portfolio Performance</b>					
Gross Performance Return	+2.7%	+14.4%	+29.3%	+21.7%	+21.1%
S&P/NZX50G Index	+1.8%	+9.7%	+11.0%	+15.2%	+16.1%

### 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/aboutkingfish/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 10 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), Matt Peek (Senior Investment Analyst), and Michael Bacon (Senior Investment Analyst) have prime responsibility for managing the Kingfish portfolio with the assistance of Luke O'Donovan (Quantitative Analyst). Together they have around 50 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, Andy Coupe and 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 announcement of the Exercise Price.
- » 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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