KINGFISH

LANDING TOMORROW'S TROPHIES

MONTHLY UPDATE

September 2021

Share Price	KFL NAV	PREMIUM[1]
$2.06	$1.87	10.0%

as at 31 August 2021

A WORD FROM THE MANAGER

Market Update

In August, Kingfish's gross performance return was +6.7% and the adjusted NAV return was +6.5%. This compares with the local market benchmark index return which was +5.0% (S&P/NZX50G).

New Zealand equities gained +5.0% (S&P/NZX 50) in August, outperforming all major global equity markets (MSCI World +2.5%, S&P 500 +3.0%, S&P/ASX 200 +2.5%).

There were several stock specific reasons for the strong gains, with six companies driving around 80% of the performance. Four of those companies (Ryman, Summerset, Fisher & Paykel Healthcare and Mainfreight) are in the Kingfish portfolio as we will discuss below. There were also notable gains from Chorus and Z Energy which have underperformed recently but found respite in a regulatory decision and takeover interest respectively.

The Portfolio

Auckland Airport (-0.4%) announced its fiscal 2021 result, which was in line with recent guidance. A highlight of the result was the $500 million positive revaluation of Auckland Airport's industrial investment property book, showing Auckland Airport's ability to grow its intrinsic earnings power relative to the pre-COVID baseline. Whilst recent lockdowns are a setback to traffic recovery, we are encouraged by New Zealand's rapidly accelerating vaccine roll-out which is fundamental to wider border reopening.

Fisher & Paykel Healthcare (+5%) hosted its annual shareholders' meeting and provided a trading update for the current fiscal year. Sales for the first four months in its Hospital division (-3% in constant currency terms) have held up better than expected as COVID-19 has proved more persistent, firstly in developing countries like India and more recently with Delta outbreaks in various developed markets like the US. Sales of both hardware and consumables continued to be driven by COVID-related stocking and destocking but COVID-19 related demand is expected to ease over the year. On a medium to long-term view, the company still sees an uplift in penetration of its products, particularly in hospitals that already used its Optiflow nasal high flow therapy and now have more of its Airvo hardware devices following COVID-19.

Mainfreight (+15%) continued to trade higher following its likely future inclusion in a regional FTSE index. After month-end (on 1 September) the company released a strong trading update for the first 22 weeks of its financial year which showed a strong acceleration in performance versus the 17 week annual meeting update. Weekly average profit before tax increased +18% from $6.2 million (weeks 1-17) to $7.3 million (weeks 18-22). The drag from Level 4 lockdowns in New Zealand is less than expected with a -30% fall in domestic freight revenues and no impact to revenues in warehousing and Air & Ocean.

Port of Tauranga (+4%) announced its fiscal 2021 result, reporting a +15% increase in net profit. This was a strong result, particularly given the backdrop of global and local supply chain issues, the most obvious being Ports of Auckland congestion due to a failing automation project. The company earned $16 million from storage surcharges, which are used to disincentivise storage of cargo on port (which can lead to congestion) and recover revenue lost due to congestion. The result illustrates the resilience and pricing power of Port of Tauranga, despite ongoing supply chain disruption.

Pushpay (+4%) announced a material acquisition, streaming solutions provider Resi Media, for US$150 million. Resi appears a good fit as it services more than 70% of the Outreach (100 largest churches) in the US which has been Pushpay's core market. Logically it should see Pushpay able to consolidate its position as the top technology provider for the Faith based market. This would be similar to how it has combined its Church Community Builder acquisition with its donor management and giving platform to create ChurchStaq which is proving attractive to mid-market churches.

Ryman Healthcare (+17%) increased unit prices +5% during the month, in addition to a +5% rise earlier this year. With units taking on average up to 7 years to turnover, these price increases will boost earnings and cash flow for years to come. Unit price increases also lower gearing by increasing asset values, giving Ryman Healthcare further headroom to invest for growth, and mitigating a concern we have had with the business. Demand for retirement units is at record levels and the buffer between retirement village unit prices and local house prices remaining strong.

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

Summerset (+17%) released first half 2021 results. Similar to Ryman, Summerset increased unit prices recently and sales volumes are at record highs. Summerset announced an increase in its build rate guidance, from 600-650 units and beds to 700-750 units and beds on the back of strong demand and low inventory levels. Summerset's landbank allows for a 50% lift in build rate over the next four years, which lifts the underlying earnings profile meaningfully. New site acquisitions in both New Zealand and Victoria and strong market conditions mean Summerset has a strong growth outlook ahead.

The **a2 Milk Company** (-3%) reported its fiscal 2021 result, coming in towards the lower end of guidance given in mid May. The company has now seen problematic inventory levels in its English Label infant formula rebalance and expects a consolidation in performance from here. For the China Label product it expects continued sales growth in its physical store distribution channel and in online platforms. Management have been cautious about the outlook given the headwind of lower births in China, particularly given the temporary impact of COVID-19 vaccines which may suppress the number of pregnancies in the near-term. While the worst of the recent issues may be behind it, there are still a range of outcomes possible for the recovery which means we still have a small position.

Vista (+4%) reported its first half 2021 result which saw the company continue to exceed cash preservation targets, with $1.6 million cash outflow per month versus initial expectations earlier in 2021 of $3-4 million. There is still $58 million of cash in hand. Vista reported revenue of $45 million broadly as expected with growth in recurring revenue while absorbing the impact of what are expected to be one-off net customer closures in core markets and meaningful adverse exchange rate movements. As cinemas reopen most of Vista's more sensitive revenue streams (such as the Movio marketing tools) are now coming back and guidance implies $50-55 million in the second half of 2021. The company has launched its Vista Cloud offering and is increasingly confident it will be taken up by both existing and prospective customers, who are increasingly seeking new technology to create operational efficiencies. This will be a structural growth driver helping them take further market share and increase existing customer recurring revenues over the next 5+ years.

Sam Dickie
Senior Portfolio Manager
Fisher Funds Management Limited

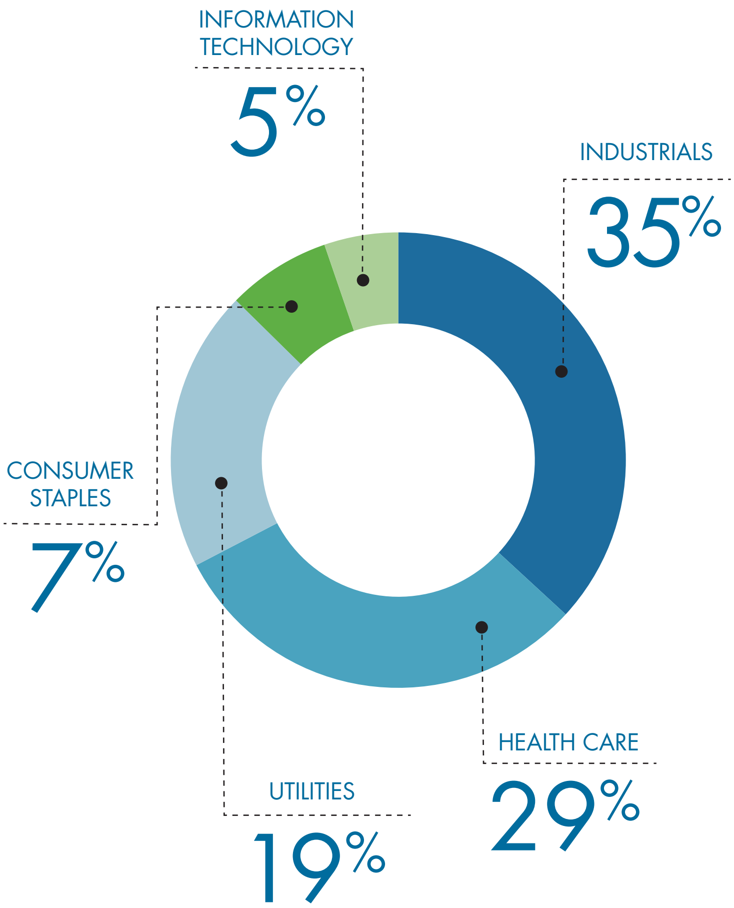
KEY DETAILS

as at 31 August 2021

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	$1.73
PERFORMANCE FEE CAP	1.25%
SHARES ON ISSUE	314m
MARKET CAPITALISATION	$647m
GEARING	None (maximum permitted 20% of gross asset value)

SECTOR SPLIT

as at 31 August 2021



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.

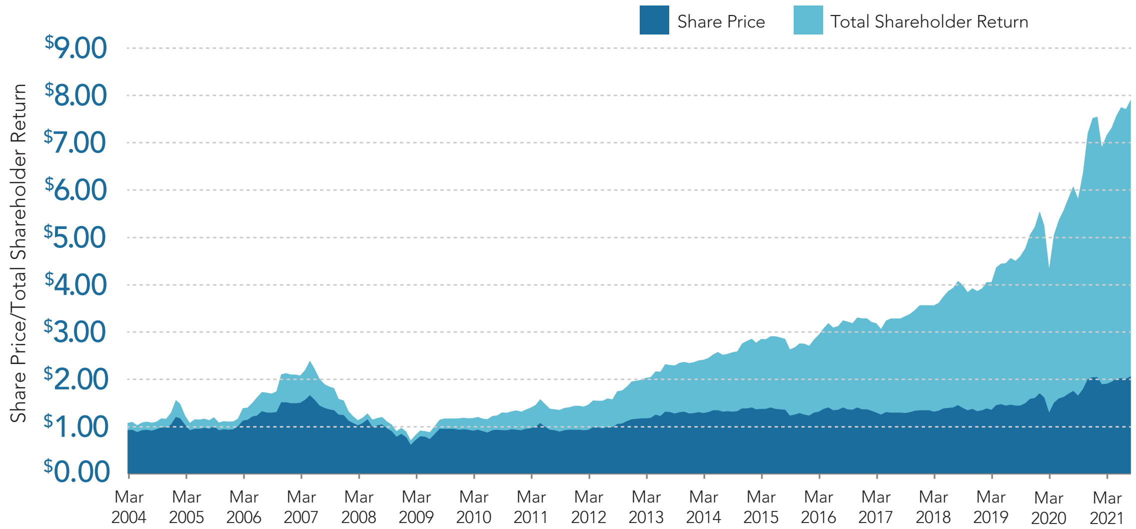
RYMAN	SUMMERSET	MAINFREIGHT	DELEGAT	FISHER & PAYKEL HEALTHCARE
+17%	+17%	+15%	+7%	+5%

5 LARGEST PORTFOLIO POSITIONS as at 31 August 2021

MAINFREIGHT	FISHER & PAYKEL HEALTHCARE	INFRATIL	SUMMERSET	AUCKLAND INTERNATIONAL AIRPORT
21%	15%	14%	9%	9%

The remaining portfolio is made up of another 9 stocks and cash.

TOTAL SHAREHOLDER RETURN to 31 August 2021



PERFORMANCE to 31 August 2021

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
Company Performance					
Total Shareholder Return	+2.5%	+4.4%	+30.1%	+24.7%	+19.5%
Adjusted NAV Return	+6.5%	+9.5%	+17.2%	+17.2%	+15.6%
Portfolio Performance					
Gross Performance Return	+6.7%	+10.1%	+19.2%	+20.3%	+18.3%
S&P/NZX50G Index	+5.0%	+7.3%	+10.7%	+12.4%	+12.3%

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 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

The Manager has authority delegated to it from the Board to invest according to the Management Agreement and other written policies. Kingfish's portfolio is managed by Fisher Funds Management Limited. Sam Dickie (Senior Portfolio Manager), Matt Peek and Michael Bacon (Senior Investment Analysts) 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 Board of Kingfish comprises independent directors Alistair Ryan (Chair), Carol Campbell, Andy Coupe and David McClatchy.

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 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

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 Kingfish warrants on issue.

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