Quarter Update Newsletter

31 March 2019 – 30 June 2019

NAV	SHARE PRICE	WARRANT PRICE	DISCOUNT[1]
$1.62	$1.44	$0.13	9.2%

as at 30 June 2019

- **An excellent series of meetings with portfolio companies and competitors in the US;**
- **Interest rate sensitive stocks led the way, not helpful for our investment style but offset by multiple strong idiosyncratic stories; and**
- **We continue to adjust the portfolio to make the best use of capital.**

On the Road Again

Various investing legends have long espoused the virtues of "wearing out your shoe leather" visiting businesses first hand to gain a more direct perspective. We share this view hence it is a fundamental element of our active investment management approach. It certainly makes a welcome change from reading financial reports and hounding down unique insights from the terrabytes of information constantly circulating the internet!

On our recent travels to the United States we met with a number of portfolio companies and competitors. Visits relating to Mainfreight and Fisher and Paykel Healthcare are particularly notable, and are discussed in detail below. In addition to these we visited the Seattle office of Pushpay, met with the head of Vista's Movio Media and we were fortunate to meet Ahold and Sprouts, US based customers of a2 Milk.

We visited Mainfreight's Los Angeles operation to meet with key US executives. US operations are greater than a quarter of total group revenues now and the division is growing significantly faster than the overall group. In the recent second half 2019 fiscal result, group operating earnings grew at 17%, (impressive in any normal context) while US operating earnings grew at almost triple that rate in NZD terms (+48%). The US business is tiny, relative to its competitors and its competitors are extremely fragmented. To put some context around this, Mainfreight's US transport operations are less than one twentieth of the size of the number one market share player in the US and the number one player only has around 10% market share! After a few false starts over the past decade, we believe that Mainfreight now have the people, the infrastructure and the culture in place to continue this superior growth rate.

Fisher & Paykel healthcare is a high quality company. During our visit we met with its key US executives and competitors ResMed and Vapotherm. We spent time with medical doctors and experts in respiratory disease/illness, and managed to stay awake at the sleep conference we attended that showcased Fisher & Paykel Healthcare's and key competitor's sleep apnea masks.

Meeting Justin Callaghan, the head of Fisher & Paykel's US operation, reminded us of how critical experience is in an industry that thinks of product cycles in decades, not quarters or years.

Notable Returns in the Quarter

VISTA GROUP	AUCKLAND INTERNATIONAL AIRPORT	DELEGAT GROUP	PUSHPAY HOLDINGS	PORT OF TAURANGA
+24%	+21%	+20%	+20%	+17%

Justin has been with Fisher & Paykel for more than 25 years and discussing the huge total addressable market opportunity for the fast growing nasal high flow products and the competitive environment renewed our confidence that the key US business is in good hands! The US market is by far the largest healthcare market in the world and accounts for almost 50% of Fisher & Paykel healthcare's revenue vs Europe at circa 30% and Asia/Pacific at circa 20%. Nasal high flow products are approximately 30% of group revenue and are growing almost three times as fast as group revenue. Given the huge body of clinical papers published on nasal high flow and Fisher & Paykel's brand Optiflow, (150-200 papers per annum for the past couple of years vs less than 25 per annum five years ago), it is not surprising that Optiflow is now used to some small degree in most hospitals in the US. The huge opportunity that remains is adoption rates in those hospitals. Fisher & Paykel treats around three million patients annually with Optiflow and we think the total addressable market here is 40-50 million patient set-ups globally per annum. It is worth remembering that while Fisher & Paykel Healthcare's Obstructive Sleep Apnea (OSA) masks treat only one condition (OSA), Optiflow can treat a multitude of respiratory illnesses - Chronic Obstructive Pulmonary Disease, Chronic Bronchitis, Emphysema, Pneumonia to name a few. While we were aware of the benefits of Optiflow (both versus competition and versus using low flow oxygen), it was useful to have these validated by the Pulmonary Care doctors we spoke with. They reinforced the multitude of benefits including a major improvement in patient comfort over competitor products, the ability to be easily set up by respiratory therapists who are the most common users, and importantly, that it is much less expensive than normal non-invasive ventilation.

The Impact of Interest Rates

Another quarter and another sharp fall in interest rates which, all else being equal, is not helpful for our style. Higher yielding, slower growth companies that do not necessarily exhibit strong STEEPP characteristics rallied hard during the quarter. The real estate and utilities sectors were up 12% and 14% respectively, significantly outperforming the broader NZ stock market.

It is a testament to the idiosyncratic stories of non-yielding companies in our portfolio that companies like Delegat, Vista, Infratil, Mainfreight and Pushpay were able to at least keep pace with the heady price action in the yield stocks.

[1] Share price discount/(premium) to NAV (including warrant price on a pro-rated basis).

The Relentless Pursuit of Quality

We are always striving to maintain the highest quality investment portfolio.

During the quarter we lowered our weightings in Fletcher Building, Freightways and Restaurant Brands and we increased our weightings in Mainfreight, a2 Milk, Infratil and Summerset.

Fletcher Building and Restaurant Brands were funding sources for our increase in weightings. While Freightways has a track record of doing mergers & acquisitions at attractive multiples, the Australian acquisitions are diverse and project lumpiness is leading to patchy performance. We had questioned the longer term intrinsic earning power of the business but at current levels valuation is starting to look more attractive, especially on a relative basis.

Mainfreight continues to exceed our top of street earnings expectations and growth is inflecting in the US especially and European businesses. Importantly, the returns Mainfreight is generating on the incremental capital it is deploying is stable at the higher growth rates. Many lament how expensive Mainfreight looks on a simple price to earnings basis. We think this misses the long-term offshore opportunity in the US and Europe especially.

We received additional new support for our a2 Milk thesis as they launched their Smart Nutrition product in the three plus year old segment. The company continues to take market share in China at a rapid clip.

Sam Dickie, Senior Portfolio Manager
18 July 2019

Performance

as at 30 June 2019

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+10.1%	+13.0%	+11.6%
Adjusted NAV Return	+5.3%	+14.8%	+13.5%
Portfolio Performance			
Gross Performance Return	+6.5%	+17.7%	+16.2%
S&P/NZX50G Index	+6.7%	+15.1%	+15.4%

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 newsletter 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/

Company News

Dividend Paid 27 June 2019

A dividend of 3.07 cents per share was paid to Kingfish shareholders on 27 June 2019 under the quarterly distribution policy. Interest in Kingfish's dividend reinvestment plan (DRP) remains high with 43% of shareholders participating in the plan. Shares issued to DRP participants are at a 3% discount to market price. If you would like to participate in the DRP, please contact our share registrar, Computershare on (09) 488 8777.

Portfolio Holdings Summary

as at 30 June 2019

LISTED COMPANIES	% Holding
Auckland Int Airport	5.3%
Delegat Group	4.1%
Fisher & Paykel Healthcare	13.4%
Fletcher Building	1.7%
Freightways	7.8%
Infratil	9.1%
Mainfreight	12.4%
Meridian Energy	3.6%
Port of Tauranga	3.7%
Pushpay Holdings	2.0%
Restaurant Brands NZ	0.8%
Ryman Healthcare	5.9%
Summerset	6.6%
The A2 Milk Company	14.9%
Vista Group International	6.0%
Equity Total	**97.3%**
New Zealand dollar cash	2.7%
TOTAL	**100.0%**

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LANDING TOMORROW'S TROPHIES

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