



QUARTERLY NEWSLETTER

1 April 2020 – 30 June 2020

Share Price

\$1.62

KFL NAV

\$1.65

Warrant Price

\$0.07

DISCOUNT¹

1.0%

as at 30 June 2020

Solid returns through a crisis thanks to active management

Kingfish gained +23.4% (gross performance) for the quarter, and the Adjusted NAV was up +21.2% for the quarter. The S&P/NZX50G benchmark index gained +16.9% for the same period.

Our tried and tested investment process, coupled with some enhancements, stood up well during COVID-19

At face value the local stock market appears to be defying the effects of COVID-19. But on closer inspection the solid performance of the benchmark S&P/NZX50G index has been driven by only a handful of large companies, especially Fisher & Paykel Healthcare and a2 Milk. Over the twelve months to 30 June 2020 they have delivered all of the benchmark's returns and then some. This is extraordinary and masks the inferior performance of a lot of other companies. What this tells us is how important active management is. It is always critical to handpick a small number of high-quality companies... but especially so now.

Sticking to and enhancing a successful process proved vital during the crisis

We continue to think about the same four broad "buckets" within our portfolio:

- » Bucket 1. companies that should trade well through the COVID-19 crisis ("beneficiaries")
- » Bucket 2. companies that have more defensive earnings streams ("defensives")
- » Bucket 3. companies that have more economically sensitive earnings streams ("economically sensitive")
- » Bucket 4. companies that are in the eye of the storm ("eye of the storm")

We owned less of buckets 3 and 4 and more of buckets 1 and 2 into the teeth of the crisis. For instance, we maintained a small position in Auckland Airport right until the share price fully captured all the obvious risks. We had cut our weighting in Summerset in late January and we ran our very large positions in Fisher & Paykel Healthcare and a2 Milk right into the trough of the crisis on 23 March. We then pivoted by trimming some of our positions in buckets 1 and 2 and buying positions in buckets 3 and 4. We trimmed Fisher & Paykel Healthcare, Meridian and some a2 Milk near the apex of the crisis and switched that into Auckland Airport and Vista, especially via their equity issuance. We were also adding to our heavily oversold positions in Summerset and Mainfreight.

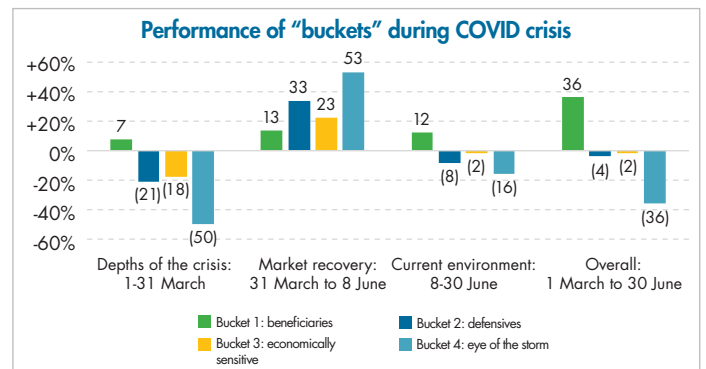
Starting March 23rd, global stock markets staged their fastest 30% bounce... ever. And in that environment we saw almost the mirror image of the March carnage.

In the last three weeks to 30 June, we have seen markets pause for breath as COVID-19 and the economic fall-out remains a key risk. And we have seen another almost mirror image. We have reduced our holdings in some "eye of the storm" companies and increased our weightings in some of the "beneficiaries".

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER

PUSHPAY HOLDINGS LTD	DELEGAT GROUP LTD	AUCKLAND INTL AIRPORT LTD	VISTA GROUP INTERNATIONAL	FREIGHTWAYS LTD
+159%	+58%	+32%	+31%	+31%

The combination of our existing tried and true process, plus the enhancements during the crisis allowed us to outperform the S&P/NZX50G in the bull market prior to COVID-19, during the worst of the market fall in March, in the sharp rebound until June 8th and then again in the current environment until June 30th.



Bucket 1 – Beneficiaries: Fisher & Paykel Healthcare, a2 Milk, Pushpay, Delegat

Fisher & Paykel Healthcare and Pushpay have seen their customers embrace their products like never before as a result of COVID-19. This is very powerful and has structurally increased the value of the companies as higher levels of sales are achieved earlier and their products may ultimately be used by a larger number of people.

Fisher & Paykel Healthcare's nasal high flow therapy is proving a more effective treatment for COVID-19 patients versus traditional invasive alternatives such as intubation (an 'endotracheal tube' physically inserted down the throat and into the airways). Longer-term, this experience could prove a powerful proof point for practitioners that F&P's products should be used for treatment of far more respiratory patients than before.

Pushpay has experienced a strong acceleration in use of its products. Our recent church calls confirmed that digital giving has remained at elevated levels and is not expected to revert when congregants can physically return to church.

Bucket 2 – Defensives: Meridian, Infratil

Infratil updated the market on its portfolio businesses, categorising them similarly to our "buckets". Its data centre business CDC has continued to see strong demand and announced it will be establishing sites in New Zealand. In June, Infratil raised \$300 million in new equity to accelerate investment in several of its growth businesses that are seeing opportunities for attractive returns, such as CDC, and we participated.

¹ Share price discount to NAV (including warrant price on a pro-rated basis and using NAV to four decimal places).

Bucket 3 – Economically sensitive: Port of Tauranga, Mainfreight, Freightways, Ryman, Summerset

Mainfreight provided a granular assessment of the impacts on each business early in the 2021 fiscal year. Its Australian business is performing very strongly and growing at a double-digit rate year-on-year despite COVID-19 as a result of market share gains from competitors. The New Zealand domestic transport business fell 40-45% during Alert Level 4 but bounced back to be growing year-on-year.

Ryman and Summerset moved early to implement strict measures to protect their vulnerable elderly residents and prevent COVID-19 from entering its villages. This and other initiatives like “happy hour in a bag” have built on their strong brands. It will likely accelerate penetration of retirement villages in New Zealand and Australia and share gains from independent and lower quality operators as potential residents seek out a provider “good enough for mum”.

Bucket 4 – Eye of the storm: Auckland Airport, Vista

Auckland Airport raised enough equity capital to take any balance sheet funding stress off the table right through until December 2021. The

\$1.2 billion equity raising was larger than expected and can sustain the balance sheet even if the current extremely low level of passengers moving through the airport continues through 2021. That is not their base case expectation, but we applaud the prudent approach. Auckland Airport is an attractive, long duration, critical infrastructure asset and was priced near our long-term bear case valuation. We added to the position including in the capital raising at a discounted price. People will travel again.

Most cinemas globally are shut. Many cinemas paused paying their fees to Vista. This put the company’s liquidity position under stress. We participated in the company’s equity raising at \$1.05, which ensures Vista has sufficient liquidity for an extended period. COVID-19 aside, Vista has continued to grow its market share to 50% for its core cinema product globally outside of China. It is multiple times the size of its next biggest global competitor. The company will return to growth when cinemas inevitably re-open.

Sam Dickie
Senior Portfolio Manager
20 July 2020



PERFORMANCE as at 30 June 2020

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+28.5%	+19.3%	+13.9%
Adjusted NAV Return	+21.2%	+16.8%	+15.6%
Portfolio Performance			
Gross Performance Return	+23.4%	+19.9%	+18.7%
S&P/NZX50G Index	+16.9%	+14.6%	+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 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 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 26 June 2020

A dividend of 3.06 cents per share was paid to Kingfish shareholders on 26 June 2020 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.

Disclaimer: The information in this newsletter 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 newsletter 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 newsletter 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.

PORTFOLIO HOLDINGS SUMMARY as at 30 June 2020

LISTED COMPANIES	% Holding
Auckland Int Airport	6.5%
Delegat Group	3.8%
Fisher & Paykel Healthcare	18.0%
Freightways	3.7%
Infratil	11.3%
Mainfreight	14.7%
Meridian Energy	2.3%
Port of Tauranga	3.7%
Pushpay Holdings	2.4%
Ryman Healthcare	5.9%
Summerset	7.3%
The A2 Milk Company	14.6%
Vista Group International	3.5%
Equity Total	97.7%
New Zealand dollar cash	2.3%
TOTAL	100.0%



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

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