KINGFISH

LANDING TOMORROW'S TROPHIES

QUARTERLY NEWSLETTER

1 July 2023 – 30 September 2023

Share Price	Warrant Price	KFL NAV	DISCOUNT[1]
$1.26	$0.03	$1.30	2.1%

as at 30 September 2023

In the September quarter, Kingfish delivered a gross performance return of –4.9% and an adjusted NAV return of –5.1%, versus the –5.2% return of the S&P/NZX50 gross index. It was a tough quarter for global share markets with the MSCI World index down –3.5%. New Zealand shares lagged other markets in part due to the economic climate remaining tougher locally than offshore.

Defensive companies outperformed in a tough environment for New Zealand companies

Quarterly performance was led by Summerset (+8% return in the quarter) which proved its weak March quarter sales performance was an aberration by delivering a much-improved result for the June quarter. Despite the pressure on house prices since late 2021, Summerset has been able to hold its pricing and capture development margins. It continues to see strong demand for its offering.

Two resilient performers were **Infratil** (+1%) and **Contact Energy** (+3%). Infratil noted at its annual meeting that it is tracking towards the top end of its profit guidance for the year ahead. Contact delivered a strong finish to its financial year and promising outlook for the new year. It will see its newly built Tauhara geothermal plant begin to contribute to earnings from 2024, replacing more expensive gas generation. The company expects a new supply agreement to be reached with the Tiwai Point aluminium smelter at a higher price, which would enable an increase to its dividend.

Several of our economically exposed companies were not immune from the more challenging environment. **Mainfreight** (–8%) provided a first quarter update in July, which was weaker than expected as it is seeing lower freight volumes through its network. Trading conditions in **Freightways'** (+1%) core courier business remained challenging, with volumes in the six months to June averaging around 2% lower than the corresponding period in 2022. Underlying same-customer volumes have been weaker, 5-6% down, however the company is winning new customers by virtue of its superior delivery performance. **Vulcan Steel** (–6%) has seen slower market conditions in its New Zealand steel distribution business, with the Australian business performing better. Positively, its number of Active Trading Accounts have reached record levels. **a2 Milk** (–15%) has continued to be a clear leader in the China infant formula category, taking market share in its key sales channels and improving brand awareness to new highs. However, this strong execution is being blunted by fewer births in China than we expected which is weighing on its growth.

Overall, we have increased Kingfish's exposure to defensive companies over the last 12 months, which has mitigated some of this headwind. We also remain positive about the companies doing it tough right now, they are operating effectively and taking share from competitors. This bodes well for when the headwinds abate.

Fisher & Paykel, Infratil's Longroad Energy, and Vista showcased their businesses in the US

Three portfolio companies with meaningful US businesses hosted investor days in short succession in September. It is always beneficial seeing a company's business in action and speaking at length with a wide range of people from different areas of the business on long-term perspectives.

Longroad has the opportunity to develop a portfolio of renewable electricity projects in the US, largely solar farms with battery storage. Its highly capable and aligned team have developed a large pipeline of development projects. By building this out, Longroad expects to grow operating earnings threefold to around US$600 million. The Infratil team has also proven it is adept in supporting and crystallising value from these types of platforms.

The **Fisher & Paykel Healthcare** (FPH) investor event coincided with the official opening of its third manufacturing building in Mexico. A highlight was observing the culture of the team and focus on continuous improvement. Its people, or 'collaborators' as they are referred to internally, showcased the company's Business Excellence Model, with thousands of small projects annually contributing to improvement. The company expects it will lift gross margins back towards its target of 65%, which has been achieved previously. A 'symposium' style discussion with a number of clinicians demonstrated it has a remaining long runway for adoption of its Optiflow nasal high flow therapy in hospitals in the US, in multiple areas of the hospital. This included citing superior patient outcomes, a reduced need to escalate patients to intensive care, and reducing healthcare costs. Overall, the event re-emphasised the high quality of the FPH business and long-term growth trajectory it is on.

Weakness in FPH's share price during the quarter (–12%) was partly due to growing hype around an emerging class of weight loss drugs that could revolutionise the treatment of obesity. For FPH the specific concern is that reduced obesity rates would reduce the longer-term growth potential for its obstructive sleep apnea (OSA) masks business, which is the smaller part of the group behind Optiflow. We remain positive on the growth outlook for FPH's OSA business. OSA remains a large and underpenetrated market today, with diagnosis rates thought to be less than 20%. Obesity rates have been increasingly globally, for instance the 42% of US adults who are obese is expected to grow to 49% by 2030. Many patients will not see enough improvement in their condition through weight loss drugs alone to avoid using an OSA mask. These factors will likely see the addressable market continue to grow at healthy rates after factoring in an impact from weight loss drugs. We also expect that the FPH team can continue to grow its share in masks from a relatively low base.

Cinema software business **Vista** (–17%) reiterated the ongoing recovery of the cinema industry it is witnessing. There was also an emphasis that industry participants will continue to modernise their software technology, with two industry perspectives adding some context. The company reiterated its 2025 aspirations and provided some new detail to illustrate the progress towards these targets. While the company remains confident of its targets, it is clear investors are wanting to see more evidence to build confidence in its execution, hence the softer share price. Management will need to demonstrate progress in the form of 'runs on the board' to see investor confidence match its own.

Matt Peek
Portfolio Manager
Fisher Funds Management Limited
13 October 2023

[1] Share price discount to NAV (including warrant price on a pro-rated basis and using the net asset value per share, after expense, fees and tax, to four decimal places).

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER

SUMMERSET	MAINFREIGHT	FISHER & PAYKEL HEALTHCARE	THE A2 MILK COMPANY	VISTA GROUP
+8%	–8%	–12%	–15%	–17%

PERFORMANCE

as at 30 September 2023

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	(3.2%)	+0.1%	+7.9%
Adjusted NAV Return	(5.1%)	+0.4%	+6.2%
Portfolio Performance			
Gross Performance Return	(4.9%)	+1.7%	+8.2%
S&P/NZX50G Index	(5.2%)	(1.3%)	+3.9%

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 percentage change in the adjusted NAV value,
- 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 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 kingfish.co.nz/about-kingfish/kingfish-policies.

PORTFOLIO HOLDINGS SUMMARY

as at 30 September 2023

LISTED COMPANIES	% Holding
Auckland Intl Airport	8.6%
Contact Energy	7.2%
Delegat Group	2.3%
EBOS Group	4.7%
Fisher & Paykel Healthcare	14.6%
Freightways	3.1%
Infratil	17.6%
Mainfreight	15.0%
Meridian Energy	2.0%
Port of Tauranga	2.6%
Ryman Healthcare	4.5%
Summerset	7.9%
The a2 Milk Company	3.1%
Vista Group International	3.4%
Vulcan Steel	1.1%
Equity Total	**97.7%**
New Zealand dollar cash	2.3%
TOTAL	**100.0%**

COMPANY NEWS

Dividend Paid 22 September 2023

A dividend of 2.79 cents per share was paid to Kingfish shareholders on 22 September 2023 under the quarterly distribution policy. Interest in Kingfish's dividend reinvestment plan (DRP) remains high with 40% 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.

FOREIGN TAX COMPLIANCE ACT (FATCA) AND COMMON REPORTING STANDARD (CRS)

As a result of the New Zealand Government agreeing to participate in the exchange of information with other jurisdictions under the Foreign Tax Compliance Act (FATCA) and Common Reporting Standard (CRS), Financial Institutions are required to undertake due diligence to determine the account holders' jurisdiction of tax residence. If shareholders have not previously self-certified, they will receive a Tax Residency Self-Certification form from Computershare depending on when they first purchased their securities. Please ensure you complete and return this important document if you have not already done so. For more information please visit the IRD website: ird.govt.nz/international-tax/exchange-of-information/crs/registration-and-reporting or contact Computershare if you are unsure of whether you have completed your form.

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