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Kingfish Limited Annual Meeting

Chair's Address from Alistair Ryan

[Slide: Kingfish Limited Annual Meeting of Shareholders]

Welcome to the 16th Kingfish Annual Meeting of Shareholders and indeed the first virtual meeting of shareholders.

Unfortunately we are not able to meet in person this year and we have had limited time to switch from a physical meeting to a virtual meeting. We have had to move quickly to recalibrate the meeting and I trust that all the technology and other aspects will work well for all of us today.

An annual meeting is an important event in a company's calendar and we are committed to making sure this online version of our meeting is as close to the in-person meeting as we can get. Inevitably the online format is different to the in-person meeting format but, on the upside, the online option will have enabled many shareholders, who would otherwise not have been able to be in Auckland, to attend this year's meeting.

Let me introduce myself. I am Alistair Ryan, Chair of Kingfish.

We are duly convened as a notice of meeting has been circulated to shareholders and I can confirm that a quorum is present on line so I can declare the meeting open.

[Slide: Introductions]

Directors Carmel Fisher (on my left) and Carol Campbell (second on my right) and our portfolio manager Sam Dickie (on my immediate right) are participating in this telecast in person with me today, and we have director Andy Coupe and Investment Analyst Matt Peek on line.

Andy is based in Tamahere in the Waikato so is prohibited from travelling to Auckland to join us in the Fisher boardroom for this meeting.

I would like to thank Fisher Funds for making their boardroom available to us for this presentation today.

Also connected to this meeting are representatives from our share registrar, Computershare, auditor, PricewaterhouseCoopers, our tax agent, Deloitte and our legal advisors, Bell Gully.

[Slide: Agenda]

The agenda for today.

Firstly preliminary matters:

- The minutes of the 2019 annual shareholders' meeting held on 31 July 2019 are available on the Kingfish website.
- The 2020 annual report has been circulated to shareholders – and can be found on the Kingfish website.

Today I'll give a brief update on the Kingfish 2020 financial year, and then Kingfish's Senior Portfolio Manager, Sam Dickie will review the Kingfish portfolio.

After the Manager's Review, we will have a Q&A session, and will then move to the formal business of the meeting. There are two resolutions for you to consider and vote on today, which are as set out in the notice of meeting.

[Slide: Online Attendees – Question Process]

Before we start though, a bit of guidance on how to submit any questions.

You should be able to see a Q&A icon at the top centre of your screen.

To send in a question, simply click in the "Ask a Question" box, type your question and press the send arrow.

Your question will be sent immediately to us.

This method won't allow you to take into account any questions already asked, as would be the case normally at a physical meeting. Because of this Wayne Burns, our Corporate Manager, is on hand and will be consolidating any duplications and overlaps so that we don't end up with an inefficient sequence of questions covering much the same topic or issue.

We've set aside a time at the end of the two presentations for general questions relating to the operations and management of the business.

For today's meeting, you can submit your questions at any time during the meeting – up until we close the questions session.

Questions relating to the two resolutions will be dealt with in conjunction with each of those resolutions.

To facilitate this, being our first online ASM, can we ask that shareholders limit themselves to a maximum of two questions please.

We'd also like to point out that general shareholder questions, not covered at this meeting, can also be sent to the company via the website via enquire@kingfish.co.nz and we will endeavour to answer them as they are received.

[Slide: Chair's Overview]

It is my pleasure to again present the Chair's Overview at this meeting.

And it was certainly a turbulent period of ups, downs and ups.

As Kingfish shareholders we gained strongly up until the middle of February, with the Kingfish share price reaching \$1.76 on the 20th of February, then we dropped rapidly and significantly to \$1.05 on 23 March. These were volatile and uncertain times. One could even use the word "unprecedented".

But all of that is starting to feel like a somewhat distant memory now (hopefully), with share price all but back to the 20 February record high point, closing last night at \$1.68.

This April 2019-August 2020 period has definitely been a twist on the popular adage of a game of two halves.

If we think of the last 16 plus months from April last year to now, it was certainly a sequence of three distinct phases, one of strong and consistent upwards growth, followed by two months of a very sharp correction, followed by a steady and almost complete recovery of the ground lost in February and March.

As shareholders are well aware, markets can be volatile especially over short periods and this was certainly the case this year. And they may, of course, prove to be again. The future is pretty unclear at the present time.

Somewhat unfortunately for Kingfish with a 31 March balance date, two of the three phases fell in FY20 but the third, the recovery phase, occurred in the current year as we moved into FY21.

This 31 March financial year cut-off shows in our adverse result for the 12 month period but I am sure shareholders will be taking a less clinical and time-bound view of the underlying performance of their portfolio. I'm sure many of you will keep that accident of financial year timing in mind as we move through today's agenda.

As Kingfish shareholders, we started the FY20 financial year on 1 April 2019 at a share price of \$1.37, but during the subsequent 16 month period until last night's closing, we have seen our share price rise 31 cents to \$1.68, we have received 5 quarterly, tax-effective dividends totaling just under 16 cents per share, and we had the opportunity to buy additional shares in Kingfish in July last year via the warrants programme, at \$1.25.

All of this this translates to a net gain (allowing for one warrant for every four shares) of 57 cents on a starting position of \$1.37.

This is an excellent return for shareholders in what could best be described as a period of significant market instability.

And it clearly demonstrates how well the Kingfish portfolio is constructed and managed, based on a rigorous and robust investment approach, which has held your investment in good stead during the last 16 months.

So let's have a quick review of our investment objectives.

[Slide: Kingfish's Investment Objective]

As directors, and managers, we typically start our annual meetings with a quick reminder of what we are here to achieve, being

- to achieve a high real rate of return, comprising both income and capital growth, within risk parameters acceptable to the directors; and
- to provide access to a diversified portfolio of New Zealand quality, growth stocks through a single tax-efficient investment vehicle.

In respect of both objectives, in the context of the comments I have just made relating to the period April last year until now, the directors are pleased to validate that our two fundamental investment objectives have been met and are being met consistently, year on year.

[Slide: Kingfish's Corporate Governance]

Turning now to corporate governance...

The board is committed to strong governance principles and to overseeing the Manager's portfolio performance on behalf of shareholders.

In a normal year the board generally meets formally six times per annum, plus other meetings as required, but during the initial period of the COVID-19 crisis, when market volatility was at its peak (March and through April 2020), the board scheduled a number of additional meetings with the Manager to check that appropriate risk management processes and procedures, including rigorous application of the STEEPP process, were being adhered to.

These additional meetings enabled the board to monitor and closely oversee the portfolio management process undertaken by the Manager as part of its mandated approach.

In addition to the special meetings referred to above, the Investment Committee meets twice a year, on a six monthly basis, to hear from the Manager about what has gone well and what has disappointed, and to engage in a comprehensive review session covering key performance metrics, some of which we will go through on the following slides.

The Kingfish Audit and Risk Committee generally meets twice a year, on a six monthly basis, to review the company's financial reporting, internal controls and risk management systems, and to meet with the external auditor and receive their report on both the interim and year end accounts.

The Kingfish 2020 result was announced in June, but I'll highlight some of the key performance measurements on the next slide, and Sam will discuss the underlying performance in his presentation.

[Slide: 2019 Overview]

- As already mentioned the Kingfish year end at 31 March 2020 coincided with what can now be seen as the then low point in the NZ sharemarket's reaction to the first phases of the COVID-19 pandemic
- At the end of January 2020 Kingfish was on track for a record year with NPAT of \$62m, however just two months later almost all of those previous gains had been eroded, with net profit ending up at just \$1.7m, well below the strong net profits of previous years and the \$47.1m recorded for the 2019 financial year
- We will come to the summary of the first four months of the FY21 year shortly and shareholders will see that the profits lost in February and March have been more than retrieved in the subsequent months
- The return ratios inevitably reflect the impact of the February/March downturn period but we are pleased to point out that we maintained our quarterly sequence of dividends despite the turmoil. We were able to maintain our dividends and that remains our clear intention

[Slide: 2019 Overview - Continued]

This chart compares

the Adjusted NAV return, (the net return to an investor after expenses, fees and tax), and the gross performance return (the return before expenses, fees and tax), to the benchmark index return over the periods of 1, 3 and 5 years.

While returns were down for the most recent financial year, compared to previous periods, the Kingfish portfolio has consistently matched or bettered the benchmark index.

Sam will discuss the New Zealand sharemarket dynamics and how the portfolio performed shortly in the Manager's Review.

[Slide: Basic and Diluted Earnings per Share]

- Given the increase in the number of shares through the warrants and dividend reinvestment programmes, it is pleasing to note the growth in Earnings per Share through FY16 to FY19
- The sharemarket downturn at the end of the 2020 financial year inevitably had a dramatic impact on the FY20 earnings per share, reporting at only 0.75 cps - an historically unusual, but what has proved to have been a temporary result at least this far into FY21
- Yet again, a potent reminder of how variable sharemarket returns can potentially be and the degrees of volatility that equity markets can experience from time to time

[Slide: Use of Shareholder Funds]

Turning now to Shareholders' Funds

Despite the chaos of the last two months of FY20, this chart shows the Kingfish NAV of \$310m (as at 31 March 2019) increased by a net \$35m to \$345m (as at 31 March 2020).

The movements during the year as represented by the blue and yellow columns were:

- plus \$1.7m net profit,

And movements due to capital management initiatives:

- Warrant funds invested of \$52m
 - less \$29m dividends paid, but adding back \$11m for dividends reinvested by shareholders, and
 - less \$0.6m for buybacks.

[Slide: First four months, FY 2021]

The first four months of the new financial year show the significant NZ sharemarket rally post the COVID-19 pandemic and lockdown sell-off.

This chart clearly shows that the Kingfish portfolio has performed strongly over the last quarter in particular.

This slide provides a snapshot of the first four months of the current financial year to 31 July 2020:

- Total shareholder return for the quarter was +34% - driven by the share price increasing from \$1.29 (31 March) to \$1.69 (31 July).
- As at 30 July, the NAV per share was \$1.73 (\$1.39 as at 31 March) – an increase of 34 cents in four months and after a dividend of 3.06 cents per share paid on 26 June.
- The adjusted NAV return for the first four months of the 2021 financial year was +26.9% (which represents the net return to an investor after expenses, fees and tax).
- This performance to date, translates to a net profit of \$92.6m for the four months to 31 July.
- In assessing the YTD Net Profit of \$92.6m, it is appropriate to consider the 16 month period since 1 April last year which would annualise at approx \$69m. FY20 was adversely impacted by COVID crisis impact in February/March and FY21 YTD has benefitted from the subsequent recovery from that low point.

[Slide: Warrants]

Kingfish has an ongoing warrant programme as part of its overall capital management programme.

The last warrant issue exercised in July last year and in March this year, a further warrant issue was initiated.

In March Kingfish issued 62m new warrants to shareholders. These warrants have an exercise date of 12 March 2021.

The exercise price is set at \$1.64, less four dividends. Two dividends totalling 6.3 cents per share have already been declared and paid, and it is expected that two further dividends (probably in the order of 3 cents each, making approximately 12 cents for the year) will occur and be deducted, in order to arrive at the final exercise price for the warrants.

The 2020 warrants represent a potential gain for shareholders at the anticipated/final exercise price, but that will, of course, depend on the share price at the exercise date in March next year.

It is worth noting that the previous warrant issue, (exercised in July 2019), saw \$52m of new funds invested into the Kingfish portfolio, with 87% of the 48m warrants exercised.

Closing remarks

In closing, on behalf of the Board, thank you shareholders for your continued support of Kingfish. I will now hand over to Sam Dickie, Senior Portfolio Manager of Kingfish.

ENDS