



QUARTERLY NEWSLETTER

1 April 2021 – 30 June 2021

Share Price

\$2.02

KFL NAV

\$1.76

PREMIUM¹

14.6%

as at 30 June 2021

To long-term investors, most market information is noise

The market is easily distracted by short-term effects and confused by an ever-growing tide of data. The real skill is in filtering valuable information out of market noise – and using that information to guide a longer-term view.

Twenty years ago, information was scarce. Back then, investors who could get the right information had a real advantage. Today, investors often have far too much market information.

Two of our larger positions during the quarter reminded us not to get distracted by market noise. The management of Fisher & Paykel Healthcare and Auckland Airport think long-term.

We bought Fisher & Paykel Healthcare when the market over-reacted to negative news

Fisher & Paykel Healthcare's Optiflow technology became the global standard for treating COVID last year. Demand for Optiflow surged. However, for the last 15 months, the market has been desperately trying to pre-empt and price the end of that surge. The market thought it saw the end of the surge in May, when the company delivered weaker-than-expected results, and an uncertain short-term outlook saw the share price fall by 15%.

To us, a key attraction of the company is its exceptionally long runway for growth. Around 50 million acute respiratory-illness patients a year would benefit from the Optiflow product. With Optiflow currently treating less than 10 million patients, we believe there is capacity to serve more. Investors who focus on the short-term, post-COVID slowdown in demand, may end up limiting their potential participation in this forecast runway for growth.

We bought more Fisher & Paykel Healthcare stock when the market's knee-jerk reaction to short-term noise made the price attractive.

Auckland Airport investors looked to the long-term despite negative news

Recent negative news included the stop-start trans-Tasman bubble, the pending departure of CEO Adrian Littlewood, and near-term earnings downgrades. Despite these short-term headwinds, the stock is broadly in-line with where it was at the end of March 2021, helped by news of a take-over bid for Sydney Airport. This is encouraging because it means investors are focusing on the long-term picture. We will travel again and when you own a long-life, critical infrastructure asset, looking at the long-term picture is exactly the right thing to do.

Other portfolio news

a2 Milk has rallied almost 40% from its intra-quarter lows

a2 Milk has experienced a volatile share price over the quarter, as challenges with distribution and pricing influenced share price valuations. Product pricing on key online platforms recovered from recent lows, and its sales rankings on major e-commerce platforms, Tmall and JD.com are at similar levels to last year.

We have been expecting to see this recovery for some time, but we want to see signs that the recovery will be sustained. These positives followed another disappointing earnings downgrade during the quarter and the unexpected departure of Peter Nathan, leader of the Asia-Pacific business.

Mainfreight outperformed again and delivered a strong 2021 result

Sales and profit growth accelerated strongly in the second half of the financial year, especially in Europe and the US. The company is continuing to 'fatten' its network, driving higher line-haul utilisation, and opening new warehouses – which helps win new customers.

The business is expanding geographically with the new Air & Ocean freight-forwarding branches becoming profitable and growing the company's freight flows. Momentum has continued into the 2022 financial year.

We upgraded our target weight during the quarter. The business is executing well against its strategy and remains a high-conviction position.

Infratil announced it was buying Pacific Radiology Group

Pacific Radiology is New Zealand's largest provider of diagnostic imaging with 46 clinics and 90 radiologists. This is Infratil's second investment in diagnostic imaging, after acquiring Qscan late last year. The investment thesis is based on strong industry growth dynamics.

Once the proceeds are received from the sale of Tilt (expected 3 August), Infratil will be in a position to buy more companies in the Australasian diagnostic imaging industry.

Summerset Group reported strong quarterly sales and best-ever resales figures

The company appointed Mark Verbiest as Chairman and Will Wright as CFO during the quarter.

Ryman Healthcare lost its CEO and we reduced our target weight

The company announced that Gordon McLeod, a company veteran of 14 years, including almost 5 years as CEO, was resigning. We are disappointed with Gordon's departure, as he has been an inspirational leader and leaves without a plan in place for a successor.

We reduced our target weight in Ryman during the quarter.

NZ still underperforming global markets

This quarter the New Zealand share market was again one of the worst performing markets among the developed countries. Four factors drove this poor performance. First, the economy underperformed. Second, 10-year bond rates nearly doubled. Third, the NZX50 has five times more defensives – companies sensitive to interest rates – than other global markets. Finally, few New Zealand companies can be classified as cyclical or reopening plays.

Sam Dickie
Senior Portfolio Manager
15 July 2021



¹ Share price Premium to NAV (using NAV to four decimal places).

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER

CONTACT ENERGY	FREIGHTWAYS	RYMAN HEALTHCARE	PUSHPAY	A2 MILK COMPANY
+18%	+12%	-13%	-13%	-25%

PERFORMANCE as at 30 June 2021

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+8.3%	+26.2%	+20.2%
Adjusted NAV Return	+1.7%	+16.5%	+15.7%
Portfolio Performance			
Gross Performance Return	+1.9%	+19.7%	+18.5%
S&P/NZX50G Index	+0.7%	+12.3%	+12.9%

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 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 at <http://kingfish.co.nz/aboutkingfish/kingfish-policies/>.

COMPANY NEWS

Dividend Paid 25 June 2021

A dividend of 3.60 cents per share was paid to Kingfish shareholders on 25 June 2021 under the quarterly distribution policy. Interest in Kingfish's dividend reinvestment plan (DRP) remains high with 41% 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. All shareholders will have received 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: <https://www.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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PORTFOLIO HOLDINGS SUMMARY as at 30 June 2021

LISTED COMPANIES	% Holding
Auckland Intl Airport	8.8%
Contact Energy	4.9%
Delegat Group	3.2%
Fisher & Paykel Healthcare	14.9%
Freightways	4.0%
Infratil	15.3%
Mainfreight	19.6%
Meridian Energy	0.9%
Port of Tauranga	2.3%
Pushpay Holdings	1.5%
Ryman Healthcare	4.6%
Summerset	8.6%
The A2 Milk Company	4.1%
Vista Group International	4.1%
Equity Total	96.8%
New Zealand dollar cash	3.2%
TOTAL	100.0%