KINGFISH
LANDING TOMORROW'S TROPHIES

QUARTERLY NEWSLETTER

1 April 2024 – 30 June 2024

Share Price	Warrant Price	KFL NAV	DISCOUNT[1]
$1.17	$0.00	$1.31	10.6%

as at 30 June 2024

In the June quarter Kingfish delivered a gross performance return of -0.2% and an Adjusted NAV return of -0.5%, versus the -3.2% return of the S&P/NZX50 gross index.

The quarter's performance was led by **Fisher & Paykel Healthcare** (+19% total return in the quarter) following strong results and cinema software provider **Vista** (+13%) after Australian private equity firm Potentia emerged with a 19.9% shareholding. It also saw another solid return from **Infratil** (+4%) and strong performance from **Meridian Energy** (+6%) and **Contact Energy** (+4%).

Detractors from performance included wine maker **Delegat** (-20%), which announced a low 2024 harvest outcome. **Summerset** (-17%) declined as the New Zealand broader housing market remained soft through the quarter as did **Ryman** (-22%).

These have been discussed in previous monthly updates, with limited new news in June.

The local economic environment has not yet improved

As 2024 has played out it appears New Zealand economic data have not improved and the negative updates from New Zealand companies came thick and fast during the quarter.

Many of the most acutely impacted companies are those that rely heavily on discretionary consumer spend. During the quarter, retailers generally released weak trading updates that underwhelmed already low expectations. This resulted in savage share price reactions: The Warehouse in general merchandise (-33% total return), outdoors apparel retailer Kathmandu (-36%), and Michael Hill in jewellery (-32%). Other consumer facing companies have seen similar weakness including casino operator Sky City (-30%), Air NZ off the back of weaker than expected domestic travel (-12%), and campervan rental company Tourism Holdings (-44%), particularly in relation to sales of ex-fleet vehicles.

Cyclical companies relying on customers making large capital investments have also been impacted. Fletcher Building (-31%) has seen building activity come in lower than expected. Metals distributor Steel & Tube (-17%) saw a deterioration in its activity levels. Telecommunications company Spark (-13%) even provided an unexpected profit downgrade, largely due to unexpectedly low demand in IT services from government and enterprise customers restraining spending.

Fortunately none of the aforementioned are Kingfish portfolio companies.

The direction of travel is still concerning. The Warehouse's update for sales to be down 6-7% in its current financial year implies the June quarter will be down even more, around 10%. A notable business survey out late June suggested the net proportion of businesses concerned about consumer demand has increased sequentially month on month every month this year to a net 56% of respondents, from 41% in December 2023 and 47% in March. In another survey, businesses' activity in the June quarter was notably much more negative than the March quarter. Interestingly, on balance many companies are increasingly looking to cut prices over the coming year to stimulate demand (versus raise prices to recover inflationary pressures), which may finally be the sign the Reserve Bank needs to depart from its hawkish rhetoric and cut interest rates.

In terms of portfolio companies, the most acutely impacted from the New Zealand economy include **Vulcan Steel** (-23% in the quarter), **Freightways** (-13%), **Port of Tauranga** (-13%), and **Mainfreight** (-3%). We still think their business models will perform well longer term, and they are in fact performing credibly compared to other consumer and cyclical exposed companies in the broader New Zealand market mentioned earlier. We did reduce our position in Mainfreight modestly as we now think it will take the company longer to crack Transport in the US market than previously. However, the balance of the business is performing satisfactorily, and ongoing market share gains in Australia are particularly encouraging.

Offshore focused companies with tailwinds were the biggest gainers (again)

Again, the brightest spots in the portfolio are companies exposed to structural growth trends, primarily outside New Zealand.

Fisher & Paykel Healthcare (+19%) provided maiden revenue and net profit guidance for its new financial year in line with expectations for strong growth. All key areas of the business are demonstrating momentum. Anaesthesia (off a small base) and Obstructive Sleep Apnea masks in particular are delivering outstanding growth. The outlook is further supported by management's confidence in a strong pipeline of new product development.

During June, **Infratil** (+4%) raised $1.15 billion to fund organic investment opportunities in its portfolio, with the majority earmarked for Australian-based CDC Data Centres. CDC has won the confidence of large government and hyperscale customers (the likes of Microsoft), which has led to its built capacity doubling every 2 years or so. CDC expects to sign contracts on 400MW+ of capacity in the near term. Best-in-class water cooling systems and modular design make CDC well placed to support new Artificial Intelligence workloads, which is a key driver of this growth. A new Sydney site at Marsden Park will deliver around 720MW of capacity when fully built, making it one of the largest data centres globally. CDC has been part of Infratil's portfolio since 2016 and has increased in value ten-fold over this period.

The saga concludes: long-awaited certainty for the NZ electricity industry

On 31 May, electricity companies **Meridian Energy** (+6%) and **Contact Energy** (+4%) announced that they had signed long term agreements to supply power to the Tiwai Point aluminium smelter. The smelter's long-term future has been in doubt after owner Rio Tinto announced it was planning to shut down back in July 2020. The new contracts are for 20 years and mean the companies will likely be able to commit to a higher level of dividends, supported by the certainty of higher earnings. The contracts also provide for 'demand response', whereby Meridian and Contact can require the smelter to reduce production to free up electricity when needed most and when they are able to sell at high prices. Overall, the deal was widely expected given the smelter's financial position has improved vastly from 2020, but nonetheless a positive for the companies as the tail risk of an unexpected shut down has been removed.

[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).

Reporting on the effects of climate change on Kingfish

Kingfish will soon be publishing climate-related disclosures, helping investors understand the current and future impact of climate change on their investment. The first Kingfish Climate Statement for the 31 March 2024 financial year will be published on the Kingfish website (kingfish.co.nz) around the end of July.

Matt Peek
Portfolio Manager
Fisher Funds Management Limited
12 July 2024

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER

FISHER & PAYKEL HEALTHCARE	SUMMERSET	DELEGAT GROUP	RYMAN HEALTHCARE	VULCAN STEEL
+19%	-17%	-20%	-22%	-23%

PERFORMANCE
as at 30 June 2024

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	(4.4%)	(9.4%)	+5.3%
Adjusted NAV Return	(0.5%)	(1.7%)	+5.4%
Portfolio Performance			
Gross Performance Return	(0.2%)	(0.4%)	+7.3%
S&P/NZX50G Index	(3.2%)	(2.5%)	+2.2%

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 June 2024

LISTED COMPANIES	% Holding
Auckland Intl Airport	8.9%
Contact Energy	8.1%
Delegat Group	1.4%
EBOS Group	7.4%
Fisher & Paykel Healthcare	17.4%
Freightways	2.9%
Infratil	18.2%
Mainfreight	11.3%
Meridian Energy	1.6%
Port of Tauranga	2.4%
Ryman Healthcare	2.0%
Summerset	7.3%
The a2 Milk Company	3.3%
Vista Group International	5.2%
Vulcan Steel	1.0%
Equity Total	**98.4%**
New Zealand dollar cash	1.6%
TOTAL	**100.0%**

COMPANY NEWS
Dividend Paid 27 June 2024

A dividend of 2.65 cents per share was paid to Kingfish shareholders on 27 June 2024 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.

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