KINGFISH
LANDING TOMORROW'S TROPHIES

QUARTERLY NEWSLETTER

1 July 2024 – 30 September 2024

Share Price	KFL NAV	DISCOUNT[1]
$1.26	$1.41	10.9%

as at 30 September 2024

In the September quarter Kingfish delivered a gross performance return of +10.5% and an adjusted NAV return of +10.1%, versus the +6.0% return of the S&P/NZX50 gross index.

There were several solid contributors, with holdings exposed to the local economy responding positively to the Reserve Bank of New Zealand's first interest rate cut. In addition, the quarter saw strong performance again from **Fisher & Paykel Healthcare** (+16% total return) and cinema software provider **Vista** (+20%) off the back of positive trading updates. **Infratil** (+10%) and **EBOS** (+15%) both performed well. Detractors from performance this quarter were **a2 Milk** (-6%) and **Contact Energy** (-7%).

Across the New Zealand market, despite the plethora of economic data and anecdotes suggesting difficult trading conditions have continued through the year, on balance earnings figures still managed to disappoint and saw forward expectations lowered.

All of Kingfish's portfolio companies provided updates in the quarter, either through financial results delivered in August or trading updates around annual meetings. The good news was that on balance the portfolio companies are performing well. Many of these updates were covered in detail in last month's update, which is worth re-reading as there are too many to cover again here.

There is renewed optimism despite challenging economic conditions persisting

As we discussed last quarter, the economic data has not improved as 2024 has progressed, in fact it has worsened. However, during the quarter share prices rebounded as investors became more optimistic the economic outlook may improve in the next year. In July, the Reserve Bank of New Zealand (RBNZ) noted inflationary pressures are subsiding and then followed through in August by cutting interest rates by a quarter of a percent and foreshadowing further cuts.

Companies across the market that would benefit from a stronger New Zealand economy saw their share prices lift. This extended to several in the portfolio, such as **Port of Tauranga** (+26%) courier company **Freightways** (+20%), steel distributor **Vulcan Steel** (+17%), and trucking and logistics company **Mainfreight** (+5%).

In addition, retirement operators **Summerset** (+28%) and **Ryman** (+21%) benefited as the RBNZ cuts enable lower mortgage rates, with the potential to breathe life into the housing market. A tougher environment for vendors has meant residents are having a harder time selling the family home in advance of moving in, which has forced the operators to reduce their build rates to conserve cash and match unit deliveries to demand. The business model also sees greater value accrue to operators in a rising housing market, as vacated units can be resold at higher prices. In addition, listed retirement operator peer Arvida (circa +80%) saw a board-endorsed takeover approach at a material premium, which illustrates that share prices in the sector had become overly pessimistic, with private investors willing to pay much higher prices by taking a longer-term view.

Ryman provided two positive updates during the month. Early in September, it announced a business improvement programme. The company is recalibrating its fees to residents to more sustainable levels, commensurate with its quality offering, which will improve financial performance. It is also restructuring its team to operate more efficiently and following its decision to halt breaking ground on new villages until after it has delivered existing projects and recycled capital to reduce debt. Ryman also announced late in the month that it is appointing Naomi James as its new CEO. She has a sound track record, having assisted Refining NZ (now Channel Infrastructure) in successfully transforming from an oil refinery to a fuel import terminal. It is also pleasing to see she is appropriately incentivised to build value for shareholders. These updates reflect well on the new board and provide us with increased confidence in the future strategy and performance of the business.

In terms of the newfound optimism, we are not yet seeing tangible signs of stronger economic growth, but believe interest rate cuts were a necessary first step to seeing better conditions for our companies with local operations in 2025 and beyond.

The New Zealand share market sprung to life with share issues

Generally speaking, we prefer offers to fund compelling incremental growth opportunities. For instance, Infratil raised $1.275 billion in June to fund growth opportunities across its portfolio. Most capital is earmarked for its CDC Data Centres business, which is seeing strong demand growth, and every new dollar invested generates high rates of return. We were supportive, given the company's long term track record of investing wisely to create value, including at CDC.

In this vein, **Auckland Airport** (-1%) raised $1.4 billion to fund the development of its new integrated terminal. We were expecting an equity issue at some point, given the size of the overall project but were surprised by the timing and quantum of the raise. While there remains some debate around the finer details, there is no doubt the existing dated infrastructure is in need of a material upgrade and investors should be allowed a reasonable return on this investment. We participated, given its position as New Zealand's premier airport precinct.

Outside of the Kingfish portfolio, Synlait raised $218 million of new equity and Fletcher Building raised $700 million. Both were from a position of weakness, to repair overly indebted balance sheets while earnings are under pressure. While their shares have recently rallied from their lows as concerns around financial distress are alleviated for now, they have respectively returned -59% and -36% for calendar 2024. Both companies have a lot to prove having chequered track records of allocating capital into poor investments and allowing too much debt to accumulate on the balance sheet.

While not a share issue per se, **Contact Energy** (-7%) announced it plans to buy near pure-play hydro generator Manawa for around $2 billion, with Manawa shareholders (including Infratil in respect of its 51% stake) receiving a combination of Contact shares and cash. While the portfolio nicely complements Contact's hydro generation, it will need to execute well to deliver the anticipated portfolio benefits and cost savings to justify the price tag paid. The deal also means Contact is issuing a large number of shares to Manawa holders in lieu of needing to raise equity from existing shareholders, which dilutes

[1] Share price discount to NAV (using the net asset value per share, after expense, fees and tax, to four decimal places).

upside potential to existing Contact shareholders. The deal is subject to Commerce Commission approval and comes at an interesting juncture for the sector given recent media and political scrutiny. While it remains to be seen if the deal will get approval, it is also worth noting it is yet another high-value exit for Infratil, a significant position for Kingfish.

Matt Peek
Portfolio Manager
Fisher Funds Management Limited
11 October 2024

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER

SUMMERSET GROUP	PORT OF TAURANGA	RYMAN HEALTHCARE	FREIGHTWAYS GROUP	VISTA GROUP
+28%	+26%	+21%	+20%	+20%

PERFORMANCE
as at 30 September 2024

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+10.7%	(7.0%)	+6.8%
Adjusted NAV Return	+10.1%	(1.2%)	+7.5%
Portfolio Performance			
Gross Performance Return	+10.5%	(0.0%)	+9.3%
S&P/NZX50G Index	+6.0%	(2.2%)	+2.6%

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 2024

LISTED COMPANIES	% Holding
Auckland Intl Airport	9.8%
Contact Energy	6.1%
Delegat Group	1.4%
EBOS Group	7.3%
Fisher & Paykel Healthcare	17.9%
Freightways	3.2%
Infratil	17.0%
Mainfreight	10.7%
Meridian Energy	2.5%
Port of Tauranga	2.9%
Ryman Healthcare	3.1%
Summerset	8.4%
The a2 Milk Company	2.6%
Vista Group International	5.4%
Vulcan Steel	1.0%
Equity Total	**99.3%**
New Zealand dollar cash	0.7%
TOTAL	**100.0%**

COMPANY NEWS
Dividend Paid 27 September 2024

A dividend of 2.66 cents per share was paid to Kingfish shareholders on 27 September 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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