Quarter Update Newsletter

30 September 2019 – 31 December 2019

KINGFISH
LANDING TOMORROW'S TROPHIES

NAV	SHARE PRICE	DISCOUNT[1]
$1.65	$1.60	3.2%

as at 31 December 2019

Kingfish had a very strong quarter, with a gross performance return of +12.5% and an adjusted net asset value (Adjusted NAV) return of +11.0%, compared to the benchmark, which was up 5.2% for the quarter. Kingfish was up a staggering 38.9% gross performance return for the calendar year, (Adjusted NAV was up 33%) compared to the New Zealand market, which was up 30.4%.

The outperformance noted above is a meaningful difference and reflects our active management style: handpicking a small number of quality companies to invest in for the long-term.

One of the key attributes that we use to differentiate quality companies from the rest of the pack is the idea of a moat.

The difference a moat makes

A moat is an attribute of a business that makes it very hard to compete with. Not losing your customers to competition is a very good attribute to have!

A genuine moat is near impenetrable and ideally gets wider over time which drives long-term winners. No moat, a partial moat or the perception of a moat can drive long-term losers

The winners in the New Zealand share market in 2019 had wide moats. The losers did not.

The winners

Fisher & Paykel Healthcare's moat is based on over 50+ years of research and development it has tucked away. That is extremely difficult to replicate and was reflected in the release of the Vitera during the year - its new Obstructive Sleep Apnea (OSA) mask. Customers seem to love it. This helped the company upgrade their own earnings guidance three times in three months and reminded us that this company is a under-promiser and over-deliverer.

Despite an enormous amount of (often misplaced) concerns thrown at a2 Milk by the market such as regulatory risk, CEO selling shares, CEO change, lack of cost control and revenue scares, the company still managed to outperform a very strong NZ stock market in 2019. a2 Milk's moat is based upon the very strong brand it has built especially in China for its a2 Platinum infant milk formula. It is also based upon the extremely passionate and dynamic team of people that run and operate the company. Despite the disappointment of the short tenure of the last CEO, it is pleasing to see Geoff Babidge return to the driver's seat. Geoff was responsible for assembling and mentoring much of the relatively small and passionate team that continues to outmaneuver significantly larger companies. The recent AGM allayed a lot of the market's fears. Profit margins were re-upgraded (following a downgrade at the 2019 result in August) due to price

Notable Returns in the Quarter

SUMMERSET GROUP	FISHER & PAYKEL	RYMAN HEALTHCARE	PORT OF TAURANGA	PUSHPAY HOLDINGS
+34%	+29%	+24%	+23%	+20%

rises and stringent control of cost of goods sold. Secondly, sales growth of circa 30% for the 6 months ended December 2019 was better than analysts had feared.

When you have been developing high-quality retirement villages successfully for as long as **Ryman** and **Summerset** have, you are going to develop a huge amount of in-house expertise. The expertise to secure a large parcel of bare land in a high-quality location and shepherd it through the difficult process of consenting and turn out consistently high-quality apartments and integrated care facilities has created wide moats around these companies. And then to have the ability to replicate that process dozens of times in both NZ and Australia means the moats continue to widen.

Last month Ryman hosted an investor day in Melbourne which we attended. Awareness of Ryman in Melbourne is strengthening, resulting in strong demand for its product. The company is well positioned versus its Australian counterparts that don't cater to the increasing demand for a continuum of care model - independent retirement living all the way through to acute aged care and dementia care.

Mainfreight's moat is more obscure than most but is one of the most powerful of all. It is largely based on Mainfreight's culture and Mainfreight's people. And it was great to see Don Braid who lives, breathes and drives the highly successful culture awarded the executive of the decade by Deloitte!

The rest of the pack

Sky TV used to have a (near) monopoly in satellite delivery of Pay TV and had the most Pay TV subscribers in NZ. But we were reminded in 2019 that high market share is not necessarily a moat. Sky TV's technology is outdated, it is losing subscribers, it lost the cricket rights and couldn't show the Rugby World Cup. All of these contributed to another horror year.

Metro Performance Glass has no moat. Its earnings were downgraded another 20-30% this year as it continues to face competition from all angles and it lost key management.

Gentrack has elements of a moat via its high market share and strong software. But we were reminded that you are only as strong as your customers, especially when you have a fairly concentrated

[1] Share price discount/(premium) to NAV (using NAV to four decimal places)

customer base. The company was beleaguered by Brexit and its small, unprofitable UK electricity customers are under pressure. This saw analysts downgrade earnings by more than 50% during the year.

Comvita is the biggest honey producer in NZ and has a very strong brand. But those "moatish" elements are eroded by the reliance on horticulture which is the definition of relying on factors outside your control! The third poor honey harvest in a row and the departure of the CCO and CEO contributed to the company reporting a large and unexpected loss for the fiscal year.

Fonterra is one of the largest exporters of milk products globally. But scale alone is not a moat and the company reported a record annual loss last year.

The highest market share in corporatised dentists in Australasia was not enough of a moat for Abano. Despite being taken over during the year, the stock still underperformed the market by almost 40% in 2019.

Our relentless focus on owning companies with enduring competitive advantages or wide moats assisted us in generating a little over 800 basis points[1] of additional gross return in the 2019 calendar year.

Sam Dickie
Senior Portfolio Manager
20 January 2020

Performance
as at 31 December 2019

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+13.4%	+16.7%	+13.2%
Adjusted NAV Return	+11.0%	+18.8%	+14.6%
Portfolio Performance			
Gross Performance Return	+12.5%	+22.2%	+17.6%
S&P/NZX50G Index	+5.2%	+18.7%	+15.6%

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 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 to an investor who reinvests their dividends, and if in the money, exercises their warrants at warrant maturity date for additional shares.

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/about-kingfish/kingfish-policies/

Company News
Dividend Paid 19 December 2019

A dividend of 3.09 cents per share was paid to Kingfish shareholders on 19 December 2019 under the quarterly distribution policy. Interest in Kingfish's dividend reinvestment plan (DRP) remains high with 44% 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.

Portfolio Holdings Summary
as at 31 December 2019

LISTED COMPANIES	% Holding
Auckland Int Airport	4.5%
Delegat Group	3.4%
Fisher & Paykel Healthcare	13.5%
Freightways	5.1%
Infratil	9.3%
Mainfreight	13.3%
Meridian Energy	3.4%
Port of Tauranga	4.3%
Pushpay Holdings	1.7%
Ryman Healthcare	7.0%
Summerset	9.3%
The A2 Milk Company	15.4%
Vista Group International	5.2%
Equity Total	**95.4%**
New Zealand dollar cash	4.6%
TOTAL	**100.0%**

KINGFISH
LANDING TOMORROW'S TROPHIES

Kingfish Limited
Private Bag 93502, Takapuna, Auckland 0740, New Zealand
Phone: +64 9 489 7094 | Fax: +64 9 489 7139
Email: enquire@kingfish.co.nz | www.kingfish.co.nz

If you would like to receive future newsletters electronically please email us at enquire@kingfish.co.nz

[1] Calendar year gross performance return of +38.9% verses the Kingfish benchmark return of +30.4%