KINGFISH

LANDING TOMORROW'S TROPHIES

Monthly Update

October 2018

KFL NAV	SHARE PRICE	WARRANT PRICE	DISCOUNT[1]
$1.54	$1.39	$0.07	9.0%

as at 30 September 2018

A word from the Manager

Market Environment

New Zealand equities were up 0.4% in the month of September, with the usual performance dispersion amongst the various market sectors.

Telcos and utilities led the market's performance, helped in part by some offshore passive buying into quarter end. The Government's Electricity Price Review also came out during the month and stated there was no price gouging occurring within the wider electricity market which helped the utilities sector.

Notable underperforming sectors were consumer staples (-8%), and the Healthcare sector (-3%). Some of this was a give-up from last month's extraordinary performance, when we saw outstanding performance from the a2 Milk Company (+21%) and Fisher & Paykel Healthcare (+11%). The September decline in the a2 Milk Company (-11%) was influenced in part by the company's CEO selling more shares than the market expected, while the decline in Fisher & Paykel Healthcare (-8%) was partly due to their Investor Day in the US containing no real new news.

The Portfolio

The a2 Milk Company's contract manufacturer Synlait released its fiscal year 2018 result. Included in the result was some guidance regarding the canned infant formula volumes for FY19, which showed support for a2 Milk Company's volume growth outlook for FY19. Later in the month new CEO, Jayne Hrdlicka, shocked the market by selling all her newly-issued shares in the company as they vested. The shares were granted to her as compensation for similar entitlements she forfeited in her move from Qantas. It was reported that part of the sale was to pay a tax liability and the remainder of the sale of shares was for other prior commitments. We think the situation was poorly managed and communicated by the company with particularly poor optics. We do not believe there are any sinister implications regarding the performance of the company.

Michael Hill announced that its CEO, Phil Taylor, had resigned for health reasons and will be replaced by Daniel Bracken (on 15 November). Bracken is currently CEO of turnaround Australian retailer Specialty Fashion Group and has further retail experience with a number of prominent retailers in Australia and offshore, including Myer, The Apparel Group, and Burberry. Phil Taylor had significant experience with the business as CFO but had a short and difficult tenure as CEO, given the distraction of exiting the US and Emma & Roe businesses. Bracken's superior expertise as a retailer will be welcome in improving performance in the slimmed-down core business, although we are wary of expecting too much too quickly.

We have initiated a new position in **Pushpay**. Pushpay is a leading mobile payments and engagement provider. They have been a strong performer in the US where they broke new ground in the faith sector, being used by parishioners to make digital payments to their chosen church. They are seen as providing the best in class product and service, and their domain expertise combined with existing resources (both sales & research and development) gives us comfort that Pushpay will retain an edge over competitors. Pushpay is on track to reach breakeven on a monthly cash flow basis prior to the end of calendar 2018, with FY2019 on the cusp of EBITDA breakeven. Although Pushpay remains relatively early-stage, it is not unreasonable to expect that their revenue growth over the next three to five years will continue to compound at circa 30%+ p.a. The recent pull-back in share-price provided us an attractive entry point to initiate a small, nursery-sized position. We attended the investor day in the US during the month and were impressed by the depth of strength below senior management levels and have been especially impressed by the exceptionally strong customer feedback we have obtained from our independent checks.

Restaurant Brands announced it will not be renewing its Starbucks licence on expiry in October 2018 and the subsequent sale of its fixed assets and stock to local enterprise Tahua Capital for $4.4m. The outcome was well

[1] Share Price Discount to NAV (including warrant price on a pro-rated basis)

flagged to investors, with the company noting franchisor Starbucks Coffee International wanted further expansion and development of the brand, whereas following picking up in the brand in 1998, Restaurant Brands has pared its network over time from around 50 mostly unprofitable stores to 22 strongly performing stores around student and tourist hubs. The company had long noted that New Zealand's well established coffee culture had prevented the brand from having greater success. Restaurant Brands has several growth options with attractive returns on capital, so a licence renewal with a requirement to investment further capital at low or potentially even negative incremental returns was distinctly unattractive. That said, the ultimate sale price is a little worse than we expected although relatively immaterial from a valuation perspective.

Sam Dickie
Senior Portfolio Manager
Fisher Funds Management Limited

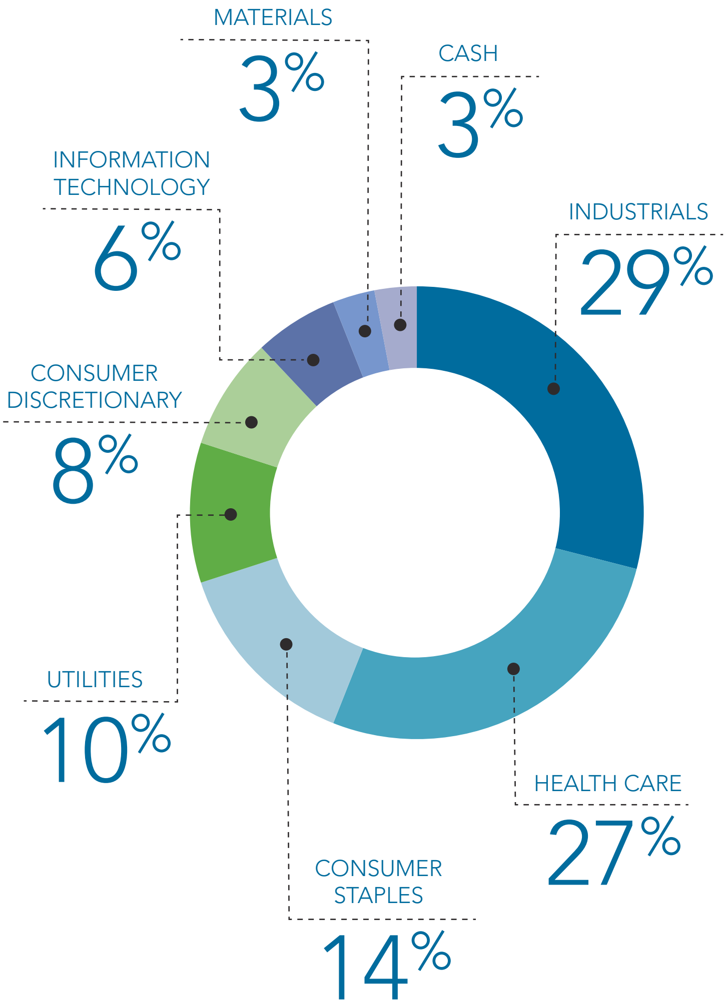
Key Details

as at 30 September 2018

FUND TYPE	Listed Investment Company
INVESTS IN	Growing New Zealand companies
LISTING DATE	31 March 2004
FINANCIAL YEAR END	31 March
TYPICAL PORTFOLIO SIZE	15-25 stocks
INVESTMENT CRITERIA	Long-term growth
PERFORMANCE OBJECTIVE	Long-term growth of capital and dividends
TAX STATUS	Portfolio Investment Entity (PIE)
MANAGER	Fisher Funds Management Limited
MANAGEMENT FEE RATE	1.25% of gross asset value (reduced by 0.10% for every 1% of underperformance relative to the change in the NZ 90 Day Bank Bill Index with a floor of 0.75%)
PERFORMANCE FEE HURDLE	Changes in the NZ 90 Day Bank Bill Index + 7%
PERFORMANCE FEE	15% of returns in excess of benchmark and high water mark
HIGH WATER MARK	$1.37
SHARES ON ISSUE	195m
MARKET CAPITALISATION	271m
GEARING	None (maximum permitted 20% of gross asset value)

Sector Split

as at 30 September 2018



September's Biggest Movers

Typically the Kingfish portfolio will be invested 90% or more in equities.

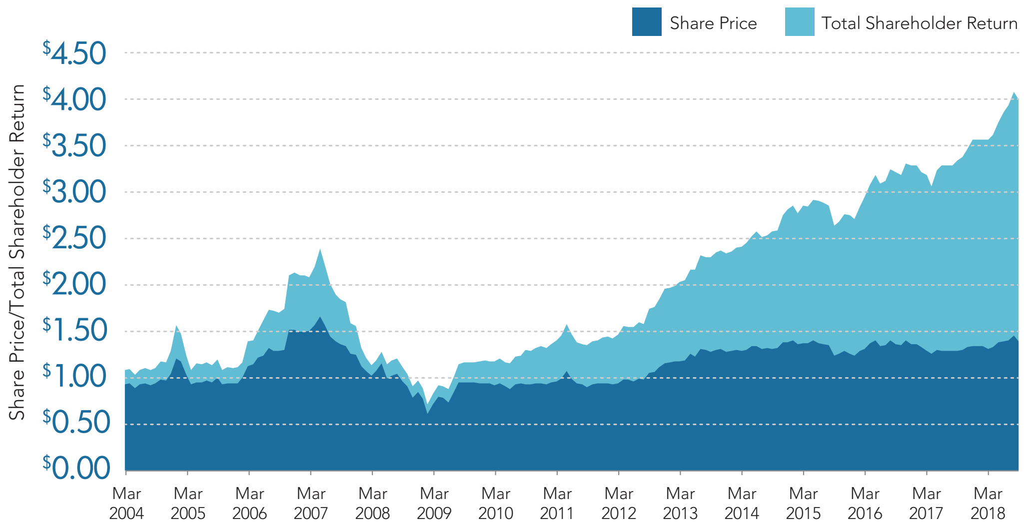
MAINFREIGHT	PUSHPAY	PORT OF TAURANGA	A2 MILK COMPANY	FISHER & PAYKEL HEALTHCARE
+7%	+6%	+6%	-11%	-8%

5 Largest Portfolio Positions as at 30 September 2018

FISHER & PAYKEL HEALTHCARE	MAINFREIGHT	THE A2 MILK COMPANY	FREIGHTWAYS	RYMAN HEALTHCARE
12%	11%	10%	9%	7%

The remaining portfolio is made up of another 12 stocks and cash.

Total Shareholder Return to 30 September 2018



Performance to 30 September 2018

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
Company Performance					
Total Shareholder Return	(2.0%)	+3.4%	+19.9%	+14.9%	+11.7%
Adjusted NAV Return	(0.6%)	+3.7%	+18.8%	+17.5%	+13.0%
Portfolio Performance					
Gross Performance Return	(0.5%)	+4.4%	+21.1%	+20.3%	+15.8%
S&P/NZX50G Index	+0.4%	+4.6%	+17.9%	+18.7%	+14.6%

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 fees and tax,
- » adjusted NAV return – the net return to an investor after fees and tax,
- » gross performance return – the Manager's portfolio performance in terms of stock selection, before 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 monthly update 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/

About Kingfish

Kingfish is an investment company listed on the New Zealand Stock Exchange. The company gives shareholders an opportunity to invest in a diversified portfolio of between 15 and 25 quality growing New Zealand companies through a single, professionally managed investment. The aim of Kingfish is to offer investors competitive returns through capital growth and dividends.

Management

Kingfish's portfolio is managed by Fisher Funds Management Limited. Sam Dickie (Senior Portfolio Manager), Zoie Regan (Senior Investment Analyst) and Matt Peek (Investment Analyst) have prime responsibility for managing the Kingfish portfolio. Together they have over 40 years combined experience and are very capable of researching and investing in the quality New Zealand companies that Kingfish targets. Fisher Funds is based in Takapuna, Auckland.

Board

The Manager has authority delegated to it from the Board to invest according to the Management Agreement and other written policies. The Board of Kingfish comprises independent directors Alistair Ryan (Chair), Carol Campbell and Andy Coupe; and non-independent director Carmel Fisher.

Capital Management Strategies

Regular Dividends

» Quarterly distribution policy introduced in June 2009

» Under this policy, 2% of average NAV is targeted to be paid to shareholders quarterly

» Dividends paid by Kingfish may include dividends received, interest income, investment gains and/or return of capital

» Shareholders who prefer to have increased capital rather than a regular income stream have the opportunity to participate in the company's dividend reinvestment plan (DRP)

» Shares issued to DRP participants are at a 3% discount to market price

» Kingfish became a portfolio investment entity on 1 October 2007. As a result, dividends paid to New Zealand tax resident shareholders have not been subject to further tax

Share Buyback Programme

» Kingfish has a buyback programme in place allowing it (if it elects to do so) to acquire up to 9.4m of its shares on market in the year to 31 October 2018

» Shares bought back by the company are held as treasury stock

» Shares held as treasury stock are available to be re-issued for the dividend reinvestment plan and to pay performance fees

Warrants

» On 2 July 2018, a new issue of warrants (KFLWE) was announced

» The warrants were issued at no cost to eligible shareholders and in the ratio of one warrant for every four Kingfish shares held

» Exercise Price = $1.37 per warrant, to be adjusted down for dividends declared during the period up to the Exercise Date

» Exercise Date = 12 July **2019**

» The final Exercise Price will be announced and an Exercise Form will be posted to warrant holders in June **2019**

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