KINGFISH
LANDING TOMORROW'S TROPHIES

Monthly Update
December 2018

KFL NAV	SHARE PRICE	WARRANT PRICE	DISCOUNT[1]
$1.42	$1.37	$0.04	3.2%

as at 30 November 2018

A word from the Manager

Market Environment

NZ equities stabilised in November after the sharp sell-off in October, with the S&P/NZX50G up 0.8%.

While the defensive characteristics of NZ equities generated slight outperformance vs global equities during the volatile October month, similarly NZ equities slightly underperformed the global equity market stabilisation/ rebound in November. Global equities were up 1.2% while emerging market equities were up 4%, having been the most harshly dealt with over recent months.

Unsurprisingly defensive sectors such as Telecommunications and Utilities, (sectors that typically do not suit our style) were the top performers in October. However, it was surprising to see the same defensive sectors (Telecommunication, Utilities and Real Estate) outperform the market again during the market stabilisation in November. The worst performing sectors during the month were Materials and Information Technology.

The Portfolio

The **a2 Milk** Company provided its AGM trading update reporting strong sales growth of +41% for the first four months of the financial year with EBITDA ahead of expectations, driven by higher than expected operating leverage and the deferral of marketing expenditure. The revenue outlook for the full year was for "strong revenue growth to continue but at a slightly more moderate rate". Shortly after the AGM the Chinese authorities announced the extension of the existing treatment of English label infant formula imported via the cross-border e-commerce channel, which is good news for a2.

Fisher & Paykel Healthcare delivered its first half 2019 result. The result was in line with prior guidance and the full year guidance remained consistent. The homecare division delivered slightly better than expected mask sales (+2%) despite having had no new respiratory masks launched for some time. The company stated that the next new mask would be launched in the 2019 calendar year, followed by further mask launches in 2019. The key value driver, (hospital consumables) continued to grow strongly (+22%) but overall hospital growth was held back by slow device sales as customers deferred capital expenditure on the legacy MR850[2] device while waiting for the updated F&P950[3] device to be rolled out. Overall, the result was in line with our expectations.

Fletcher Building downgraded its full year 2019 EBIT guidance at its November AGM from an implicit $684m to $630-680m, citing an outage at its cement plant, (circa $10m) but also weaker volumes and margins in Australia due to the soft residential market, which may compromise the company's prospect of an improved Australian result. New Zealand is performing as expected. These announcements came as a negative surprise for the market.

Infratil held an investor tour and analyst briefing late in the month where they reaffirmed the attractiveness of the Canberra Data Centres (CDC), and stated that the business was performing better than expected. Following recent contracting wins, CDC's existing facilities are now almost fully let and CDC has a contracted EBITDA run rate of A$120m at March 2019, up from the A$70m full year 2018 run rate. CDC is now anticipating building one new data centre every year, and is forecasting to be three to four times the size it is today within five years.

Mainfreight reported its first half 2019 result, with strong EBITDA of $108m beating most expectations with solid performance across most divisions. Management remain more positive and confident about the business outlook, with customer and market growth coupled with the organic expansion of their network into new regions (Japan, Scandinavia and regional Australia). Pleasingly, a few of the sticking points in recent times have been addressed, including better service to retain customers, and turnarounds in the Asian and Carotrans business following management changes. This was a strong result and shows that the long term growth strategy is on track in all regions.

[1] Share Price Discount to NAV (including warrant price on a pro-rated basis)
[2] MR850 is a heated humidifier used for the full range of F&P Healthcare therapies across the respiratory care range.
[3] F&P950 is the new humidification system which supersedes the MR850.

Port of Tauranga held an investor day during the month, outlining the next phase of its port development strategy which will lift container capacity to circa 2.9bn twenty foot equivalent units (TEU). This longer term forecast is up from the earlier estimates of circa 1.25bn TEU in the full year 2019, when costs are forecast to be circa NZ$310m. This reaffirms our view that Port of Tauranga is a high quality asset with a high quality management team.

Restaurant Brands received a Takeover Notice from Finaccess on 26 November, which we should see followed by a formal Takeover Offer by Christmas. The board has recommended the offer conditional on the Independent Expert Report and the announcement flagged that Yum! approvals are on track.

Pushpay delivered second quarter 2019 revenue at the mid-point of its guidance range but delivered a sharp improvement in the first half 2019 operating result with operating costs held flat despite +44% year on year revenue growth. The company re-affirmed guidance for breakeven by December 2018 on a monthly basis and now expects to deliver positive EBITDA for full year 2019, (well ahead of expectations) as the company expects to generate significant operating leverage over time from improved interchange fees and constrained overhead cost growth.

Ryman reported a strong first half 2019 result slightly ahead of expectations with underlying earnings per share up +14%, with new sale gains bolstered by stronger Melbourne development margins. Operating metrics are all in solid shape highlighting that the demand story remains firmly intact. Occupancy is at 97%, with the highest level of presales (over $200m and equivalent to full year 2016 total new sales), resales stock of 1.2% and strong waitlists. Full year guidance implies +10% to 17% underlying growth, with the lower end of the guidance reflecting the possibility of softer sales and resales due to normal variability.

Portfolio Changes and Strategy

We reduced our target weighting in **Fletcher Building** as the impact of a slowing Australian cycle appears to be offsetting the Australian profit improvement strategy.

Sam Dickie
Senior Portfolio Manager
Fisher Funds Management Limited

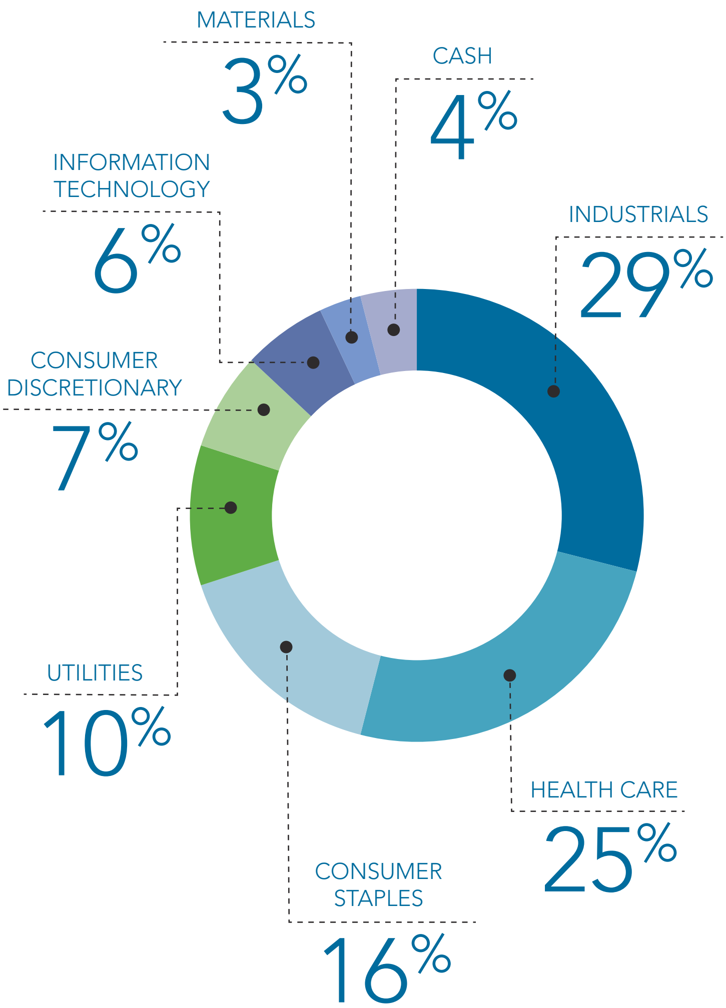
Key Details

as at 30 November 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	267m
GEARING	None (maximum permitted 20% of gross asset value)

Sector Split

as at 30 November 2018



November's Biggest Movers

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

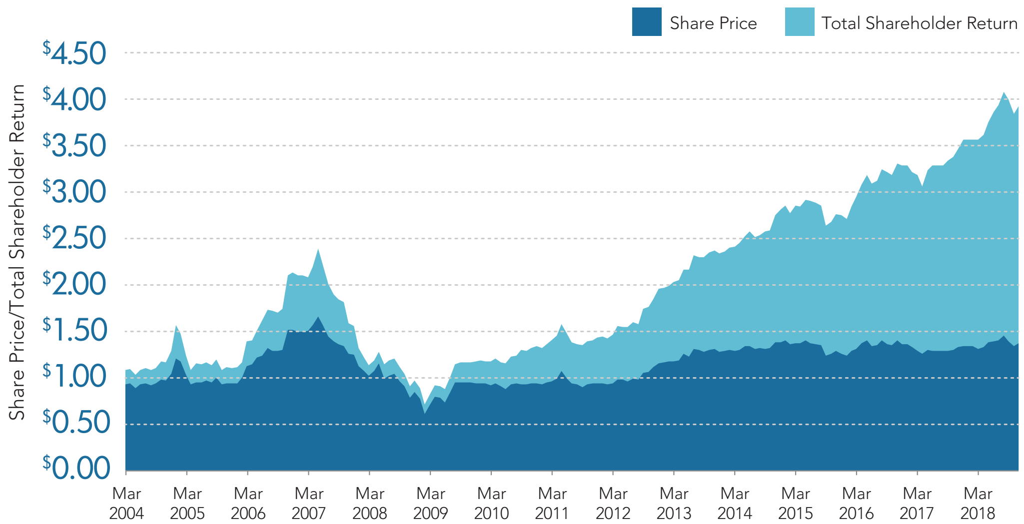
INFRATIL	MAINFREIGHT	MICHAEL HILL	PUSHPAY HOLDINGS	FLETCHER BUILDING
+8%	+7%	-6%	-7%	-21%

5 Largest Portfolio Positions as at 30 November 2018

FISHER & PAYKEL HEALTHCARE	THE A2 MILK COMPANY	MAINFREIGHT	FREIGHTWAYS	INFRATIL
13%	12%	10%	10%	7%

The remaining portfolio is made up of another 11 stocks and cash.

Total Shareholder Return to 30 November 2018



Performance to 30 November 2018

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
Company Performance					
Total Shareholder Return	2.1%	(3.9%)	+13.2%	+12.4%	+10.6%
Adjusted NAV Return	(0.8%)	(8.3%)	+5.9%	+11.8%	+10.7%
Portfolio Performance					
Gross Performance Return	(0.6%)	(8.2%)	+7.3%	+14.4%	+13.3%
S&P/NZX50G Index	0.8%	(5.3%)	+7.8%	+13.1%	+13.0%

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 9.7m of its shares on market in the year to 31 October 2019
- 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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