Monthly Update

September 2019

KFL NAV	SHARE PRICE	DISCOUNT[1]
$1.54	$1.44	6.3%

as at 31 August 2019

A word from the Manager

The Kingfish adjusted NAV return for the August month was -5.3%, compared with the local share market which was down 0.9% (S&P/NZX50G). The sharp underperformance was driven by some portfolio companies announcing earnings guidance below our expectations, combined with the sharp outperformance of defensive companies. Interest rates fell at the fastest rate in percentage terms ever experienced in New Zealand, driven by concerns about global growth and the surprise 0.5% cut in rates by the Reserve Bank of New Zealand. This drove the outperformance in defensive companies, a market sector that Kingfish has a lower allocation to when compared to the benchmark index (S&P/NZX50G).

Vista (-35%) and a2 Milk (-20%) were both a material drag on performance in August.

Vista sharply downgraded its revenue guidance for the 2019 calendar year from "around 20% revenue growth" to "10-12%" and the company's share price fell 29% on the day of results because of two key factors. Firstly, the shock reduction in revenue guidance came after "around 20%" had been reiterated as recently as its annual meeting in May. Secondly, Vista signalled it is accelerating the development of its 'multi-tenant Software as a Service (SaaS)' product offering, which is likely to mean higher up-front investment in product. There is also some uncertainty regarding the impact on revenue and profitability in the short term compared to the current model, which includes up-front perpetual licence fees. This was not well explained to the market. While there were several disappointing elements to the revenue downgrade, the largest single factor was revenue from the implementation of Vista Cinema at Odeon in the UK and Ireland being delayed until 2020. The revenue has not disappeared, it has been delayed. Underlying performance of the main Vista Cinema and Movio businesses was broadly as we expected. This is important as we think they account for approximately 85% of the value of Vista. The transition to SaaS is the right thing for Vista to do for the medium to long term and will create value for shareholders. The company has considered the impact of the transition financially and is confident revenue growth will sustain through the transition and there will be an uplift in revenue and profitability thereafter.

a2 Milk surprised with disappointing guidance for the 2020 fiscal year. In particular, the guidance to a contraction in profit margins was below what we expected. The company announced that it is investing in higher levels of marketing and organisational capability, largely in China. We did not anticipate such a large step up in costs, but are comfortable with the approach, which will continue to improve the company's brand position and help drive higher levels of revenue growth for greater duration. The company has made these decisions using in-depth analysis that it conducted over the last year.

Importantly, we added to our positions in both a2 Milk and Vista after the sharp falls. At times like this, we take a step back and ask ourselves: 'has our big picture investment thesis changed?' We pay particular attention to any change in the width of the moat and any change in our view on management. Do customers still love the product? Has the medium term earnings power of the company changed?

The key metric we use to judge whether a2's customers still love their product in China is infant formula market share. For the six months ended June, market share accelerated at the fastest pace in almost two years. Revenue growth in liquid milk in the US also accelerated from around 140% for the six months ended December 2018 to around 175% for the six months ended June 2019. Customers still love a2's product and it continues to deliver strong revenue growth. The targeted investment a2 is undertaking in both China and the US will widen a2's moat and this will help ensure its revenue growth fades less than the consensus expectation.

Vista continued to grow market share for its core cinema product to 50% of large circuit screens globally, outside of China. It is multiple times the size of its next biggest global competitor. Vista recently entered Japan, the third largest cinema market globally, and has already landed the largest customer in that market.

While we think Vista has not managed investor expectations well, we remain confident that, like a2, its moat is also intact and is likely widening.

[1] Share Price Discount to NAV (using NAV to four decimal places)

Elsewhere, our portfolio companies results during the August 'reporting season' were broadly in line with expectations.

Summerset reported is first half 2019 result. Weak new sales and resales had been pre-announced so the incremental information in the result was positive. Development margins and resale margins remain very healthy. Underlying commentary about the market improved from the more cautious outlook given earlier in the year. The company delivered a strong increase in its net asset backing despite the softer Auckland housing market.

Meridian benefited from strong hydro conditions across its asset base during the year. This was also boosted by disruptions to the gas supply in New Zealand, which caused sharply higher wholesale prices. These dynamics have created a couple of tailwinds for the company, as commercial customers have been brought on at higher prices and a greater focus on risk management has elevated wholesale electricity prices a couple of years out. The company is set to benefit from a revision to the cost it is charged for inter-island electricity transmission from 2022 which, alongside new generation projects, will help underpin earnings growth in the next few years.

Port of Tauranga reported in line with expectations but earnings were good quality, with a poor result from its Coda joint venture absorbed by strong performance from the port. The company remains confident about its strategy of operating the most efficient container port in New Zealand and its trans-shipment model. They re-illustrated how the port will benefit from the trend towards larger and less emissions intensive ships. We expect the company to continue to grow cargo volumes and improve profitability over time.

Sam Dickie
Senior Portfolio Manager
Fisher Funds Management Limited

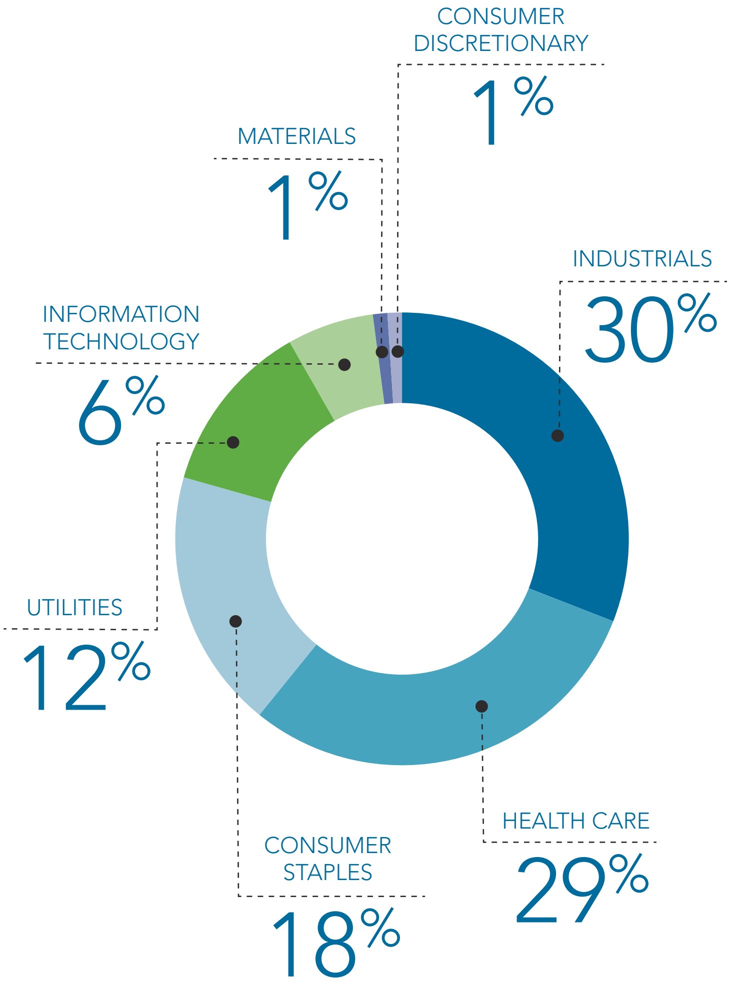
Key Details

as at 31 August 2019

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	10% of returns in excess of benchmark and high water mark
HIGH WATER MARK	$1.47
PERFORMANCE FEE CAP	1.25%
SHARES ON ISSUE	242m
MARKET CAPITALISATION	$349m
GEARING	None (maximum permitted 20% of gross asset value)

Sector Split

as at 31 August 2019



The Kingfish portfolio also holds cash

August's Biggest Movers

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

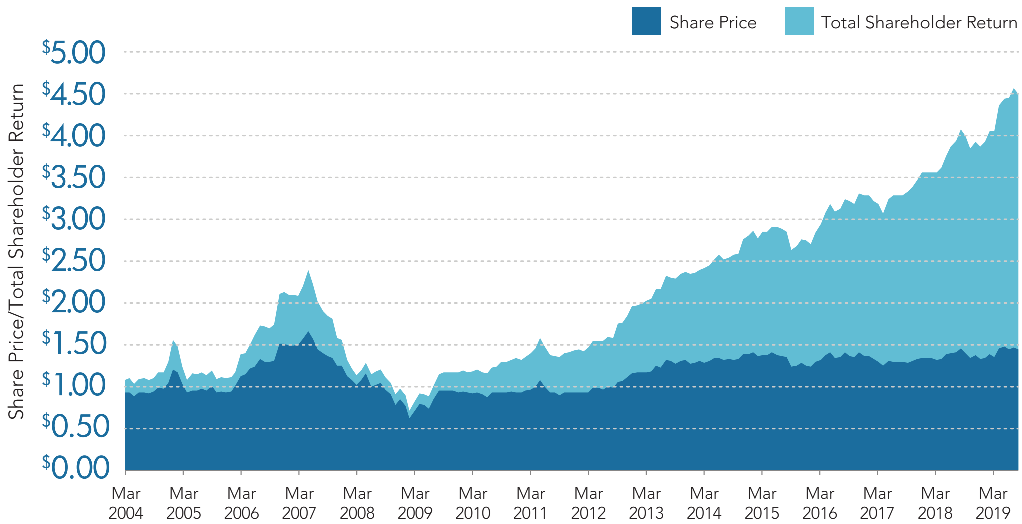
SUMMERSET	PUSHPAY HOLDINGS	DELEGAT GROUP	A2 MILK COMPANY	VISTA GROUP
+8%	-9%	-11%	-20%	-35%

5 Largest Portfolio Positions as at 31 August 2019

THE A2 MILK COMPANY	FISHER & PAYKEL HEALTHCARE	MAINFREIGHT	INFRATIL	RYMAN HEALTHCARE
15%	15%	14%	9%	7%

The remaining portfolio is made up of another 10 stocks and cash.

Total Shareholder Return to 31 August 2019



Performance to 31 August 2019

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
Company Performance					
Total Shareholder Return	(1.4%)	+1.2%	+10.4%	+11.6%	+12.2%
Adjusted NAV Return	(5.3%)	+1.9%	+9.6%	+12.0%	+13.1%
Portfolio Performance					
Gross Performance Return	(5.4%)	+2.5%	+13.0%	+14.6%	+15.9%
S&P/NZX50G Index	(0.9%)	+6.3%	+15.5%	+13.3%	+15.5%

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

Warrants

- Warrants put Kingfish in a better position to grow further, operate efficiently and pursue other capital structure initiatives as appropriate
- A warrant is the right, not the obligation, to purchase an ordinary share in Kingfish at a fixed price on a fixed date
- There are currently no warrants on issue

KINGFISH
LANDING TOMORROW'S TROPHIES

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