



QUARTERLY NEWSLETTER

1 July 2020 – 30 September 2020

Share Price

\$1.65

KFL NAV

\$1.67

Warrant Price

\$0.11

PREMIUM¹

0.1%

as at 30 September 2020

Kingfish gained +3.7% (gross performance) for the quarter, and the Adjusted NAV was up +3.3% for the period, while the S&P/NZX50G benchmark index gained +2.6% for the same period.

Permanent behaviour shifts - dynamic companies will thrive

Charles Darwin said, "It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change".

COVID-19 has accelerated behaviour shifts that were going to happen anyway and many forced changes will likely not fully unwind. In these unusually dynamic times, it is the dynamic companies that will thrive.

Dynamically widening the moat

Mainfreight, Vista, Ryman and Summerset have doubled down on putting the customer first.

Mainfreight has always been customer obsessed. And people obsessed. Mainfreight retained all of its permanent people and paid "discretionary" bonuses in-line with last year during COVID-19. This commitment to staff helps make the company's people go the extra mile and deliver superior customer service. On the flip side, some of their competitors are responding to the crisis by cutting costs, which arguably may result in lower customer service. And that is one of the reasons Mainfreight's market share is accelerating. The company doubled down on attracting new customers, announcing new business worth \$67 million for the first quarter of its new financial year.

Vista released a cinema re-opening software package to help their customers re-open seamlessly. For example, the software allows the cinema to easily allocate "socially distanced" seating. Vista's Movio business released Movio Cinema Essentials which helps a cinema sequence the re-buildup of its marketing budget. Consider Satya Nadella's (Microsoft CEO) comment: "As COVID-19 impacts every aspect of our work and life, we have seen 2 years' worth of digital transformation in 2 months". Movio is the only scale digital marketing solution for the film industry.

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER

SUMMERSSET GROUP	MAINFREIGHT	DELEGAT GROUP	VISTA GROUP	THE A2 MILK COMPANY
+40%	+18%	+16%	+14%	-24%

Ryman and Summerset have always put the customer first. But they went above and beyond to protect their vulnerable elderly residents during COVID-19. Potential new residents' children considered their parents as being more vulnerable during COVID-19 and have sought out providers where they have confidence in their safety protocols and are "good enough for mum". Interest levels and resales have increased significantly following New Zealand's move to less restrictive COVID Alert Levels. This will likely accelerate penetration of retirement villages in New Zealand and Australia and drive market share gains for Summerset and Ryman.

Customers are unlikely to forget this customer obsession by Mainfreight, Vista, Summerset and Ryman. This should help make customers more loyal in the future and will likely widen the moat.

Dynamically investing for growth

Fisher & Paykel Healthcare's nasal high flow therapy is becoming the global standard of care for COVID-19. The product was primarily used in the intensive care units of hospitals prior to COVID-19. During COVID-19 it has increasingly been used in wards or in the emergency department. Often, different doctors service these different areas of the hospital and they are becoming increasingly more confident in using the product after seeing the benefits. This will potentially permanently change behaviour and mean their product is more widely used.

F&P is investing ahead of this potential permanent behaviour shift. Total manufacturing capacity is likely to grow 60-70% over the next 2-3 years and the majority of that will be focussed on the hospital sector and in particular on nasal high flow and non-invasive ventilation. Manufacturing capacity in these areas is likely to approximately double. This confidence in the outlook potentially permanently accelerates the penetration of the large 50 million patient market in the nasal high flow market.

¹ Share price Premium to NAV (including warrant price on a pro-rated basis and using NAV to four decimal places).

Dynamically rolling with the punches

a2 Milk had a recent disappointing trading update where revenue expectations were significantly downgraded. The cause of the forecast reduction in earnings was a sharp inventory destock in the daigou or “surrogate-shopper” channel. This was primarily a result of the resurgence of COVID-19 in Victoria, Australia and travel restrictions.

a2 Milk reacted to this set-back and restored the demand/supply balance by launching promotions to drive demand while simultaneously restricting supply.

It's important to remember that the company has moved into other channels - cross border ecommerce and mother and baby stores (MBS) - which are performing ahead of expectations. Market share in the large and underpenetrated MBS channel accelerated from 2.0% to 2.2%.



Sam Dickie
Senior Portfolio Manager
16 October 2020



PERFORMANCE as at 30 September 2020

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+4.4%	+20.5%	+17.2%
Adjusted NAV Return	+3.3%	+16.5%	+16.6%
Portfolio Performance			
Gross Performance Return	+3.7%	+19.6%	+19.7%
S&P/NZX50G Index	+2.6%	+14.0%	+16.0%

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 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 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 at <http://kingfish.co.nz/aboutkingfish/kingfish-policies/>

COMPANY NEWS Dividend Paid 25 September 2020

A dividend of 3.25 cents per share was paid to Kingfish shareholders on 25 September 2020 under the quarterly distribution policy. Interest in Kingfish’s dividend reinvestment plan (DRP) remains high with 43% 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 30 September 2020

LISTED COMPANIES	% Holding
Auckland Intl Airport	7.0%
Contact Energy	2.2%
Delegat Group	4.1%
Fisher & Paykel Healthcare	15.4%
Freightways	3.2%
Infratil	11.7%
Mainfreight	15.9%
Meridian Energy	1.1%
Port of Tauranga	2.6%
Pushpay Holdings	2.4%
Ryman Healthcare	6.2%
Summerset	8.6%
The A2 Milk Company	13.5%
Vista Group International	3.9%
Equity Total	97.8%
New Zealand dollar cash	2.2%
TOTAL	100.0%

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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

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