



QUARTERLY NEWSLETTER

1 October 2020 – 31 December 2020

Share Price

\$2.04

KFL NAV

\$1.90

Warrant Price

\$0.37

PREMIUM¹

12.0%

as at 31 December 2020

Living an investing lifetime in 12 months

On the face of it, 2020 was an easy game. Kingfish was up 28% for the calendar year, outperforming the NZSE50 by 13%.

However, that required navigating a late-stage bull market, a savage bear market, an early-stage aggressive bull market and more recently a grinding bull market.... all in the space of 12 months.

We learned more lessons from Mr Market in 12 months than many investors learn in a lifetime.

Robust process is always critical, but especially in a crisis

We spoke to our Kingfish portfolio companies, their competitors, their suppliers, their customers, and industry experts on 120 occasions in the 6 weeks ending March 31, 2020. Our process went into over-drive. We asked four questions: 1. How are you ensuring the safety and security of your team, your customers, and your suppliers? 2. How is your liquidity position? 3. What is a bear, base and bull case outcome for your revenues and profits during the crisis? 4. How do you ensure you emerge from this better positioned than your competitors?

That allowed us to quickly separate our companies into four broad buckets:

- 1. Companies that were expected to trade well through the COVID-19 crisis:** Early on it was clear that Fisher & Paykel Healthcare would be a beneficiary of the crisis. Delecta sells 90% of its product to people drinking wine at home and wine was in hot demand during the early lockdowns! a2 Milk was an early beneficiary as Chinese mothers stockpiled infant formula. However, we learned later that the unwind of those stockpiles coupled with the daigou network grinding to a halt meant a2 traded poorly through the crisis. Pushpay was an unexpected beneficiary as churches closed and the best way to continue giving to your church was via the Pushpay app.
- 2. Companies that have more defensive earnings streams:** We were relaxed about Infratil's portfolio companies' earnings. Data and communications investments Canberra Data Centres and Vodafone NZ, plus electricity investments Trustpower and Tilt all had defensive earnings.
- 3. Companies that have more economically sensitive earnings streams:** Mainfreight and Freightway's volumes are tied to the economic cycle. However, Mainfreight has such small market shares outside of NZ and such superior customer service that we thought it could offset at least some of the inherent cyclicality in its earnings. Ryman and Summerset's earnings are at least partially linked to the housing cycle which in turn is at least partially linked to the economic cycle. As it turned out, the rebound in the economic cycle and the housing market was so sharp, it made your head spin!

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER

MAINFREIGHT

+52%

INFRATIL

+48%

MERIDIAN ENERGY

+50%

SUMMERSSET GROUP

+40%

CONTACT ENERGY

+34%

4. Companies that are in the eye of the storm: With borders and cinemas shut globally, it was clear Auckland Airport and Vista were right in the eye of the storm.

The combination of our existing tried and true process, plus the enhancements during the crisis allowed Kingfish to outperform the S&P/NZX50G in the bull market prior to COVID-19, during the worst of the market fall in March, and in the sharp rebound since.

Dynamic companies thrive

Cash is king: Auckland Airport realised very early that COVID was going to significantly impact its business. So, it raised capital early and aggressively. This has allowed Auckland Airport to navigate the unprecedented shock to its revenues with clear eyes.

Go the extra mile for your customers: With a lot of people struggling during COVID there was a real opportunity to help your customers and build long-term loyalty. Going the extra mile to help when other suppliers are unable to deliver the usual level of service provided a chance to gain new customers. Vista released a cinema re-opening software package to help its customers get back on their feet. 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-build-up of its marketing budget. It is early days, but Vista has been winning big customers off its smaller competitors recently, even though its products are more expensive.

Look after your people, especially in a crisis: Mainfreight did just this - retaining all its permanent people and paying discretionary bonuses in-line with last year during COVID-19. Actions like this supercharge the existing strong team culture at Mainfreight. As a result, its people want to go the extra mile and deliver superior customer service. This is one of the reasons Mainfreight's market share accelerated at the fastest pace ever during the crisis.

Be prepared ahead of time: House price inflation (HPI) is a key driver of Summerset's business. And HPI is outside of its control. For this reason, Summerset has been doing stress tests on the impact of changing HPI on its earnings and balance sheet for years. It was obvious early during COVID that Summerset's balance sheet could withstand a severe slump in sales (almost no new sales for 9 months). This provided investors that understood this a great opportunity to buy shares at bargain prices.

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

Seize the day: Fisher & Paykel Healthcare aggressively accelerated its production of hospital products that remain in heavy demand during COVID. The company was prepared ahead of time with a strong balance sheet and 30% of its production capacity idle for just such an emergency. Fisher & Paykel Healthcare seized the day and saved lives.

Our view on the offer for Infratil

In December, AustralianSuper made an indicative non-binding offer to acquire all the shares in Infratil. We think about the value of our Infratil holding in three components:

1. The valuation for the current portfolio of assets. There is significant valuation upside to Infratil's high quality assets like Canberra Data Centres, Tilt, Longroad Energy and Vodafone that all have wide moats and many years of growth runway ahead.
2. Infratil's ability to create value in the future from new assets. Infratil have grown their Net Asset Value at a compound

annual growth rate of 18% for more than 25 years! You would be hard pressed to find a track record like that anywhere in the world. Illustrating their forward thinking, Infratil were circling Qscan (their most recent acquisition) for years as management is constantly working on creating the next contribution to value, years in advance.

3. Opportunity cost. We did not end up with a very large position in Infratil by mistake – the position encapsulates many years of research and continually comparing the investment to other scarce opportunities in the NZ market.

In short, we believe the initial offer is too low.



Sam Dickie
Senior Portfolio Manager
15 January 2021



PERFORMANCE as at 31 December 2020

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+29.2%	+28.3%	+22.3%
Adjusted NAV Return	+15.7%	+19.9%	+17.6%
Portfolio Performance			
Gross Performance Return	+16.4%	+23.0%	+20.7%
S&P/NZX50G Index	+11.4%	+15.9%	+15.7%

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 18 December 2020

A dividend of 3.46 cents per share was paid to Kingfish shareholders on 18 December 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.

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PORTFOLIO HOLDINGS SUMMARY as at 31 December 2020

LISTED COMPANIES	% Holding
Auckland Intl Airport	6.4%
Contact Energy	2.1%
Delegat Group	3.7%
Fisher & Paykel Healthcare	14.6%
Freightways	3.6%
Infratil	15.0%
Mainfreight	20.1%
Meridian Energy	0.5%
Port of Tauranga	2.3%
Pushpay Holdings	1.7%
Ryman Healthcare	5.8%
Summerset	9.4%
The A2 Milk Company	8.5%
Vista Group International	3.4%
Equity Total	97.1%
New Zealand dollar cash	2.9%
TOTAL	100.0%