KINGFISH
LANDING TOMORROW'S TROPHIES

QUARTERLY NEWSLETTER

1 January 2022 – 31 March 2022

Share Price	Warrant Price	KFL NAV	PREMIUM[1]
$1.75	$0.05	$1.58	11.9%

as at 31 March 2022

Kingfish continues to back quality growth companies

During the March quarter the stock market behaved like a "voting machine", but we continue to bank on companies that will "weigh-up" over time.

Benjamin Graham was one of the great investing minds. A key principle of his is that in the short run, the stock market is like a voting machine, tallying up which stocks are popular and unpopular. In the long run, the market is like a weighing machine, assessing the substance of a company. Unfortunately, during the quarter with interest rates rising sharply our high-quality growth portfolio proved unpopular.

Kingfish performance – a tough quarter for investors

Kingfish underperformed the local market in the quarter, falling −9.6%, (gross performance/ adjusted NAV return) more than the −7.1% fall of the S&P/NZX50G index. We recognise this is a disappointing and painful result.

At times like this, we ask ourselves three questions:

1. Why the poor performance?
2. What are we doing about it?
3. What have we learned?

Why the poor performance?

The key factor during the period was sharply rising interest rates on the back of stubborn inflation. At the end of last year, the market was expecting the US Federal Reserve to raise interest rates two times over the upcoming 12 months. Today, the market is expecting ten rate hikes over the upcoming 12 months!

The pace of those moves was bad for share markets generally as it reduces the value investors place on future cash flows. It also resulted in the outperformance of defensive (utilities) and cyclical companies (energy, banks) over quality growth companies for the first time in a while. Those companies typically have narrower moats and shorter growth runways.

What are we doing about it?

As long-term investors, we are constantly questioning whether anything has changed the width of the moat, the length of the growth runway or the quality of the management teams.

In addition, we have been scrutinising inflationary pressures on costs and the extent to which our companies can use their pricing power to maintain profit margins. In most cases nothing has changed, cost inflation is present but hasn't got worse. Logistics or supply chains remain disrupted but haven't got worse. Our companies are putting through price increases to offset inflation.

The good news is we are starting to see more attractive valuations in the portfolio. That is a function of both the price falls and the earnings of these companies still growing.

We have started to deploy cash into the most attractive opportunities where our assessment of the investment hasn't changed or the long-term picture hasn't altered, but the stock price has fallen sharply. We have bought shares in Summerset and Fisher & Paykel Healthcare for example.

What have we learned?

Volatility is inevitable. It happens every year, and every few years the volatility is more severe. For patient, long-term investors, while painful, it is an opportunity.

This rotation away from growth companies is a reminder that in the short term the valuation multiple can sometimes be the biggest driver of the company's share price. This can be most painful during a period of sharply rising inflation and interest rates such as what we saw in the March quarter. However, we must not forget that over time earnings growth is the most important driver of the value of a company and returns for investors.

We remain focused on companies with wide and ideally widening moats, long runways for growth, run by passionate and smart management teams. Our investment process is geared to finding these companies, which we expect will deliver superior returns over time.

Portfolio update – still heading in the right direction

Despite the poor price performance, the Kingfish portfolio had an encouraging reporting season.

The majority of the companies in the portfolio that had results or trading updates beat expectations. We are always on high alert for any deterioration in the outlook, especially if it relates to underlying demand. That wasn't the case. The handful of companies that "missed" on guidance were generally either directly the result of Omicron impacts (companies in the travel industry) or deliberately cautious because of the uncertain macro environment.

Our largest position, **Mainfreight**, was a good case in point of lacklustre share price performance, despite a positive update and continued progress against its long-term agenda. It provided a trading update for the first 43 weeks of its fiscal year. Profit growth was ahead of expectations. The company is seeing a continuation of tailwinds in its Air & Ocean international freight forwarding division. It also continues to execute well in Transport and Warehousing, taking further market share.

Infratil performed well. The company started the year by reporting an increase in the valuation of Canberra Data Centres (CDC), its largest asset. At its investor day in February, Infratil announced strategies for two of its investments which we expect to add value in the short to medium term. Vodafone is investigating the sale of a stake in its mobile phone towers business. Renewable electricity developer Longroad Energy is looking for a co-investment partner which will allow it to pursue a much bigger growth trajectory than previously indicated.

Auckland Airport's share price rallied late in the quarter as the New Zealand Government accelerated the removal of border restrictions and isolation requirements. These have been a key barrier to people booking trips, and we expect demand for travel to increase as a result.

Fisher & Paykel Healthcare updated investors on expected revenue for the year to March 2022 which was around 10% short of expectations in the second half. This was due to a sharp slowdown in sales of hardware and consumables in its hospital division because of the lower severity of the Omicron COVID variant. This was likely exacerbated by high stock levels in the US. We have seen apparent demand over short periods vary significantly since the onset of COVID in conjunction with waves of COVID patients and associated stocking/destocking. The company continues to see signs that the larger installed base of its hardware is well utilised in the absence of COVID related demand, which we expect will drive stronger consumables sales over time.

Sam Dickie
Senior Portfolio Manager
19 April 2022

[1] Share price Premium to NAV (including warrant price on a pro-rated basis and using the net asset value per share, after expense, fees and tax, to four decimal places).

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER

FISHER & PAYKEL HEALTHCARE	RYMAN HEALTHCARE	VISTA GROUP	PUSHPAY HOLDINGS	SUMMERSET GROUP
-26%	-23%	-22%	-14%	-13%

PERFORMANCE
as at 31 March 2022

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	(9.7%)	+21.0%	+17.6%
Adjusted NAV Return	(9.6%)	+11.0%	+13.0%
Portfolio Performance			
Gross Performance Return	(9.6%)	+13.5%	+15.6%
S&P/NZX50G Index	(7.1%)	+7.1%	+11.0%

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/about-kingfish/kingfish-policies/

PORTFOLIO HOLDINGS SUMMARY
as at 31 March 2022

LISTED COMPANIES	% Holding
Auckland Intl Airport	8.6%
Contact Energy	3.0%
Delegat Group	3.2%
EBOS Group	2.0%
Fisher & Paykel Healthcare	14.1%
Freightways	3.7%
Infratil	17.6%
Mainfreight	20.0%
Meridian Energy	1.0%
Port of Tauranga	2.0%
Pushpay Holdings	1.0%
Ryman Healthcare	3.7%
Summerset	10.1%
The a2 Milk Company	4.3%
Vista Group International	3.8%
Equity Total	**98.1%**
New Zealand dollar cash	1.9%
TOTAL	**100.0%**

COMPANY NEWS
Dividend Paid 25 March 2022

A dividend of 3.55 cents per share was paid to Kingfish shareholders on 25 March 2022 under the quarterly distribution policy. Interest in Kingfish's dividend reinvestment plan (DRP) remains high with 41% 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.

FOREIGN TAX COMPLIANCE ACT (FATCA) AND COMMON REPORTING STANDARD (CRS)

As a result of the New Zealand Government agreeing to participate in the exchange of information with other jurisdictions under the Foreign Tax Compliance Act (FATCA) and Common Reporting Standard (CRS), Financial Institutions are required to undertake due diligence to determine the account holders' jurisdiction of tax residence. All shareholders will have received a Tax Residency Self-Certification form from Computershare depending on when they first purchased their securities. Please ensure you complete and return this important document if you have not already done so. For more information please visit the IRD website: https://www.ird.govt.nz/international-tax/exchange-of-information/crs/registration-and-reporting or contact Computershare if you are unsure of whether you have completed your form.

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