KINGFISH

LANDING TOMORROW'S TROPHIES

MONTHLY UPDATE

September 2023

Share Price	Warrant Price	KFL NAV	DISCOUNT[1]
$1.31	$0.05	$1.35	2.0%

as at 31 August 2023

A WORD FROM THE MANAGER

In August, Kingfish's gross performance return was down 3.6% and the adjusted NAV return was also down 3.6%. This compares to the benchmark S&P/NZX50G, which was down 4.2%.

New Zealand shares were down during August with only eight companies in the benchmark index in positive territory. Four of those are Kingfish holdings.

In line with usual practice, in the second half of the month of August many New Zealand companies reported their financial results for the period to the end of June, while some others provided updates at their annual meetings. Although expectations heading into this 'reporting season' were relatively subdued, on balance the outlook for most companies is proving more challenging than anticipated in the near-term.

a2 Milk (-9%) delivered its full year result in line with expectations. The company has continued to be a clear leader in the China infant formula category, taking market share in its key sales channels and improving brand awareness to new highs. For instance, it's "top of mind" brand awareness is now 9% (from 7% one year ago and 4% two years ago) versus its market share of around 5% and increasing. However, the market it operates will again contract in the year ahead, with 9.6 million births in 2022 versus 14.6 million in 2019 and even fewer likely in 2023. This is a greater decline than expected. While we knew the population of women at childbearing age is reducing, they are now also having notably fewer children than historically (for example, if the fertility rate was the same as in 2019, the 9.6 million births in 2022 would be more like 13 million). In part this is a result of China's COVID-19 policies, which dissuaded women from becoming pregnant during the pandemic. But younger people also appear not to be having babies for several other reasons as well. So, despite strong execution, the company's prospects are being blunted, with babies typically consumers of formula for multiple years, which means the weaker market landscape is likely to persist for some time. Notwithstanding this, the company still expects modest growth in the coming year as a result of ongoing market share gains. We have reduced Kingfish's position in a2 Milk.

Auckland Airport (-7%) reported its full year result, which was modestly ahead of expectations. The forward guidance provided was below expectations due to higher costs (operations, interest, and depreciation). Auckland Council sold part of its stake in Auckland Airport after the share market closed on 31 August through an offer targeted at institutional investors. The widely anticipated sale was priced at a premium to the prevailing share price and Kingfish elected not to participate at that level.

Contact Energy (+0.7%) delivered a solid full year result and provided guidance for the new year ahead of expectations. Part of the uplift is coming from retail and commercial customer pricing, where Contact Energy has been repricing customers towards higher competitor levels. The company will see its newly built Tauhara geothermal plant begin to contribute to earnings from around December, replacing more expensive gas generation. The company expects a new long term supply agreement may be reached with the Tiwai Point aluminium smelter in coming months. This would likely further increase earnings given the low prevailing contracted price agreed in early 2021. A satisfactory outcome could result in an increase to its dividend from the current level. Kingfish had increased its position ahead of the result.

Wine maker **Delegat** (-10%) delivered its annual result of $59.3 million underlying net profit, with 2% growth on the prior year less than initially expected. Guidance for the new year is $62-67 million, which was broadly in line with our expectation and represents a healthier 5-13% growth rate. The company will continue to target selective price increases (3% on average during the year) to bolster operating profit margins which have contracted in recent years due to cost pressures. Its key Oyster Bay brand remains healthy, with volumes growing meaningfully ahead of the US premium wine segment, and not just in Sauvignon Blanc but other varietals too (including Pinot Grigio, Chardonnay, and Pinot Noir).

EBOS (-2%) delivered a result broadly in line with expectations and expects another year of profitable growth. Management is confident that through a combination of ongoing market share gains, cost out initiatives across the group, and selective acquisition opportunities it can limit the earnings impact from losing the contract to distribute medicines for Chemist Warehouse in Australia from mid-2024. It continues to deliver consistent performance across its other business units. The Animal Care business is benefitting from its inhouse manufacturing facility, which drove increased margin over the year and is expected to facilitate increasing new product development over coming years, supporting ongoing revenue growth.

Fisher & Paykel Healthcare (-8%) held its annual meeting and reiterated full year revenue guidance. Its sleep apnoea mask business is tracking slightly stronger than expectations, while hospital respiratory support is slightly weaker (primarily in the sales of new hardware rather than recurring consumables sales).

Freightways (+2%) delivered its full year result. Trading conditions in its core New Zealand courier business remained challenging on account of reduced economic activity. Volumes in the six months to June averaged around 2% lower than the corresponding period in 2022. However, underlying volumes in the economy have been weaker, more like 5-6% down, particularly for customers it considers are in the

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

retail sector. The company has been taking market share as a result of its superior service levels versus competitors, which has insulated the volume decline. Performance in Australia has been more robust, with its Allied Express large item delivery acquisition outperforming expectations. The company is continuing to increase prices to offset cost pressures, particularly in areas where pricing has been low in relation to the effort required (such as cross-Auckland deliveries and for bulky items, having already lifted pricing for residential deliveries).

Infratil (+1%) provided a brief but positive update at its annual meeting indicating trading conditions are generally solid for portfolio companies, running at the top end of guidance issued in May.

Summerset (-0.5%) delivered a better-than-expected first half result. This included all time high development margins of 34%, comfortably above management targets of 20-25%. Despite the pressure on NZ house prices since late 2021, Summerset has been able to maintain or increase pricing. This reflects the company's pricing lagging the rapid run up in house prices in 2020 and 2021, plus the company's increased effort to optimise pricing per unit.

Cinema software provider **Vista** (-16%) delivered a result that was slightly below expectations, as revenue growth was softer than anticipated. In part this was because a meaningful contract for Vista's studio insights product Movio Research was not renewed during the period (due to customer merger and acquisition activity which resulted in a duplication of subscriptions). Meanwhile revenues from its new digital and cloud products are only gradually building as the first customers will not contribute meaningfully until 2024. The company maintained its full year revenue guidance.

Vulcan Steel (+2%) delivered its full year result towards the top end of its revised guidance range but having reduced the range in July due to slower market conditions in New Zealand steel distribution. The company is still seeing those conditions persist, which it is attributing to the combination of higher interest rates and uncertainty ahead of the general election in October. It is not seeing the same softness in Australia and the picture is more balanced in its other divisions in New Zealand. Vulcan has made substantial progress on integrating the Ullrich Aluminium acquisition, transferring it onto its 'Anvil' IT system which will enable it to progressively uplift service and introduce a shift towards its 'Value in Use' pricing methodology which will improve profitability. The company continues to see a significant opportunity to leverage a dual aluminium and steel product offering from the combined branch footprint. It expects to roll out 9-10 of these 'hybrid' sites in the current financial year.

Matt Peek
Portfolio Manager
Fisher Funds Management Limited

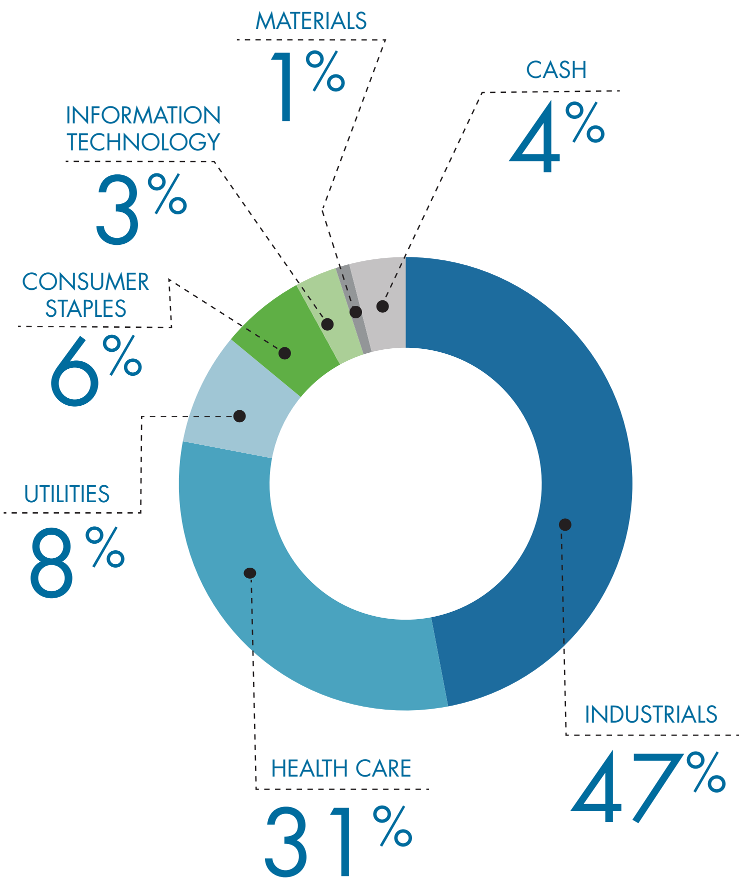
KEY DETAILS

as at 31 August 2023

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	$1.45
PERFORMANCE FEE CAP	1.25%
SHARES ON ISSUE	332m
MARKET CAPITALISATION	$435m
GEARING	None (maximum permitted 20% of gross asset value)

SECTOR SPLIT

as at 31 August 2023



AUGUST'S SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO during the month

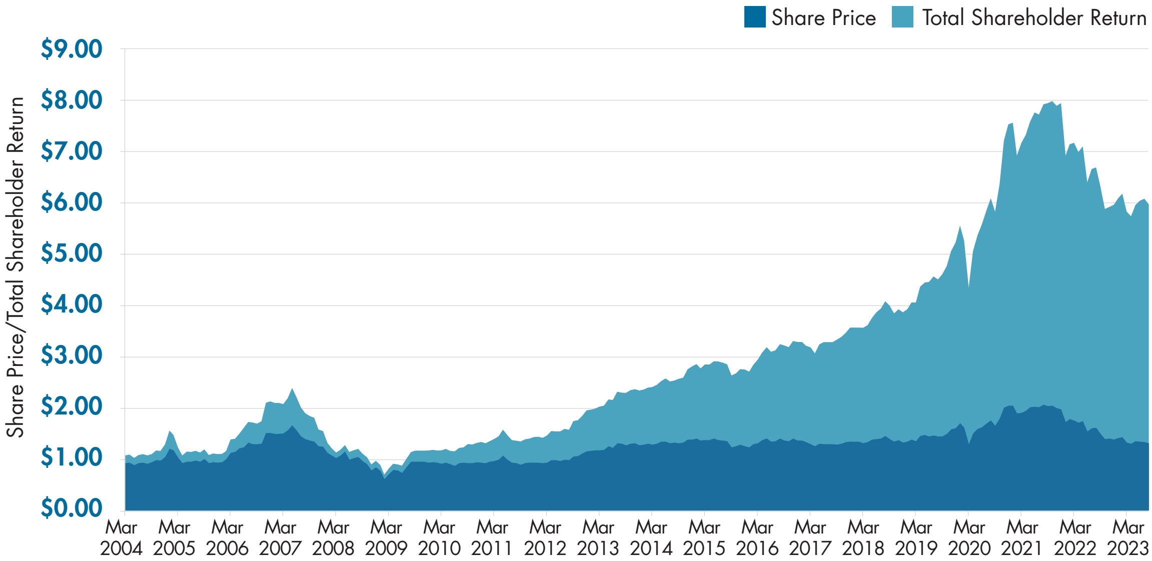
VISTA GROUP	DELEGAT GROUP	A2 MILK CO	FISHER & PAYKEL HEALTHCARE	AUCKLAND INTERNATIONAL AIRPORT
-16%	-10%	-9%	-8%	-7%

5 LARGEST PORTFOLIO POSITIONS as at 31 August 2023

INFRATIL	MAINFREIGHT	FISHER & PAYKEL HEALTHCARE	SUMMERSET	AUCKLAND INTERNATIONAL AIRPORT
18%	15%	14%	8%	8%

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

TOTAL SHAREHOLDER RETURN to 31 August 2023



PERFORMANCE to 31 August 2023

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
Company Performance					
Total Shareholder Return	(1.8%)	+0.2%	(10.8%)	(0.6%)	+7.9%
Adjusted NAV Return	(3.6%)	(1.5%)	(0.7%)	(0.2%)	+6.4%
Portfolio Performance					
Gross Performance Return	(3.6%)	(1.2%)	+0.3%	+1.1%	+8.6%
S&P/NZX50G Index	(4.2%)	(2.2%)	(0.4%)	(1.1%)	+4.4%

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 dividends (and other capital management initiatives) and after expenses, fees and tax,
- adjusted NAV return – the percentage change in the adjusted NAV,
- 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 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 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

The Manager has authority delegated to it from the Board to invest according to the Management Agreement and other written policies. Kingfish's portfolio is managed by Fisher Funds Management Limited. Matt Peek (Portfolio Manager) and Michael Bacon and Zoie Regan (Senior Investment Analysts) have prime responsibility for managing the Kingfish portfolio. Together they have significant 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 Board of Kingfish comprises independent directors Andy Coupe (Chair), Carol Campbell, David McClatchy and Fiona Oliver.

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 its shares on market

» Shares bought back by the company are held as treasury stock

» Shares held as treasury stock are available to be utilised for the dividend reinvestment plan

Warrants

» Kingfish announced an issue of warrants (KFLWH) on 20 June 2023

» Information pertaining to the warrants was mailed/emailed to all shareholders on Tuesday 27 June 2023

» The warrants were issued at no cost to eligible shareholders in the ratio of one warrant for every four Kingfish shares held, based on the record date of 5 July 2023

» The warrants were allotted to shareholders on 6 July 2023 and listed on the NZX Main Board from 7 July 2023

» The Exercise Price of each warrant is $1.37, adjusted down for the aggregate amount per Share of any cash dividends declared on the shares with a record date during the period commencing on the date of allotment of the warrants and ending on the last Business Day before the final Exercise Price is announced by Kingfish

» The Exercise Date for the warrants is 26 July 2024

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