

Monthly Update

April 2016



A word from the Manager

I know that Easter has come and gone, but if supermarkets are still selling Christmas mince pies (yes, it's a fact) then I'm going to write about the Easter bunny! Actually strictly speaking it may not be the Easter bunny as it has been hopping around for more than three months. But regardless, it makes a pleasant change from talking bulls and bears.

Last month Jim Paulsen, strategist at Wells Capital Management introduced the idea that we are in a bunny market and we're set to stay in it for some time. Unlike an enthusiastic bull which spikes the market higher, or a scary bear that claws the market down, a bunny market simply hops around and never really gets anywhere.

As frustrated investors around the world can attest, the first three months of this year have featured a lot of hopping, yet markets have failed to move very far from the closing levels of last year. Most of the major markets have traded in a range of 10-15% over the last three months, but will finish the March quarter in pretty much the same place as they started the year.

The bunny market is not a new phenomenon, though we haven't had a proper one since the mid-1990s when the Federal Reserve began tightening monetary policy.

According to Paulsen, bunny markets typically occur in the latter stages of an economic recovery. "Stocks initially recover aggressively after a recession. However, as the recovery matures, cost pressures, inflation and higher interest rates begin to put pressure on the bull market. This often resolves into a bunny market for the balance of many economic recoveries."

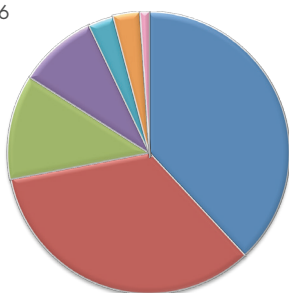
That sounds about right. We've seen stocks rally strongly since March 2009, and although we have yet to see inflation or higher interest rates, markets have largely run out of puff. The economic recovery is continuing, and despite occasional headlines to the contrary, there is no evidence that it is about to end.

It appears that the bulls and the bears have simply been replaced with a different animal.

The bulls have been displaced because the company earnings cycle is mature (without decent revenue growth, earnings cannot grow significantly) and stocks are relatively expensive, so even the most optimistic bull has had to pull his horns in. The bears have had to return to their caves because with low recession risk and continued economic recovery, there is no room for a sustained bear

Sector Split as at 31/03/16

- 38% Healthcare
- 34% Industrials
- 12% Utilities
- 9% Consumer Discretionary
- 3% Consumer Staples
- 3% Financials
- 1% Information Technology



At a Glance as at 31/03/16

KFL NAV	\$1.37
Share Price	\$1.31
Discount	4.0%

At \$1.31 Kingfish currently trades at a discount to NAV of 4.0%. The discount could provide value, as investors are able to purchase a portfolio with a NAV of \$1.37 per share for only \$1.31 per share.

Performance to 31/03/16

	1 Month	3 Months	1 Year	3 Years (accumulated)	5 Years (accumulated)
KFL Adjusted NAV*	+5.7%	+3.2%	+10.3% [^]	+38.9% [^]	+79.0% [^]
Relative Performance					
S&P/NZX50G Index	+8.4%	+6.8%	+15.7%	+52.7%	+96.3%
Total Shareholder Return*	+1.6%	+7.0%	+3.8%	+43.3%	+109.8%

*Definitions of non-GAAP measures

Adjusted Net Asset Value (NAV)

Adjusted NAV is calculated using NAVs (audited at the end of each financial year) and is net of fees and tax, adds back dividends paid to shareholders (but excludes imputation credits) and includes the dilution effect of warrants exercised. The directors believe adjusted NAV to be useful as it reflects the underlying performance of the investment portfolio adjusted for dividends.

Total Shareholder Return (TSR)

TSR is calculated using the share price performance plus dividends paid to shareholders (but excludes imputation credits) and excludes the impact of warrants. The directors believe TSR to be useful as it mirrors the return of an investor who reinvests their dividends. No metric has been included for investors who take their dividend in cash as the return on those cash dividends will differ per shareholder.

[^] includes the -2.0% impact of dilution from the warrants exercised on 6 November 2015.

March's Biggest Movers

- +16%** Restaurant Brands
- +14%** Summerset
- +12%** EBOS
- +11%** F&P Healthcare
- 5%** Vista

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

5 Largest Portfolio Positions

as at 31/03/16



12%

Fisher & Paykel
HEALTHCARE

11%



10%

Freightways

9%



7%

Total Shareholder Return



A word from the Manager continued

market. That leaves us with the bunny – no significant market declines or rallies, just a lot of hopping.

As frustrating as flat bunny markets are, they can be the very best sort of market for long-term regular savers. Although the starting and ending prices of the last quarter suggest that little money has been made, a saver who has been investing regularly throughout the period has had continuous opportunities to buy at similar price levels, with an occasional bargain price thrown in. Anyone who invests on a regular basis has a chance to obtain a better long-term average entry price, compared to those investors who try to pick a single entry point in a bull or bear market.

What Paulsen does highlight – and we think he has a point – is that in a bunny market, investment strategies can no longer be simply bullish or bearish. Buy and hold strategies may not be as successful on their own – it might pay to top up after periods of significant weakness and trim holdings after solid runs. And prudent stock-picking will likely add value – after all, the bunny is going to hop all over the place, benefiting certain businesses and industries over others.

Don't worry - we've got this bunny sorted on your behalf. We'll make sure your returns are eggstra-special!

Carmel Fisher, Managing Director, Fisher Funds

All of our communication is available via email. If you would like to receive all communication electronically please email us at enquire@kingfish.co.nz

Disclaimer: The information in this update has been prepared as at the date noted on the front page. The information has been prepared as a general summary of the matters covered only, and it is by necessity brief. The information and opinions are based upon sources which are believed to be reliable, but Kingfish Limited and its officers and directors make no representation as to its accuracy or completeness. The update is not intended to constitute professional or investment advice and should not be relied upon in making any investment decisions. Professional financial advice from an authorised financial adviser should be taken before making an investment. To the extent that the update contains data relating to the historical performance of Kingfish Limited or its portfolio companies, please note that fund performance can and will vary and that future results may have no correlation with results historically achieved.