

# Monthly Update

May 2018

KFL NAV	SHARE PRICE	DISCOUNT
\$1.43	\$1.33	7.1%

as at 30 April 2018



## A word from the Manager

The New Zealand market rebounded in April closing up 1.5% while the Kingfish portfolio was down 0.5%. Market performance was broadly in line with global equity markets. Unlike previous months where consumer stocks like The a2 Milk Company had largely driven market performance, this month building materials and telecommunications sector stocks like Fletcher Building and Spark led market performance.

During April, New Zealand interest rates remained low and our dollar weakened which is helpful for New Zealand equity investors. New Zealand financial conditions remain loose. This is an important safety valve to help ensure New Zealand's economic growth doesn't get too weak relative to the rest of the world.

### Fletcher Building – a new investment for Kingfish

Fletcher Building's woes over the past couple of years have been widely reported. The company has made too many newspaper headlines with delays on major construction projects and the significant losses reported by its building and interiors unit. It is fair to say this has been a company with a chequered track record facing a number of challenges. We believe the headlines, and the fallout from some of Fletcher's poor strategic decisions, are hiding a business that has healthy prospects. New management is the catalyst for change.

During April we made the decision to add Fletcher Building to the portfolio. Fletcher Building is a company we know well and have followed for many years. I began covering it as a sell-side research analyst back in 2000 and at the time liked the fact it had 5-6 simple divisions, most of which dominated the market. Now, after watching the company closely from the side lines for the past 12-18 months as it endured significant challenges, we believe a rare attractive opportunity is emerging which justifies an investment.

Despite its challenges, Fletcher Building's key New Zealand operations; Golden Bay Cement, Winstone Wallboards and PlaceMakers dominate their respective markets. These core businesses have, in my view, clear moats and help the company to deliver solid cash flow. This fact hasn't changed in all the years that I have followed the company. What changed was a number of poorly considered acquisitions and forays into other business lines that clearly did not work.

What's attracted our attention to the Fletcher Building of today is the strategic review that has been undertaken guided by the new management team. Fletcher's has committed to a "back to the future" strategy - selling its overseas business and re-focusing on the strong New Zealand and Australian core. Fletcher's is getting back to what it does best.

I am particularly encouraged by Fletcher's new management team and have met with new CEO, Ross Taylor, several times over the past few months. Ross has a straightforward demeanour, a clear vision and a keen sense of Fletcher's strengths as a business. He is also committed to seeing the company return to its former glory. Based on these conversations and feedback from former Fletcher's executives and industry experts I believe the strategy makes real sense.

There are two key planks to the new Fletcher's strategy – refocusing the business on areas of strength and taking out cost and complexity.

After years of distracting international acquisitions and diversification away from key operations, the company's decision to sell its overseas businesses (Formica and Roof Tiles are currently up for sale) makes sense. This is likely to generate in excess of \$1bn for the company and may result in it being able to return capital to shareholders.

Fletcher Building also announced a comprehensive restructure of its business. This presents both cost savings and potential revenue growth opportunities. All up we think these initiatives could add \$30-\$50m to its core earnings.

This is a different flavour of investment but one that we believe offers very real potential. We will be watching very closely (as always) to ensure our investment thesis is playing out, but for the first time in Kingfish's history we are encouraged by what we see at Fletcher Building.



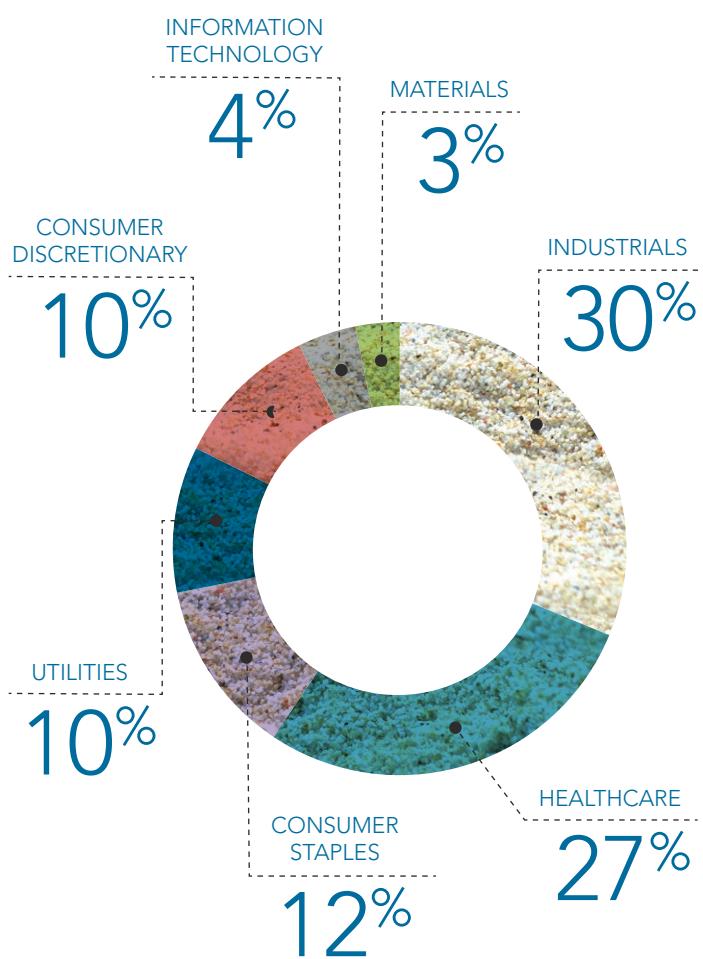
## Key Details

as at 30 April 2018

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	15% of returns in excess of benchmark and high water mark
HIGH WATER MARK	\$1.44
SHARES ON ISSUE	192m
MARKET CAPITALISATION	255m
GEARING	None (maximum permitted 20% of gross asset value)

## Sector Split

as at 30 April 2018



The Kingfish portfolio also holds cash.

# April's Biggest Movers

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

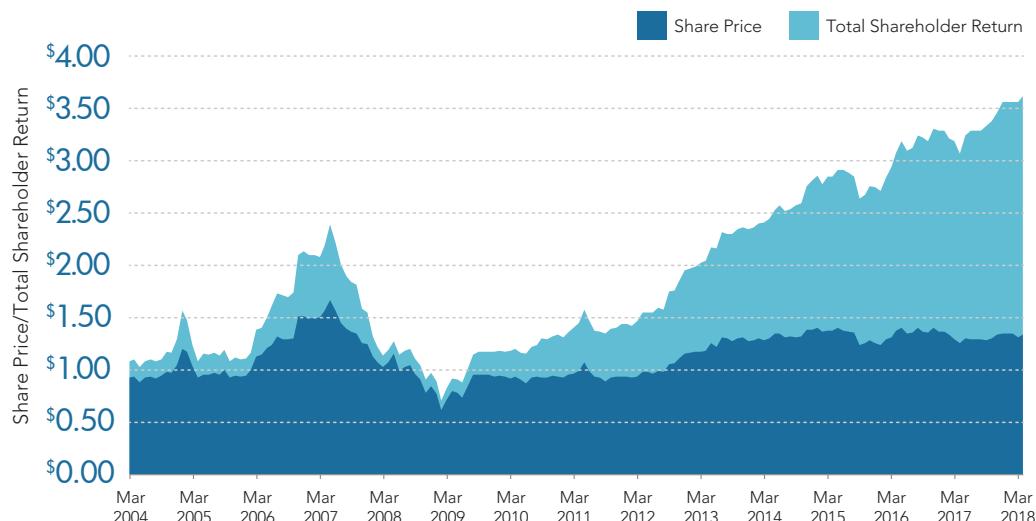
VISTA GROUP	AUCKLAND INTERNATIONAL AIRPORT	FISHER & PAYKEL HEALTHCARE	ABANO HEALTHCARE	MICHAEL HILL
+5%	+4%	-3%	-5%	-10%

## 5 Largest Portfolio Positions as at 30 April 2018

FISHER & PAYKEL HEALTHCARE	MAINFREIGHT	FREIGHTWAYS	THE A2 MILK COMPANY	RYMAN HEALTHCARE
12%	12%	9%	9%	7%

The remaining portfolio is made up of another 11 stocks and cash.

## Total Shareholder Return to 30 April 2018



## Performance to 30 April 2018

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
<b>Corporate Performance</b>					
Total Shareholder Return	+1.5%	+1.5%	+18.1%	+8.3%	+12.1%
Adjusted NAV Return	(1.0%)	(0.8%)	+13.9%	+12.4%	+12.0%
<b>Manager Performance</b>					
Gross Performance Return	(0.5%)	(1.1%)	+15.9%	+14.9%	+14.8%
S&P/NZX50G Index	+1.5%	+0.0%	+14.4%	+13.4%	+12.8%

### Non-GAAP Financial Information

Kingfish uses non-GAAP measures, including adjusted net asset value, 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,
- » gross performance return – the Manager's portfolio performance in terms of stock selection, and
- » total shareholder return – the return to an investor who reinvests their dividends, and if in the money, exercises their warrants at warrant maturity date for additional shares.

All references to adjusted net asset value, 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 Global Non-GAAP Financial Information Policy. A copy of the policy is available at <http://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

Kingfish's portfolio is managed by Fisher Funds Management Limited. Sam Dickie (Senior Portfolio Manager), Zoie Regan (Senior Investment Analyst) and Matt Peek (Investment Analyst) have prime responsibility for managing the Kingfish portfolio. Together they have over 40 years 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.

The Manager has authority delegated to it from the Board to invest according to the Management Agreement and other written policies. The Board of Kingfish comprises independent directors Alistair Ryan (Chair), Carol Campbell and Andy Coupe; and non-independent director Carmel Fisher.

# 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 up to 9.4m of its shares on market in the year to 31 October 2018
- » Shares bought back by the company are held as treasury stock
- » Shares held as treasury stock are available to be re-issued for the dividend reinvestment plan and to pay performance fees

## Warrants

- » Warrants put Kingfish in a better position to grow further, operate efficiently and pursue other capital structure initiatives as appropriate
- » A warrant is the right, not the obligation, to purchase an ordinary share in Kingfish at a fixed price on a fixed date
- » There are currently no warrants on issue

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.



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