

Quarter Update Newsletter

31 December 2017 — 31 March 2018

NAV	SHARE PRICE	DISCOUNT
\$1.45	\$1.31	9.5%
as at 31 March 2018		



- » While much has been written about the recent spike in market volatility and the correction during the quarter, a number of key portfolio companies experienced strong returns
- » With increased volatility comes increased dispersion with only 9 of our 19 positions contributing positively for the quarter
- » We took the opportunity to add to some of the highest quality assets in NZ at discounted prices

After four quarters of solid gains, the S&P/NZX50 finished down for the three months to 31 March 2018. Similarly, the Kingfish portfolio lost some of its momentum and only crept up 0.1% over the quarter.

A lot has been written about the increase in volatility and the “flash crash” in early February which saw common volatility measures spike from near all-time lows (as measured by the VIX Index) to 5x those low levels. While global markets took a solid hit (at one point within February the S&P 500 Index had declined by 10%), the New Zealand share market’s fall was much shallower.

New Zealand got off lightly compared to its international peers partly because New Zealand is viewed as a more defensive market due to its high dividend yield. Another contributing factor was the S&P/NZX50’s rally in January, prior to the global pull-back, was much more muted than international markets. It was also helpful that our market was closed for Waitangi Day while the flash crash was peaking, so by the time our market opened, sentiment had somewhat calmed down and markets had reclaimed some of their lost ground.

While the recent bout of higher volatility caught some by surprise, low volatility does not last forever. Typically spikes in volatility are associated with market corrections. The “flash crash” of February was initially triggered by fundamental drivers, but exacerbated by technical factors. In our view this presented a buying opportunity. We used this market dislocation and price weakness to add to the Kingfish positions in **Fisher & Paykel Healthcare, Auckland International Airport, Freightways** and **Vista**.

Sometimes a spike in volatility also results in increased dispersion in stock price performance. Volatility doesn’t just mean stocks go down sharply but they may also go up sharply. This is a time stock pickers should come into their own – and

Notable Returns in the Quarter

THE A2 MILK COMPANY	SUMMERSET	FISHER & PAYKEL HEALTHCARE	Z ENERGY	ABANO HEALTHCARE
+35%	+28%	-8%	-9%	-10%

pleasingly this was evident in the Kingfish portfolio over the March quarter. Standout performers, **The a2 Milk Company** and **Summerset** experienced volatile performance but to the upside, rising substantially.

We added **The a2 Milk Company** to the portfolio ahead of its 2018 interim result, and subsequently increased our holding further following the result which was impressive on a number of levels. As discussed in our March 2018 update, for the first half of 2018 a2 Milk comfortably beat already high expectations growing revenues 70% and EBITDA 123% versus last year. The company’s strong result was driven primarily through growth in its China infant formula business where it has rapidly increased market share.

a2 Milk also unexpectedly announced an agreement with Fonterra to accelerate growth into new markets and products, such as nutritionals, butter, and cheese. a2 Milk’s agreement with Fonterra creates access to new milk suppliers and diversifies a2 Milk’s manufacturing base. It will also help the company to develop markets in South East Asia and the Middle East through Fonterra’s logistics and distribution network, as well as provide fresh a2 milk in New Zealand. Fonterra has historically opposed a2 Milk’s progress so the validation of its product proposition is also a strong endorsement of the a2 milk category and its global growth potential.



During the quarter, **Summerset** delivered a strong full year result, with underlying profit of \$82m which was up 44% on the previous year. This result exceeded previous guidance and consensus forecasts, and was driven by better than expected resale settlements and stronger than expected margins on both new and resale settlements. Summerset flagged it expects to lift its current New Zealand build rate from 450 units per annum to approximately 600 units by the 2020/2021 financial year, accelerating its growth ahead of expectations. Furthermore, the company announced that it is continuing to investigate whether to move into the Australian market and will have two full-time employees on the ground from next month. We increased our investment in Summerset during the quarter following the strong result and continued delivery on its strategy.

In addition to adding a2 Milk to the portfolio, we chose to exit the Kingfish positions in **TradeMe** and **Z Energy** during the quarter due to changes in our investment theses. We also completed our exit of the **Xero** position due to the company moving to a sole listing on the ASX. With the 31 March 2018 quarter now passed, Kingfish has also reached the end of its 2018 financial year. We look forward to providing you with a comprehensive update of the Kingfish portfolio in the Annual Report which is due out later this year.



Sam Dickie
Senior Portfolio Manager
23 April 2018



Performance

as at 31 March 2018

	3 Months	3 Years (annualised)	Five Years (annualised)
Corporate Performance			
Total Shareholder Return	(0.0%)	+7.7%	11.9%
Adjusted NAV Return	+0.8%	+12.7%	+12.6%
Manager Performance			
Gross Performance Return	+0.1%	+15.2%	+15.6%
S&P/NZX50G Index	(0.9%)	+12.6%	+13.5%

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 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://www.kingfish.co.nz/about-kingfish/kingfish-policies/>

Company News

Dividend Paid 29 March 2018

A dividend of 2.89 cents per share was paid to Kingfish shareholders on 29 March 2018 under the quarterly distribution policy. Interest in Kingfish's dividend reinvestment plan (DRP) remains high with 45% 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.

Portfolio Holdings Summary

as at 31 March 2018

LISTED COMPANIES	% Holding
Abano Healthcare	1.9%
Auckland International Airport	5.4%
Delegat Group	3.4%
EBOS Group	2.4%
Fisher & Paykel Healthcare	12.1%
Freightways	9.3%
Infratil	7.2%
Mainfreight	12.1%
Meridian Energy	2.9%
Michael Hill International	4.5%
Port of Tauranga	3.1%
Restaurant Brands NZ	6.1%
Ryman Healthcare	7.5%
Summerset	6.5%
The a2 Milk Company	7.8%
Vista Group International	4.0%
Equity Total	96.2%
New Zealand dollar cash	3.8%
TOTAL	100.0%

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