

# Monthly Update

February 2019

KFL NAV	SHARE PRICE	WARRANT PRICE	DISCOUNT <sup>1</sup>
<b>\$1.43</b>	<b>\$1.34</b>	<b>\$0.04</b>	<b>5.8%</b>

as at 31 January 2019

## A word from the Manager

### Market Environment

New Zealand shares as measured by the S&P/NZX50G index were up +2.0% in the month of January, with the Kingfish portfolio modestly outperforming with a gross return of +2.1%.

While +2% in a month is certainly not to be sneezed at, the New Zealand sharemarket actually sharply underperformed global markets in January, which rallied hard following their particularly poor finish to 2018.

In this "risk-on"<sup>2</sup> environment, it is typical that New Zealand shares would underperform, especially after such a large outperformance in December in a "risk-off"<sup>2</sup> environment.

### The Portfolio

**a2 Milk** performed strongly during the month, on the back of several supportive proof points and various investment firms touting the company's potential to succeed in 2019. This was supported by sales data for some of the key Chinese e-commerce platforms (such as Tmall and Taobao) and Australian supermarket data had a strong finish to 2018. New Zealand export data also indicated the company is achieving strong volume growth.

These data points align with our view where we have turned more positive from late 2018, when we saw regulatory concerns subside and in-market pricing improving. When combined with our overall positive view of the company, these had given us confidence to increase our holding at lower prices.

Data from a regular UBS survey indicates a2 Milk is still strongly gaining market share in China from its small base and continues to rank very highly as a trusted brand, which is a leading purchasing criterion for Chinese mothers choosing infant formula.

We remain positive on a2 Milk as the company's product continues to take market share, management are executing strongly, and we see earnings expectations as likely being too conservative.

During January **Summerset** announced its fourth quarter operating statistics. The CEO, Julian Cook announced that they had achieved their highest new sales in the last two years, and the second highest quarter new sales ever for the Group. Although resales<sup>3</sup> were a little soft, there was reported to be minimal uncontracted stock available, (i.e. their resales inventory is at historically low levels). We believe that any resale softness will only be temporary. Summerset's 2018 retirement unit build target of 450 new homes was reported as having been achieved.

**Michael Hill** reported its key December quarter sales during January. Same store sales, compared with the prior year had increased by 2.9% in Australia and 1.3% in New Zealand during the combined November and December Christmas period. This increase in sales momentum in the second quarter was an improvement from the first quarter performance when same store sales were down -8% and -11% respectively. The gross margin for the business over the first half of the 2019 year was maintained at 62.7%, the same as for the first half of the 2018 year. This was achieved despite an increase in the cost of goods due to AUD weakness against the USD. The new CEO Daniel Bracken hasn't been with the business that long, however under his management the business has backed away from its unsuccessful cutting of promotional activity, so it will be interesting to see how the company performs over the second half of the 2019 year.

Daniel's initial focus is on retail operating fundamentals and we are of the view his influence will have a positive impact here.

<sup>1</sup> Share Price Discount to NAV (including warrant price on a pro-rated basis)

<sup>2</sup> Risk-on, risk-off (RoRo) investing describes a process where investors move to riskier potentially higher yielding investments and then back again to supposedly lower yielding investments which are perceived to have lower risk.

<sup>3</sup> The reselling of existing retirement units

## Portfolio Changes and Strategy

We reduced our position in **Auckland Airport** during the month. The stock has performed strongly recently and given that there are signs that airlines are reducing capacity we decided to reduce the Kingfish holding.

*Sam Dickie*

Sam Dickie  
Senior Portfolio Manager  
Fisher Funds Management Limited



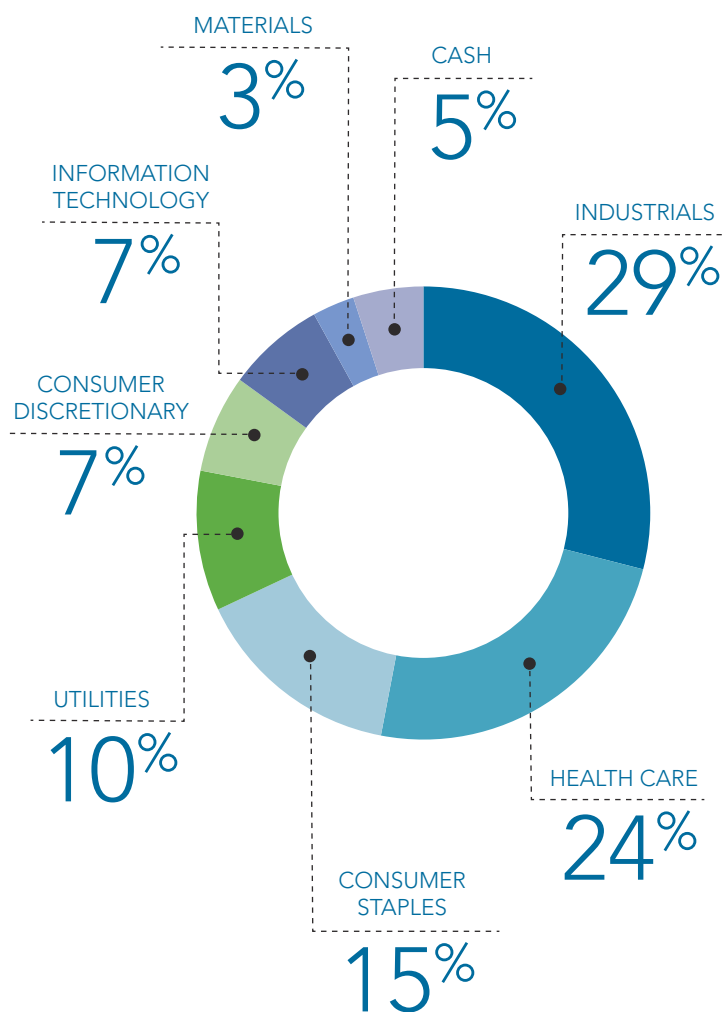
## Key Details

as at 31 January 2019

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	\$1.34
SHARES ON ISSUE	196m
MARKET CAPITALISATION	263m
GEARING	None (maximum permitted 20% of gross asset value)

## Sector Split

as at 31 January 2019



# January's Biggest Movers

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

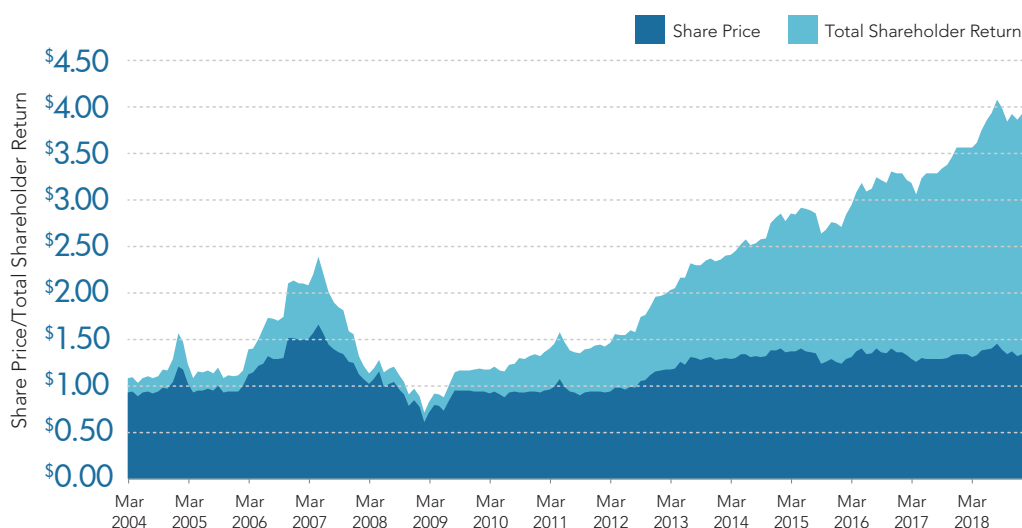
A2 MILK	PUSHPAY	VISTA GROUP	SUMMERSET	MICHAEL HILL INTL
+13%	+12%	+6%	-4%	-8%

## 5 Largest Portfolio Positions as at 31 January 2019

FISHER & PAYKEL HEALTHCARE	THE A2 MILK COMPANY	MAINFREIGHT	FREIGHTWAYS	INFRATIL
13%	12%	10%	10%	7%

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

## Total Shareholder Return to 31 January 2019



## Performance to 31 January 2019

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
<b>Company Performance</b>					
Total Shareholder Return	+1.5%	+2.2%	+10.0%	+13.2%	+10.7%
Adjusted NAV Return	+2.0%	+2.0%	+5.5%	+12.4%	+11.0%
<b>Portfolio Performance</b>					
Gross Performance Return	+2.1%	+2.4%	+6.6%	+15.0%	+13.6%
S&P/NZX50G Index	+2.0%	+2.7%	+6.4%	+13.3%	+13.0%

### 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 fees and tax,
- » adjusted NAV return – the net return to an investor after fees and tax,
- » gross performance return – the Manager's portfolio performance in terms of stock selection, before fees and tax, 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, 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 <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.

## Board

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 9.7m of its shares on market in the year to 31 October 2019
- » 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

- » On 2 July 2018, a new issue of warrants (KFLWE) was announced
- » The warrants were issued at no cost to eligible shareholders and in the ratio of one warrant for every four Kingfish shares held
- » Exercise Price = \$1.37 per warrant, to be adjusted down for dividends declared during the period up to the Exercise Date
- » Exercise Date = 12 July **2019**
- » The final Exercise Price will be announced and an Exercise Form will be posted to warrant holders in June **2019**

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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