Monthly Update
March 2019

KFL NAV	SHARE PRICE	WARRANT PRICE	DISCOUNT[1]
$1.53	$1.38	$0.05	8.7%

as at 28 February 2019

A word from the Manager

Market Environment

New Zealand equities as measured by the S&P/NZX50G index were up +3.8% in the month of February. This was broadly in line with global markets. After several months of very low dispersion of returns, which often happens during sharp market corrections and rebounds, variability increased in February during the local earnings season.

The companies within the Kingfish portfolio reported well compared to the New Zealand market, with a higher proportion of our companies delivering earnings ahead of expectations. Highlights were Vista and a2 Milk, whereas several other companies we do not own within the portfolio disappointed (such as Fonterra, Air NZ, Comvita, and Sky TV). Kingfish delivered an adjusted NAV return of +6.5% for February.

The Portfolio

a2 Milk reported a strong result ahead of our expectations, implying a very strong November/December and a re-acceleration in revenue growth. The company has conducted significant work on customer behaviour and is confident it will see benefits from its planned ramp-up in marketing spend. We continue to think there is significant potential for further growth in the large Chinese infant formula market.

Auckland Airport reported its first half year result for fiscal 2019 which slightly beat expectations on the back of strong retail division performance, although this is partly being offset by slower capacity and traffic growth from airlines.

Delegat delivered a solid first half year result, with operating net profit after tax up +17% on the previous corresponding period on the back of continued strong sales growth in the US (+13%) and a major new customer in the UK. The company upgraded its full year case sales forecast and increased its net profit guidance to now "at least" $50.3m, which would be a strong +12% on its record result from last year.

Fisher & Paykel Healthcare and competitor Resmed mutually agreed to end their respective global patent litigation. This is positive news as it will result in meaningful cost savings over the next couple of years, (in the order of $25m for next financial year by our estimates). It also removes a key area of near-term uncertainty given the timetable of hearings that were scheduled for 2019.

Vista Group reported a strong 2018 result with revenue growth of +23% which was ahead of its guidance (for circa +20%) and the outlook for 2019 revenue growth "in the region of 20%" was well above expectations. Its major business Vista Cinema continues to grow strongly and its new cloud and managed services offerings are beginning to generate new revenue streams. Recent large new customer wins will further build annuity revenue streams and enable the cross-sell of products from Vista's other small businesses. Vista's data analytics business Movio had very strong second half year revenue growth and this translated to even stronger profit growth. Movio Media is seeing more usage from customers - Disney was recently the final major studio to come on board and the industry is increasingly moving towards more non-traditional advertising channels, which benefit from Movio's insights. Vista is entrepreneurial and proactively invests in developing new businesses, with many of these like Powster, Numero, and Cinema Intelligence continuing to gain traction and extend the company's growth runway. We think Vista is a high quality software player in its niche and there is significant scope for it to continue growing at strong rates for many years.

Freightways delivered its first half year result with its network courier performance pleasingly in line with our expectations. The company gave further insight to its 'Pricing for Effort' strategy which has commenced and is designed to better monetise its $100m of business-to-residential revenue, which is currently barely breakeven, with a residential delivery surcharge to be introduced progressively from July. This and other efficiency initiatives should add to revenues and profitability over the next two years in addition to organic growth in business-to-business volumes.

The new **Michael Hill** CEO, Daniel Bracken, reported his first result with the company, with the first half year result soft as expected due to known poor sales prior to his appointment. Importantly, he has announced a targeted plan to turn the

[1] Share Price Discount to NAV (including warrant price on a pro-rated basis)

business around, with the highest agenda items restoring financial performance and improving core retail disciplines in the business. $5m of annual cost reductions have already been made starting January, with plans to take out another $5m this year. Daniels approach so far is delivering the things we expect to see for a successful turnaround to begin.

Summerset delivered a solid 2018 result, with revaluations of its properties stronger than expected due to quicker completions and higher development margins, which are driving stronger than expected net asset growth.

Fletcher Building reported its first half year result in line with November guidance. The company is busy working in its Australian division as part of its longer term plan to more than double profitability of this division to $200-250m EBIT (operating earnings) and expects this to enable year-on-year growth in the next fiscal year.

Pushpay's revenue for the December quarter was softer than anticipated because processing volumes in the last week of December fell short of expectations. The company's fiscal year revenue guidance is unchanged but we now expect it to be towards the lower end of the range. The company still expects strong revenue growth for the next year of around 30%. Positively, new customer growth was the best we have seen in 18 months, product updates continue to support Pushpay's proposition and profit margins continue to surprise to the upside.

Portfolio changes and strategy

We trimmed our position in **Fletcher Building** ahead of its result. We increased our positions in **a2 Milk** and **Vista Group** as we gained additional comfort their long duration growth stories have further to run. We trimmed our position in **Freightways** as the 'Pricing for Effort' story is becoming better reflected in the share price. We also trimmed **Infratil** modestly during the month.

Sam Dickie
Senior Portfolio Manager
Fisher Funds Management Limited

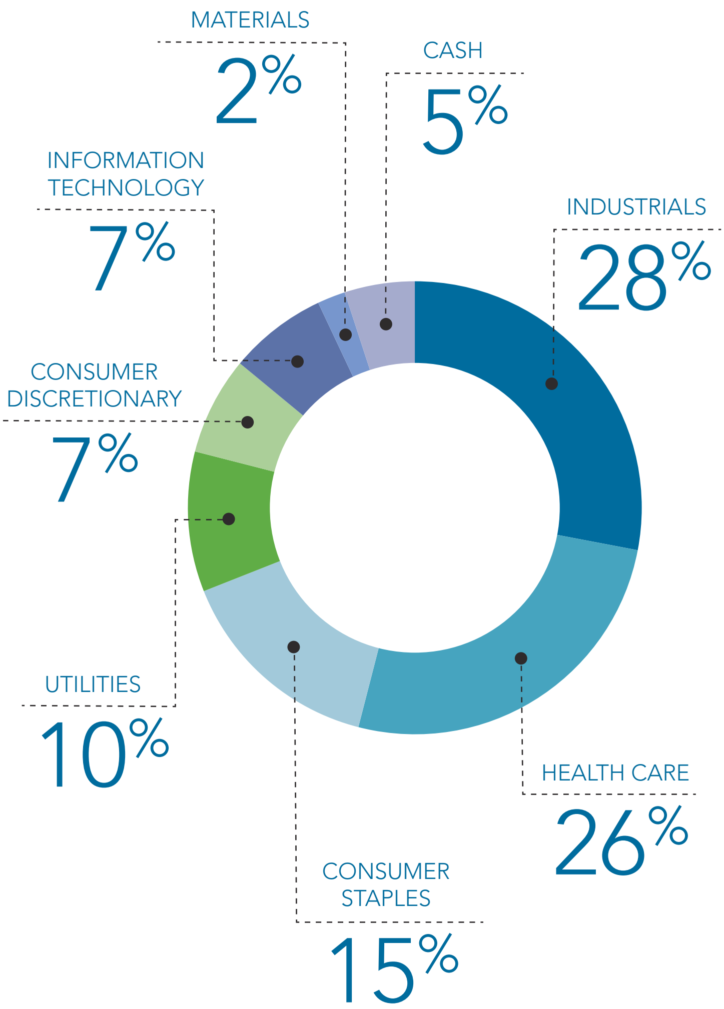
Key Details

as at 28 February 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	$271m
GEARING	None (maximum permitted 20% of gross asset value)

Sector Split

as at 28 February 2019



February's Biggest Movers

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

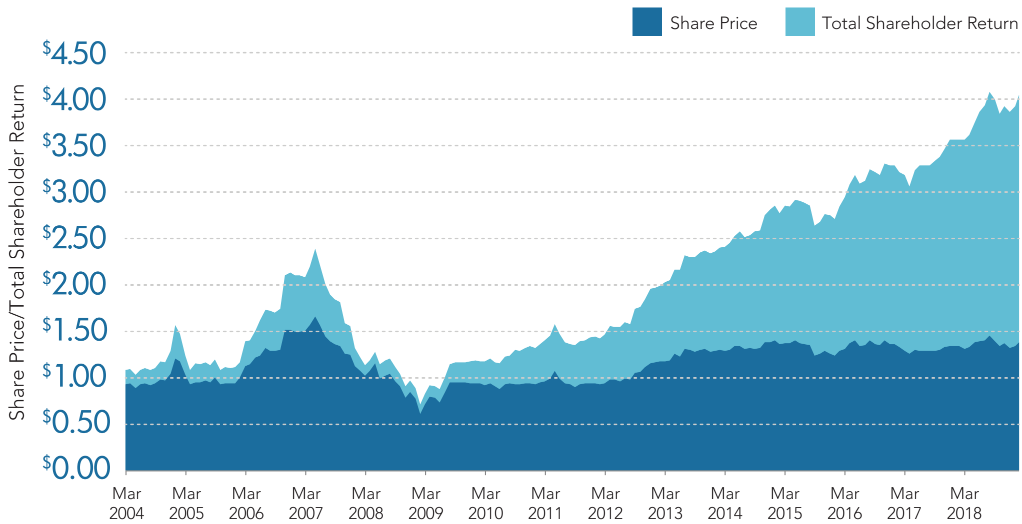
FISHER & PAYKEL HEALTHCARE	THE A2 MILK COMPANY	VISTA GROUP	MICHAEL HILL INTL	SUMMERSET
+17%	+13%	+13%	+8%	+6%

5 Largest Portfolio Positions as at 28 February 2019

FISHER & PAYKEL HEALTHCARE	THE A2 MILK COMPANY	MAINFREIGHT	FREIGHTWAYS	INFRATIL
14%	11%	10%	9%	7%

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

Total Shareholder Return to 28 February 2019



Performance to 28 February 2019

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
Company Performance					
Total Shareholder Return	+3.2%	+3.3%	+13.6%	+12.6%	+11.1%
Adjusted NAV Return	+6.5%	+9.4%	+13.8%	+14.7%	+12.4%
Portfolio Performance					
Gross Performance Return	+7.0%	+10.3%	+15.4%	+17.4%	+15.1%
S&P/NZX50G Index	+3.8%	+5.7%	+11.4%	+14.4%	+13.3%

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, Andy Coupe and 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**

KINGFISH
LANDING TOMORROW'S TROPHIES

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