QUARTERLY NEWSLETTER

1 October 2024 – 31 December 2024

Share Price	KFL NAV	DISCOUNT[1]
$1.34	$1.48	9.5%

as at 31 December 2024

The December quarter saw Kingfish deliver a gross performance return of +7.9% and an adjusted NAV return of +6.8%, compared to the +5.5% return of the S&P/NZX50G benchmark index. The returns for the 2024 calendar year were +25.7% and +22.5% respectively, against the benchmark return of +11.4%.

It was very satisfying to see the portfolio perform so well in 2024, given the tough New Zealand economy and modest returns in the local share market. Despite a second successive year in positive territory, it was a tough year for many listed companies, with the majority of the benchmark return driven by the strong performance of index heavyweight **Fisher & Paykel Healthcare** ('F&P', +65% total return in 2024 including dividends).

2024 was a clear illustration of why we prefer high quality growth companies

Kingfish focuses on the minority of companies that have wide economic moats and long runways for growth. This also means they often have meaningful offshore businesses that can continue to thrive while conditions are tough in New Zealand and others are found wanting when the economic tide goes out.

Aside from F&P, which is the largest position for Kingfish, the year's performance was supported by strong returns from cinema software company **Vista** (+88%) and the large position in growth infrastructure investor **Infratil** (+28%).

Through decades of investment, both F&P and Vista have cultivated meaningful technology-driven moats versus their competitors. They have become the global leaders in their respective markets, and so virtually all their revenue is from offshore customers. This means they are immune from New Zealand economic weakness and in fact when the New Zealand dollar weakens (as it has in 2024 with the NZ$/US$ exchange rate moving from 0.63 to around 0.56 at year end) this actually boosts revenue and earnings.

As we discussed in last month's update, at its half-yearly result F&P demonstrated strong performance across all key parts of its business, totalling 17% year-on-year growth in constant currency terms. The company is benefiting from its ongoing investment in research and development, which means it is regularly launching new products that extend its runway for growth.

Vista's growth is coming from transitioning its global cinema customers from its historical 'on-premise' solution (on servers physically located at each cinema) to its next generation software hosted in the cloud (remotely in secure data centres). This means it can scale computing power to match customer demand when blockbuster movie ticket sales open, maintain best practice cyber security, rapidly and remotely deploy software updates, and leave the cinema company IT staff to focus on other projects rather than maintaining old servers. Customers migrated onto the new product suite can generate 3-5 times as much revenue as previously. It is in the early stages of this transition and is set for many years of strong revenue growth, while sound cost control should mean most of the revenue growth falls straight to the bottom line as higher profits.

Infratil performed well again in 2024, in particular CDC Data Centres. This business has been outperforming expectations due to demand from customers driven by conventional and artificial intelligence workloads. During the year the sale of its peer AirTrunk for A$24 billion to global private equity firm Blackstone and a Canadian pension fund reinforced the value of these businesses.

Local business conditions deteriorated over the course of the year

The post-election optimism from a change in government late in 2023 and hopes of economic 'green shoots' early in the year faded as reality set in. Expectations of economic growth (real GDP) for the year began at around 1% but deteriorated to virtually zero by the end of the year. Over the course of the year the mantra for many local businesses became "survive 'till '25".

The consumer remains the largest driver of the New Zealand economy. Cost of living has remained a challenge for many Kiwi households, with essential big-ticket items like insurance, rates, and rent continuing to increase. While mortgage rates generally fell over the course of the year, the majority of households have been refinancing onto higher rates which has continued to suck discretionary spend out of the economy. Trans-Tasman retailer sales updates have routinely contrasted how much worse their New Zealand businesses are performing versus Australia.

The government only provided limited relief for taxpayers at its May budget, faced by a declining tax take and widening budget deficit. New Zealand has been an outlier compared with other western countries in the sense that the government has been constraining spending over the last couple of years when normally in a recession it would be looking to boost the economy. The pre-Christmas Treasury update showed that the country's books are in worse health than anticipated, and the government's response appears to be further spending cuts which risks prolonging the economic downturn.

Doom and gloom aside, **Freightways** (+30%) and **Summerset** (+31%) bucked the trend and delivered strong returns despite most of their businesses being exposed to weak economic conditions in New Zealand. Both are well managed and have a winning customer proposition in the market which has helped them fare better than their competitors. In fact, both companies have seen current year's prospects for profits broadly unchanged over the year despite the inclement climate. That they have managed so well during brutal local conditions makes us optimistic how well they will perform with a tailwind!

In 2025 it appears as if local business conditions may improve

Fortunately, some factors are now tentatively heading in the right direction. The Reserve Bank cut the Official Cash Rate from 5.50% to 4.25% over the second half of 2024. Current mortgage rates are now lower than the average of the mortgage book and so over the coming year the consumer will likely get some more spending power: a persistent headwind will become a gentle tailwind. This is setting New

[1] Share price discount to NAV (using the net asset value per share, after expense, fees and tax, to four decimal places).

Zealand up for a consumer-led recovery. The key question will be how meaningful this will be, as households are still licking their wounds, and unemployment has been ticking up as companies react to tougher conditions.

What 2024 has shown is that Kingfish's investments are well positioned if a tricky climate persists, while a number will perform better if conditions improve. Companies like Mainfreight (+9% in 2024 driven largely by excellent performance in its Australian business), Ryman (-20%) and Vulcan Steel (-4%), should see their New Zealand businesses improve as consumer spend, housing, and the industrial economy recover.

Matt Peek
Portfolio Manager
Fisher Funds Management Limited
15 January 2025

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER

FREIGHTWAYS GROUP	AUCKLAND INTERNATIONAL AIRPORT	CONTACT ENERGY	VISTA GROUP	FISHER & PAYKEL HEALTHCARE
+17%	+16%	+16%	+15%	+11%

PERFORMANCE

as at 31 December 2024

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+8.7%	(4.3%)	+5.9%
Adjusted NAV Return	+6.8%	+2.1%	+6.6%
Portfolio Performance			
Gross Performance Return	+7.9%	+3.7%	+8.4%
S&P/NZX50G Index	+5.5%	+0.2%	+2.7%

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 expenses, fees and tax,

» adjusted NAV return – the percentage change in the adjusted NAV value,

» gross performance return – the Manager's portfolio performance in terms of stock selection, before expenses, fees and tax, and

» total shareholder return – the return combines the share price performance, the warrant price performance, the net value of converting any warrants into shares, and the dividends paid to shareholders. It assumes all dividends are reinvested in the company's dividend reinvestment plan, and that shareholders exercise their warrants, (if they were in the money), at warrant expiry date.

All references to adjusted net asset value, adjusted NAV return, 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 kingfish.co.nz/about-kingfish/kingfish-policies.

PORTFOLIO HOLDINGS SUMMARY

as at 31 December 2024

LISTED COMPANIES	% Holding
Auckland Intl Airport	8.1%
Contact Energy	6.4%
Delegat Group	1.2%
EBOS Group	7.1%
Fisher & Paykel Healthcare	18.6%
Freightways	3.5%
Infratil	14.6%
Mainfreight	10.4%
Meridian Energy	3.1%
Port of Tauranga	3.0%
Ryman Healthcare	3.2%
Summerset	8.7%
The a2 Milk Company	2.2%
Vista Group International	5.9%
Vulcan Steel	0.9%
Equity Total	**96.9%**
New Zealand dollar cash	3.1%
TOTAL	**100.0%**

COMPANY NEWS

Dividend Paid 20 December 2024

A dividend of 2.85 cents per share was paid to Kingfish shareholders on 20 December 2024 under the quarterly distribution policy. Interest in Kingfish's dividend reinvestment plan (DRP) remains high with 39% 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.

KINGFISH
LANDING TOMORROW'S TROPHIES

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