KINGFISH
LANDING TOMORROW'S TROPHIES

QUARTERLY NEWSLETTER

1 October 2022 – 31 December 2022

Share Price	KFL NAV	PREMIUM[1]
$1.38	$1.37	0.5%

as at 31 December 2022

In the December quarter, Kingfish delivered a Gross Performance Return of 2.8% and an Adjusted NAV return of 2.6%, versus the 3.7% return of the benchmark (S&P/NZX50G) index. The Adjusted NAV return for calendar 2022 was a disappointing -16.1%.

It is important to reflect on why the 2022 outcome occurred. For quality growth companies including those in Kingfish, it was largely because valuations had become elevated, against the backdrop of low interest rates. For instance, Mainfreight was trading at 29 times forward earnings, versus its 10 year average of around 20 times. This is now at around 16 times. This dynamic has generally not played out to the same degree for New Zealand's defensive companies or those with lower growth prospects.

With other companies in a similar situation, Kingfish now looks more attractive on this basis than for quite some time. Plus, history tells us that the ability of companies to grow earnings over time will drive share prices and returns to shareholders.

Kingfish's companies are focused on fostering successful cultures, delivering for their customers, taking market share and sustainably becoming larger and more profitable in future years. This came through loud and clear when we visited companies and met their management teams numerous times over the quarter. They are certainly not pessimistic about the future!

Mainfreight is more confident than ever on fulfilling its long-term global growth potential

With its share price down -28% for the year, you would be forgiven for thinking that Mainfreight had a terrible year. In fact, over the course of the year, expectations for profit in the current and next year have increased by double-digit percentages. All of their share price fall (and then some) is down to a combination of the valuation becoming cheaper than historical averages, as discussed above, and general concerns about the global macroeconomic outlook.

At its investor day in October, Mainfreight discussed its ongoing strategy of growing and intensifying its network through adding new branches across all products and in all regions. This is simply a continuation of the same successful strategy that has seen it grow its branch network to over 300 branches globally, adding around 70 branches over the past 5 years.

Investment into new facilities is improving quality and efficiency. This assists with customer wins and retention and therefore boosts profitability. The new facilities include purpose-built transport (trucking) cross-docks and larger warehouses, including in Europe and the US. The company has historically been hesitant to invest in those regions because performance has lagged expectations. Now they are seeing signs of real traction emerging in terms of sales, customer wins, and profitability, which makes them confident to invest in those large and lucrative markets.

Mainfreight's management team and board has a fantastic track record of profitable growth. They turn up to work every day very much aligned and hungry to grow the business in spite of a potentially tougher environment. It is encouraging to see multiple executives add to their significant shareholdings recently, underscoring how strongly they believe in the future prospects of the business.

Infratil continues to benefit from strong demand for secure outsourced data centres

During the quarter we visited the facilities of Infatil's largest business – Canberra Data Centres (CDC) – in both Sydney and Auckland. It was impressive to see first-hand the calibre of CDC's management team and their comprehensive approach to building data centres.

Their focus on being the most secure, cost effective, and environmentally responsible data centre offering has seen it become a market leader in Australia.

CDC's new Auckland data centres have opened almost full, with 82 megawatts of capacity recently added to its pipeline in Auckland (compared to 28 megawatts currently). By leveraging its Australian experience, CDC has attained first mover advantage in the New Zealand hyperscale datacentre market.

In Sydney, CDC's CEO Greg Boorer highlighted the company's strong growth trajectory and confirmed that he expects to maintain earnings growth at around 25% annually over the medium term. This is supported by CDC's pipeline and significant customer demand, backed by continuing mega trends including increasing data usage, increasing security requirements, and elevated cybersecurity risks.

Infratil shares were broadly unchanged over the quarter but delivered a +11% return in 2022.

The retirement sector is firmly out of favour as investors fixate on house prices

During the quarter retirement village operators Ryman (-37%) and Summerset (-18%) saw continued weakness in their share prices. For most prospective residents the decision to move into a retirement village is a decision prompted by changing personal circumstances and will not be delayed by house prices. However, selling their home in a soft market is taking longer which drags on the completion of retirement unit sales.

Ryman raised a small amount of equity for the first time in 23 years by introducing a dividend reinvestment plan. This was in response to a surprising increase in net debt by $400 million to $3.0 billion as at its half year. Ryman's debt is a key reason why we have reduced Kingfish's position size over time (including recently), favouring Summerset instead (which has considerably lower gearing: 29% versus 45%).

Summerset continues to grow its unit sales year on year as it builds out its pipeline of new villages. It is on track to increase the number of new units built annually from 600 to 800 over time. This will be achieved in part via its fledgling Australian operations, which will commence unit deliveries in 2023 after years of sourcing and consenting sites. An ageing population and an increase in the popularity of retirement living in both markets will also continue to assist over time. In 2023 construction is likely to be at the lower end of this range, but Summerset's landbank and sites already underway support the medium-term ambition.

Despite the subdued near-term outlook we think both companies are offering attractive value as investments over the medium term.

Negative sentiment can turn into a positive

It has been reinforced this year that when market sentiment becomes particularly negative towards a company or sector, the turning point can be very powerful.

a2 Milk has endured a tough time in recent years, but delivered solid business performance in 2022 against low expectations. It returned +21% during the quarter and +24% for the year.

Last quarter we flagged that **Fisher & Paykel Healthcare's** (FPH) recent underperformance has largely been a result of the market's focus on short term risks, including a transient destocking cycle that was suppressing sales of its nasal high flow oxygen hospital consumables. The big picture remains attractive. During the quarter, the company delivered its half year result ahead of expectations, as this dynamic faded away. The company then saw sequential improvement in hospital consumables sales every month since May, which is unseasonably strong. During the quarter FPH shares returned +23%.

Matt Peek
Portfolio Manager
16 January 2023

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

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER

FISHER & PAYKEL HEALTHCARE	THE a2 MILK COMPANY	EBOS GROUP	SUMMERSET GROUP	RYMAN HEALTHCARE
+23%	+21%	+17%	-18%	-37%

PERFORMANCE

as at 31 December 2022

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	(5.4%)	+4.5%	+10.8%
Adjusted NAV Return	+2.6%	+2.8%	+8.5%
Portfolio Performance			
Gross Performance Return	+2.8%	+4.3%	+10.7%
S&P/NZX50G Index	+3.7%	(0.1%)	+6.4%

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 at http://kingfish.co.nz/about-kingfish/kingfish-policies/

PORTFOLIO HOLDINGS SUMMARY

as at 31 December 2022

LISTED COMPANIES	% Holding
Auckland Intl Airport	7.9%
Contact Energy	3.0%
Delegat Group	2.8%
EBOS Group	2.3%
Fisher & Paykel Healthcare	15.5%
Freightways	3.3%
Infratil	16.5%
Mainfreight	16.7%
Meridian Energy	1.6%
Port of Tauranga	2.4%
Pushpay Holdings	2.0%
Ryman Healthcare	2.0%
Summerset	9.2%
The a2 Milk Company	5.7%
Vista Group International	3.5%
Equity Total	**94.4%**
New Zealand dollar cash	5.6%
TOTAL	**100.0%**

COMPANY NEWS

Dividend Paid 16 December 2022

A dividend of 2.86 cents per share was paid to Kingfish shareholders on 16 December 2022 under the quarterly distribution policy. Interest in Kingfish's dividend reinvestment plan (DRP) remains high with 41% 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.

FOREIGN TAX COMPLIANCE ACT (FATCA) AND COMMON REPORTING STANDARD (CRS)

As a result of the New Zealand Government agreeing to participate in the exchange of information with other jurisdictions under the Foreign Tax Compliance Act (FATCA) and Common Reporting Standard (CRS), Financial Institutions are required to undertake due diligence to determine the account holders' jurisdiction of tax residence. If shareholders have not previously self-certified, they will receive a Tax Residency Self-Certification form from Computershare depending on when they first purchased their securities. Please ensure you complete and return this important document if you have not already done so. For more information please visit the IRD website: https://www.ird.govt.nz/international-tax/exchange-of-information/crs/registration-and-reporting or contact Computershare if you are unsure of whether you have completed your form.

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