KINGFISH
LANDING TOMORROW'S TROPHIES

MONTHLY UPDATE

June 2023

Share Price	KFL NAV	DISCOUNT[1]
$1.35	$1.40	3.5%

as at 31 May 2023

A WORD FROM THE MANAGER

In May, Kingfish's gross performance return was down 0.5% and the adjusted NAV return was down 0.6%. This compares to the benchmark S&P/NZX50G, which was down 1.7%.

Several key investments reported their 2023 financial year results during the month.

Fisher & Paykel Healthcare (-16%) weighed on performance for the month, giving up some of its share price gains of recent months. After several ups and downs during COVID, the company is now seeing consistent growth in demand for its respiratory products. This meant it was able to provide guidance for revenue in the new 2024 financial year of $1.7 billion, in line with our expectations. The company reiterated prior messaging that it expects to return to its targeted gross profit margin of 65% and its operating margin target of 30%, although this will take multiple years. While the medium-term targets haven't changed, in the next year it expects operating expenses to increase by 12%, ahead of sales growth of around 8%, as it has recently filled a large number of vacant positions. This means that profit margins are not expected to improve in the new 2024 financial year.

Infratil (+6%) reported its results in line with overall expectations. Canberra Data Centres (CDC) reported 33% growth in EBITDA (earnings before interest, tax, depreciation, and amortisation), its key profit measure. This was in line with expectations and Infratil expects around 23% further growth in the coming year from CDC. To extend its pipeline of future data centres, CDC has also purchased new sites in Sydney and Melbourne. One NZ (formerly Vodafone NZ) reported a strong result, with 11% growth in EBITDA, supported by improved cost efficiency despite the inflationary environment. Infratil's US renewable energy business Longroad is working towards building out its 8-gigawatt renewable development pipeline, with 1.3 gigawatts currently under construction. Recent legislation is supportive, with the Federal Government providing around US$370 billion of subsidies via the Inflation Reduction Act to lower the cost of renewable development. This will accelerate demand for Longroad's offering. Wellington Airport expects an uplift in aeronautical pricing this year and passenger volumes to continue to improve. Infratil's diagnostic imaging business expects a return to pre-COVID volumes as visits to general practitioners, which is a key referral channel, return to normal.

Mainfreight (-3%) delivered its financial results in line with expectations, albeit provided a relatively conservative outlook. Consistent with its early February update, the company is seeing more subdued conditions in all its markets than in previous years. For the year, the Transport division grew profit before tax +17%, although profit growth slowed in the second half to +7%. Warehousing growth also decelerated from strong growth rates (+31% in first half), particularly due to some one-off costs, but after adjusting for these still grew over +20% in the second half. Mainfreight's ocean freight volumes in the March quarter were -17% below the same period a year ago, versus -8% for the full financial year. This highlights that we are in a destocking period as customers continue to transition from "just in case" to more cost effective "just in time" inventory management. Outlook commentary was cautious, given the company habitually measures itself versus the previous year, when trading conditions were much stronger, and volumes were higher. The company remains very focused on managing costs tightly at the branch level but continues to invest in growing its network and investing in larger properties, which means it will be well placed to benefit when trading conditions inevitably improve.

Ryman Healthcare (+20%) announced its full year results during the month, with underlying profit of $302 million ahead of expectations of $280-290 million at the time of equity raising in February. The result saw strong margins for both resales of existing units (31%) and new units developed (29%), particularly new units in Australia (33%). Debt levels were around $100 million better than expected, even adjusting for the equity raising, with debt down to $2.3 billion. As a result, the company's gearing had reduced to 33.1%, within its target range of 30-35%. The company has also done a better job at managing costs.

Portfolio activity

The takeover of Pushpay concluded during the month, with Kingfish receiving $1.42 per share for its shareholding.

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

Kingfish also added **Vulcan Steel** to the portfolio in May. Vulcan is the leading steel distributor and value-add processing player in New Zealand and Australia. It is an impressive business in an unexciting industry.

Vulcan has a differentiated business model built around a leading customer service proposition, in an industry where customer service is typically poor. Vulcan's 'delivery in full and on time' metrics are far ahead of competitors, which enables it to charge a premium for this reliability. This translates to higher profit margins and returns on capital invested.

While it sounds simple, this high service model is driven by Vulcan's performance culture and customer-centric mentality. It is enabled by its self-built technology platform and own in-house fleet of delivery vehicles, but moreover by its people and approach to customer service. The current management team have grown the business organically and have a business owner mentality with plenty of 'skin in the game'. This mentality is pushed down throughout the organisation through its flat organisational structure and de-centralised management approach, with its team members on the floor also participating in the business's success through profit share incentives.

From its beginnings in the 1990s, Vulcan has grown to command the leading position in the New Zealand steel distribution market. Its growth journey in Australia is at an early stage and there is ample runway to take market share in the fragmented Australian market from a very low base using its proven strategy. And it is succeeding; it is already larger in Australia than New Zealand. It has also more recently moved into aluminium by acquiring Ullrich Aluminium, the leading trans-Tasman player in this space, at a reasonable valuation. This increases the company's growth opportunities moving forwards in a variety of ways.

We have been following Vulcan since its IPO in late 2021. The company has been building an emerging track record of performance as a listed company. The recent share price weakness has provided the opportunity to initiate a position for Kingfish.

Matt Peek
Portfolio Manager
Fisher Funds Management Limited

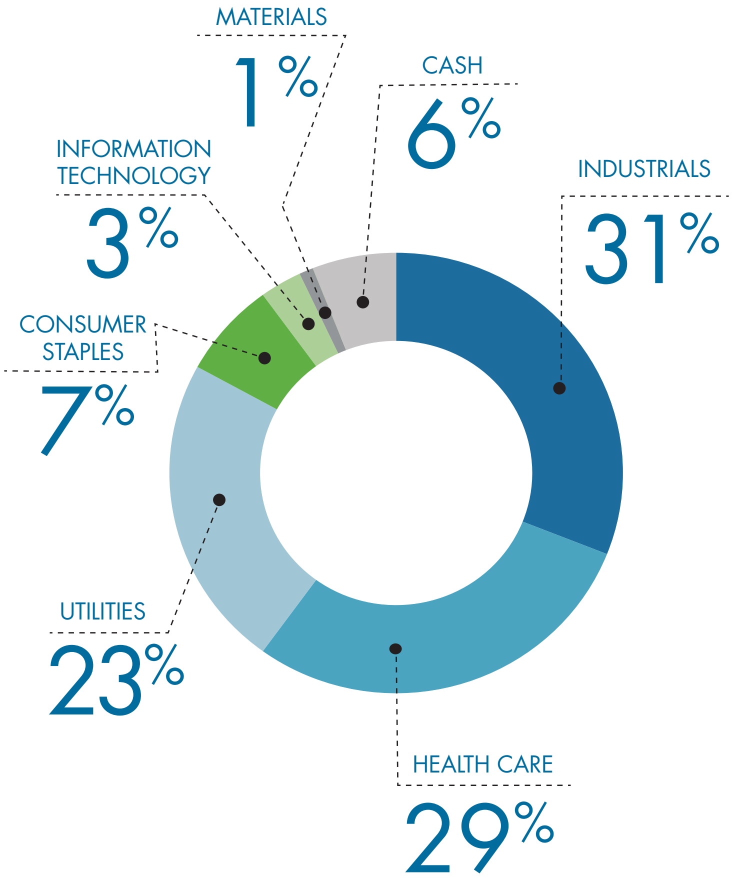
KEY DETAILS

as at 31 May 2023

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	10% of returns in excess of benchmark and high-water mark
HIGH WATER MARK	$1.49
PERFORMANCE FEE CAP	1.25%
SHARES ON ISSUE	330m
MARKET CAPITALISATION	$445m
GEARING	None (maximum permitted 20% of gross asset value)

SECTOR SPLIT

as at 31 May 2023



MAY'S SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO during the month

RYMAN HEALTHCARE

+20%

SUMMERSET GROUP

+12%

VISTA GROUP

+8%

INFRATIL

+7%

FISHER & PAYKEL HEALTHCARE

-16%

5 LARGEST PORTFOLIO POSITIONS as at 31 May 2023

INFRATIL

17%

MAINFREIGHT

17%

FISHER & PAYKEL HEALTHCARE

13%

AUCKLAND INTERNATIONAL AIRPORT

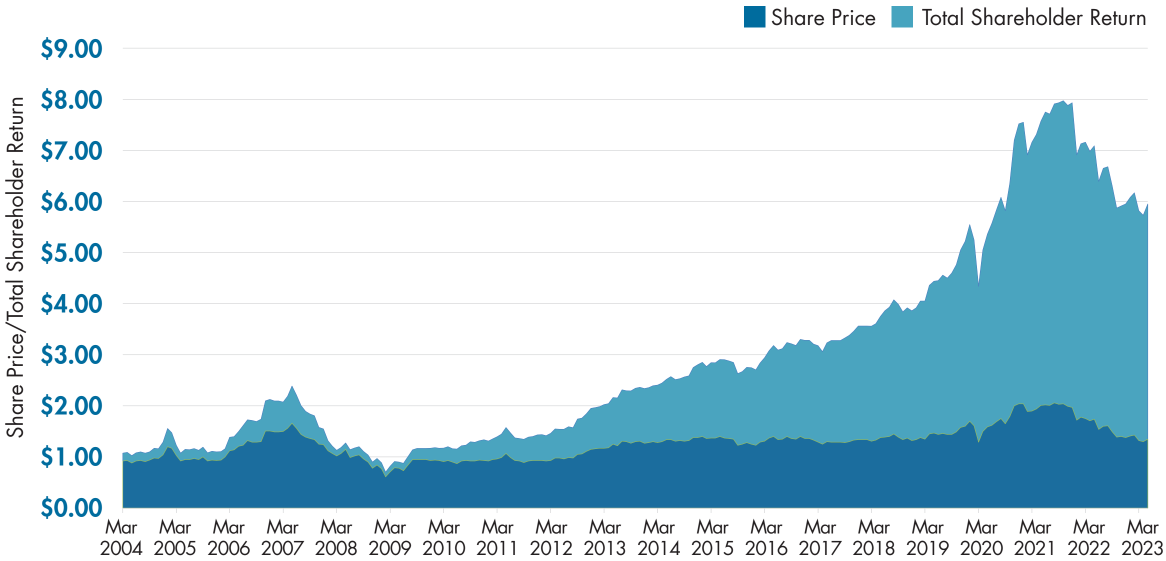
9%

SUMMERSET

8%

The remaining portfolio is made up of another 10 stocks and cash.

TOTAL SHAREHOLDER RETURN to 31 May 2023



PERFORMANCE to 31 May 2023

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
Company Performance					
Total Shareholder Return	+3.8%	(3.6%)	(16.1%)	+3.5%	+9.7%
Adjusted NAV Return	(0.6%)	(0.5%)	+3.9%	+4.5%	+8.5%
Portfolio Performance					
Gross Performance Return	(0.5%)	(0.1%)	+4.9%	+6.1%	+10.8%
S&P/NZX50G Index	(1.7%)	(0.7%)	+4.5%	+2.8%	+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 dividends (and other capital management initiatives) and after expenses, fees and tax,

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

» 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 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

The Manager has authority delegated to it from the Board to invest according to the Management Agreement and other written policies. Kingfish's portfolio is managed by Fisher Funds Management Limited. Matt Peek (Portfolio Manager) and Michael Bacon and Zoie Regan (Senior Investment Analysts) have prime responsibility for managing the Kingfish portfolio. Together they have significant 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 Board of Kingfish comprises independent directors Andy Coupe (Chair), Carol Campbell, David McClatchy and Fiona Oliver.

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 its shares on market
- Shares bought back by the company are held as treasury stock
- Shares held as treasury stock are available to be utilised for the dividend reinvestment plan

Warrants

- Warrants put Kingfish in a better position to grow further, operate efficiently, and pursue other capital structure initiatives as appropriate.
- A warrant is the right, not the obligation, to purchase an ordinary share in Kingfish at a fixed price on a fixed date.
- There are currently no Kingfish warrants on issue

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