KINGFISH
LANDING TOMORROW'S TROPHIES

QUARTERLY NEWSLETTER

1 July 2022 – 30 September 2022

Share Price	Warrant Price	KFL NAV	PREMIUM[1]
$1.49	$0.002	$1.37	9.1%

as at 30 September 2022

The importance of not leaping to conclusions

As we enter an uncertain period for the global economy it is tempting to presume companies will automatically suffer. This ignores the most important piece of the picture: what the companies themselves are doing.

As legendary investor Peter Lynch once put it, "Nobody can predict interest rates, the future direction of the economy or the stock market. Dismiss all such forecasts and concentrate on what's actually happening to the companies in which you've invested."

Kingfish invests in companies that have wide economic moats and attractive structural growth prospects. Every day the management teams go to work trying to sustainably grow their businesses irrespective of the prevailing economic conditions. This is particularly important in tough times as economic growth slows. However, when the market adopts "black and white" thinking that companies are automatically doomed, opportunities arise for investors.

Performance: a welcome positive quarter for returns

Kingfish outperformed the local market in the quarter, delivering a gross performance return of +3.3% and an Adjusted NAV return of +3.1%, versus the 1.8% return of the S&P/NZX50G index.

It was the first positive quarter for returns for both Kingfish and the New Zealand market since the corresponding September quarter last year.

Macroeconomic conditions have been "driving the bus" for most of 2022, with interest rates increasing far more sharply than expected from low levels. The New Zealand 10-year Government Bond yield has increased from 2.4% at the beginning of the year to peak at 4.3% in June and remains around that level. So, while share markets remain very sensitive to the dynamic between inflation and interest rates, they were not a headwind for returns over the quarter.

Kingfish's companies remain focused on executing their growth strategies

a2 Milk is one company where many have been quick to jump to pessimistic conclusions given headwinds it has faced earlier in 2022. It was Kingfish's best performing position in the September quarter, up 24%. Kingfish had added to the position earlier in the year.

Contrary to widespread fears, the company was well managed during another challenging period, including managing a change in major English Label distributor and pivoting volumes towards online platforms. It also "out-executed" rivals in getting China Label product to consumers during the Shanghai lockdowns.

The company reported a strong result for its year ended June, with infant formula sales and group earnings well ahead of expectations in the second half. This is despite ongoing weakness in China's birth rate. However, a2 has focused on taking market share in what is still a fragmented market.

a2's brand metrics continue to improve, with effective marketing increasing its share of voice and "top of mind" and "spontaneous" awareness metrics lifting strongly.

Management has done a good job of not only fixing issues in the business but building more robust capability and processes to deliver on its growth strategy. The team is comfortable it is on track for the medium-term expectations it set out at the October 2021 strategy day.

Infratil (+13% in the quarter) has proven itself the master of controlling its destiny, delivering shareholders with returns averaging over 17% annually since its shares listed in 1994.

Infratil has achieved this through investing in quality growth infrastructure assets and managing those assets actively. It identifies companies with long-term structural growth stories, complements this with value-add strategic initiatives and realises value at the optimal time to move capital into the next opportunity.

This active portfolio management helped Infratil to outperform the market so far during 2022 (up 10% versus the S&P/NZX50G down 15%). Infratil's portfolio is tilted towards essential infrastructure businesses which are inherently defensive, however most of the recent outperformance is due to two big transactions that realised significant value.

Firstly, the sale of the mobile telecom towers business of Vodafone New Zealand (soon to be rebranded as 'One NZ'). This transaction returned around 80% of the capital Infratil originally invested in Vodafone, whilst divesting only around 10% of the earnings stream. This is a fantastic result.

Secondly, Infratil is bringing in a new partner to help fund further growth at its US renewable energy development business, Longroad Energy. This transaction raised $500 million in capital. The deal value implies Infratil's stake, plus with distributions to date, are worth approximately three times the capital it has invested.

Together, these transactions delivered an uplift in Infratil's net asset value of more than 15%. Each reflects years of planning and execution on the part of Infratil and teams within its portfolio businesses. While we can't expect such major transactions to occur every quarter, we do know Infratil is working hard behind the scenes to lay the groundwork for future value creation.

Market pessimism can create attractive investment opportunities

Summerset delivered a 13% return during quarter on the back of a solid half year result and outlook.

Last quarter we highlighted that Summerset's share price had fallen too far on the back of concerns about the outlook for the New Zealand housing market and Kingfish added to its position.

The housing market is only one factor affecting the business. The company is still supported by growing penetration of retirement village living in New Zealand and Australia. The timing of a decision on whether to move into a village is also often determined by someone's stage of life rather than the housing market. Management called out robust demand for units at the result, despite deteriorating housing market conditions.

Fisher & Paykel Healthcare (-7% in the quarter) weighed on Kingfish's performance during the quarter. The recent underperformance has largely been a result of the market's focus on short term performance being below expectations, while the big picture remains attractive.

The company delivered subdued initial guidance for the first half of its 2023 fiscal year. The company has seen demand for consumables lower than expected in its hospital business. Customers are still working to reduce above-normal inventory holdings, built up during the early stages of the less severe Omicron COVID wave.

Our research tells us that usage of high flow nasal oxygen in hospitals has increased. The inventory situation is leading to sales diverging from underlying demand, which is a finite issue by nature. Before COVID the use of consumables very closely tracked the installed hardware base, which has broadly doubled. The company is working to lift usage of this installed base.

Matt Peek
Portfolio Manager
14 October 2022

[1] Share Price Premium to NAV (including warrant price on a pro-rated basis and using the net asset value per share, after expense, fees and tax, to four decimal places).

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER

THE a2 MILK COMPANY	SUMMERSET GROUP	INFRATIL	FREIGHTWAYS	PUSHPAY HOLDINGS
+24%	+13%	+13%	+10%	-13%

PERFORMANCE
as at 30 September 2022

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	(1.5%)	+11.0%	+13.6%
Adjusted NAV Return	+3.1%	+5.5%	+9.2%
Portfolio Performance			
Gross Performance Return	+3.3%	+7.5%	+11.6%
S&P/NZX50G Index	+1.8%	+0.4%	+6.9%

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 30 September 2022

LISTED COMPANIES	% Holding
Auckland Intl Airport	9.2%
Contact Energy	2.1%
Delegat Group	2.8%
EBOS Group	2.0%
Fisher & Paykel Healthcare	14.2%
Freightways	3.3%
Infratil	17.1%
Mainfreight	16.4%
Meridian Energy	1.1%
Port of Tauranga	2.4%
Pushpay Holdings	2.2%
Ryman Healthcare	3.6%
Summerset	11.5%
The a2 Milk Company	6.2%
Vista Group International	3.8%
Equity Total	**97.9%**
New Zealand dollar cash	2.1%
TOTAL	**100.0%**

COMPANY NEWS
Dividend Paid 23 September 2022

A dividend of 2.83 cents per share was paid to Kingfish shareholders on 23 September 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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