KINGFISH
LANDING TOMORROW'S TROPHIES

MONTHLY UPDATE

March 2023

Share Price	KFL NAV	DISCOUNT[1]
$1.43	$1.43	(0.3%)

as at 28 February 2023

A WORD FROM THE MANAGER

In February, Kingfish's gross performance return was down 0.8% and the adjusted NAV return was also down 0.8%. This compares to the benchmark S&P/NZX50G, which was down 0.6%.

During February many companies in the Kingfish portfolio delivered their six-monthly results for the period through to 31 December 2022.

Portfolio News

a2 Milk (−2%) reported its semi-annual result slightly ahead of expectations. This was driven by stronger than expected sales of its 'Zhichu' (Chinese label) range of infant formula products, which is the key growth driver for the business. The company continues to grow brand awareness for this product range, which is translating into greater rates of trial and market share gains. Market share gains are continuing in Mother & Baby Stores in major cities, and also in lower tier cities where the company has entered more recently and has smaller share. Its online strategy is seeing similar success, with its market share increasing rapidly (to 3.0% in 2022, from 2.1% in 2021). Offsetting this, management remained cautious about the extent that profit margins are likely to expand over time given ongoing reinvestment and marketing requirements.

Auckland Airport (+3%) also announced financial results. Operating earnings were higher than market expectations, supported by a strong passenger recovery, with international travel reaching 59% of 2019 levels. It also saw strong rent growth in its property portfolio and a rebound in international passengers spend rates in the retail business.

Oyster Bay wine producer **Delegat** (−9%) reported its first half fiscal 2023 result, which showed modest +2% profit growth on the prior year on case sales up +4% as cost growth weighed on performance. Full year profit expectations were tempered to $59-62 million (from $60-64 million) reflecting inflationary pressures, versus $58.1 million the previous year. During the month Cyclone Gabrielle tragically impacted the country, particularly the eastern North Island. Fortunately, there was no major impact from the cyclone on Delegat. The company experienced some minor surface flooding at its Hawkes Bay winery and one of its vineyards, but there was no silt residue or damage to vines, and it expects no adverse impact on the coming harvest.

EBOS (+3%) delivered a high-quality half year result, demonstrating strong organic growth as well as its recent large LifeHealthcare acquisition performing in line with expectations. The underlying healthcare market continues to benefit from strong sales of antivirals and growth in high value speciality medicines. Importantly, EBOS continues to gain market share in its core Community Pharmacy division and growing Contract Logistics business. The company demonstrated seamless execution of bringing its pet-food manufacturing in house which saw an uplift to profit margins in its Animal Care division.

Freightways (+1%) delivered a relatively solid set of results despite the slowing economic environment. In its New Zealand courier business, market share gains offset weaker like-for-like demand and saw volumes only down 2% versus a very strong comparable period. It is worth bearing in mind that business-to-consumer only represents around one-fifth of its business mix, so the company has limited exposure to slowing consumer discretionary spend, even though its retail customers saw volumes decline around 15%. The recent Allied Express (Australian express delivery) acquisition is performing ahead of expectations, with activity from almost all customers growing versus the prior period. The company continues to raise prices to offset cost inflation, and re-price undervalued services such as local delivery and oversize parcels.

Mainfreight (+2%) delivered a trading update for the first 43 weeks of its financial year, through to the end of January 2023. Growth is slowing, consistent with what is happening in the global economy, but the company is still performing credibly versus what was a very strong period in the previous year. Earnings growth in the Transport division decelerated as the company added line haul capacity in the US and volume growth fell short of expectations. The Warehousing segment continued to grow strongly, broadly in line with previous growth rates. The company's Air & Ocean freight forwarding division saw profitability moderate from recent highs. However, the decline here was less pronounced than expected given shipping rates have now reduced from high levels (particularly on its US and Asian trade lanes).

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

Pushpay (−2%) released the Independent Adviser Report in relation to the proposed scheme of arrangement during the month. We also engaged meaningfully with the company and its board of directors. Contrary to the recommendation of its non-conflicted directors, we voted against the scheme. Our view is that the offer price of $1.34 per share does not represent compelling value for shareholders. We also note the offer price was at the lower end of the $1.33-1.53 independent adviser's valuation range.

Ryman Healthcare (−19%) raised around $900 million of new equity at $5.00, and reduced its financial leverage, by repaying its US Private Placement (USPP) debt in full. We had anticipated the equity raising, given an unexpectedly large step-up in debt revealed at the half-year result in November, and reduced the position at higher prices. Ryman provided an update on its development plans, with development slowed or halted at some of its high intensity sites to ensure a sustainable growth path and maintain lower debt levels. The company has introduced a medium-term gearing target of 30-35% (the ratio of debt to assets). Kingfish took up its entitlement to buy new shares, although our position size remains smaller than previous years until we gain more confidence in management's execution of the strategy.

Summerset (−6%) announced its 2022 full year result. Underlying profit was in line with expectations with development margins particularly strong in the second half year, at around 32%. Management flagged they expect these to return to their 20-25% target range, given the combination of construction cost inflation (which has been well managed to date) and a flatter pricing outlook given the soft housing market. Summerset expects to build between 625 and 675 units in 2023, versus 651 in 2022. The management team has indicated that the company sits comfortably inside its banking covenants and expects to remain so, with ample headroom.

Portfolio Changes

Aside from taking up the entitlement to buy new Ryman shares, there were no substantive changes to the portfolio in the month.

Matt Peek
Portfolio Manager
Fisher Funds Management Limited

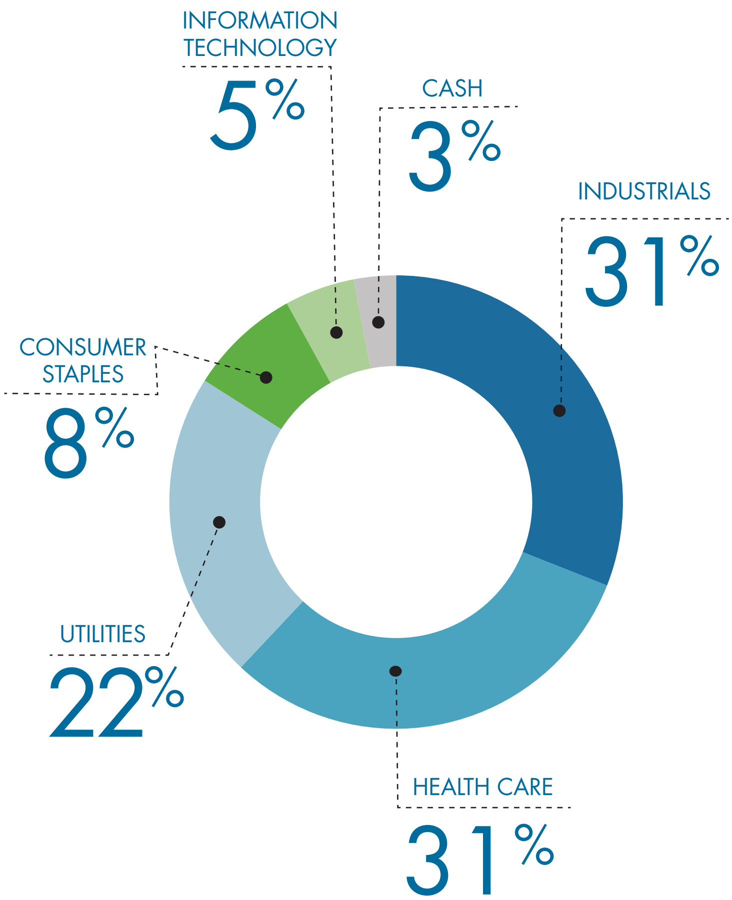
KEY DETAILS

as at 28 February 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	$1.52
PERFORMANCE FEE CAP	1.25%
SHARES ON ISSUE	328m
MARKET CAPITALISATION	$469m
GEARING	None (maximum permitted 20% of gross asset value)

SECTOR SPLIT

as at 28 February 2023



FEBRUARY'S SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO during the month

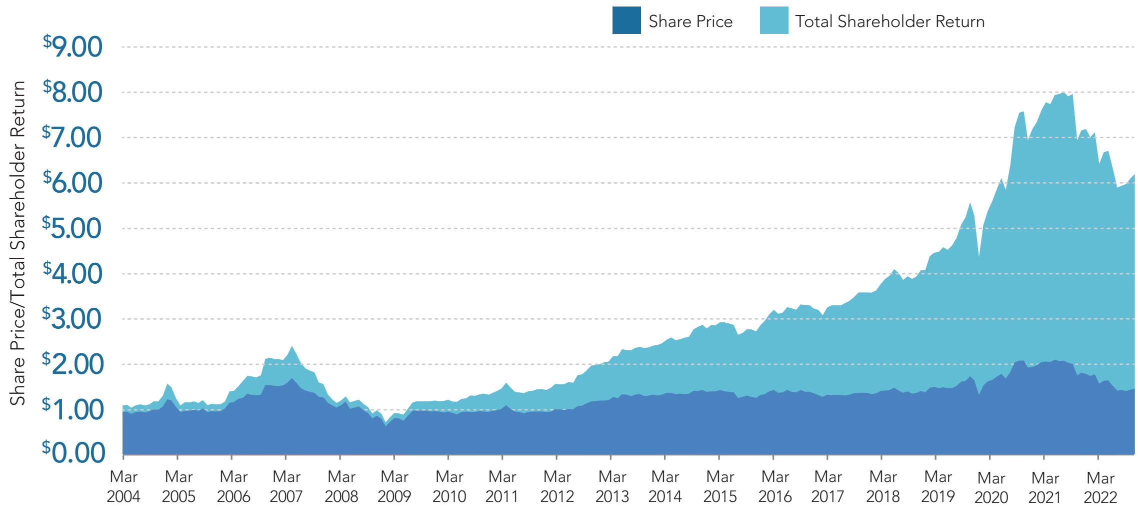
EBOS GROUP	FISHER & PAYKEL HEALTHCARE	SUMMERSET	DELEGAT GROUP	RYMAN HEALTHCARE
+3%	+3%	-6%	-9%	-19%

5 LARGEST PORTFOLIO POSITIONS as at 28 February 2023

MAINFREIGHT	INFRATIL	FISHER & PAYKEL HEALTHCARE	SUMMERSET	AUCKLAND INTERNATIONAL AIRPORT
17%	16%	16%	9%	8%

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

TOTAL SHAREHOLDER RETURN to 28 February 2023



PERFORMANCE to 28 February 2023

	1 Month	3 Months	1 Year	3 Years (annualised)	5 Years (annualised)
Company Performance					
Total Shareholder Return	+1.4%	+4.3%	(13.5%)	+5.5%	+11.6%
Adjusted NAV Return	(0.8%)	+2.3%	(2.6%)	+5.2%	+9.6%
Portfolio Performance					
Gross Performance Return	(0.8%)	+2.6%	(1.5%)	+6.9%	+11.8%
S&P/NZX50G Index	(0.6%)	+3.0%	(0.7%)	+1.8%	+7.3%

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 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 re-issued 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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