QUARTERLY NEWSLETTER

1 January 2023 – 31 March 2023

Share Price	KFL NAV	DISCOUNT[1]
$1.32	$1.40	5.6%

as at 31 March 2023

In the March quarter, Kingfish delivered a Gross Performance Return of 4.1% and an Adjusted NAV return of 3.9%, versus the 3.6% return of the S&P/NZX50 gross index.

Quarterly performance was led by respiratory equipment maker Fisher & Paykel Healthcare (with a return of +18% in the quarter) which upgraded its sales guidance during January. Several of Kingfish's other defensive growth companies also delivered solid performance including Auckland Airport (+11%), medical products wholesaler EBOS (+7%), and infrastructure investment company Infratil (+6%).

Detractors from performance in the quarter included wine company Delegat (-19%), which trimmed its profit guidance slightly during February, and a2 Milk (-15%). Cinema software company Vista (-9%) also saw its share price fall, despite releasing a solid 2022 result which exceeded expectations. Vista also gave guidance for a 2023 increase in revenue consistent with progress towards its medium-term targets at its October 2022 investor day. The soft share price suggests investors are waiting to see further evidence that under its new CEO that the company can execute while controlling costs.

Infratil is well positioned for the future growth of Longroad

Infratil held an investor day during March. Members of Infratil's management team gave presentations on key thematic areas, supported by presentations from senior management from its portfolio companies. These included data centre business CDC, US renewable electricity developer Longroad Energy, One NZ (formerly Vodafone NZ), and its trans-Tasman diagnostic imaging businesses.

The tone was upbeat, with increasing confidence to deploy additional capital into growth opportunities within the current portfolio. It was refreshing to hear from senior management of important portfolio companies like Longroad Energy, who are not in New Zealand often. They are passionate experts with a wealth of experience in their sectors. The way Infratil is structured, these key management people usually retain equity in the companies they manage and so are well aligned to drive success for shareholders.

Longroad is becoming an increasingly important part of the Infratil portfolio. It has a target to grow around 3-4 times its current size over the next four years, by developing 1.5 gigawatts per year of renewable electricity projects in the US, primarily solar farms and accompanying battery storage. For context, 1.5 gigawatts is approximately enough electricity to power over a million homes. Longroad expects to significantly benefit from the Inflation Reduction Act in the USA, recent legislation that will deliver billions in tax credits and subsidies to the US renewable electricity industry.

Overall, we came away from the day with confidence in Kingfish's Infratil position.

We fought for a better outcome in the Pushpay takeover battle

In April 2022, Pushpay's board had received approaches from several parties interested in potentially acquiring the company. From the outset, cornerstone shareholder Sixth Street and private equity firm BGH held around 20% of the company and were clearly in the box seat as they could effectively block any other party from doing a deal.

Unfortunately, Pushpay's board recommended the low-ball initial $1.34 offer by way of 'scheme of arrangement' in October 2022. Generally, we remain dubious about schemes of arrangement, where due to the 75% threshold a substantial minority can be forced to part with a company despite rejecting an offer. The 90% takeover threshold is there for a reason – to ensure companies are only taken private at compelling valuations – and we would prefer to see directors not 'lower the bar' by readily agreeing to go down the scheme path.

At this point, they had already sought feedback from institutional shareholders around where they viewed fair value. So, it should not have been a surprise that many shareholders (us included) would have not entertained an offer that low.

The board stood by its recommendation even after the Independent Adviser came out in February with a valuation range of $1.33 to $1.53, with the $1.34 bid barely off the bottom end. This report should have caused the board to doubt the conviction of its recommendation; however, directors were quick to cite a number of reasons why the range might not be appropriate. Concerningly, they talked to the risks around the business not delivering on its goals and management's forecasts. Presumably the board had also at some point signed off on those forecasts, which aligned to the growth story they had been previously presenting to investors.

Pushpay shareholders voted in March to see whether the company would be taken private at that price. We voted against the offer, against the directors' recommendation, because we thought it did not sufficiently compensate shareholders. This would also pressure the bidder to dig for a better offer. Fortunately, enough other shareholders did the same and the scheme vote failed.

To its credit, subsequent to this, the bidder made a revised offer of $1.42. Fisher Funds and several other key institutional investors enabled the higher offer to be brought forward by agreeing to vote in favour of the scheme at the new price.

Pushpay is the leader in its sector and has an appealing runway for future growth, but several questions remain for investors. Growth has slowed and it has changed its 'go-to-market strategy' repeatedly without a satisfying explanation of why it hadn't worked.

Overall, Pushpay still has a bright future, but it is not without risks. Through this process, we have new doubts about whether the board have the appetite to work hard to get the best out of management and fight to drive value creation for shareholders over time.

For these reasons, we have agreed to accept the $1.42 offer: the certainty of a bird in the hand.

Matt Peek
Portfolio Manager
Fisher Funds Management Limited
14 April 2023

[1] Share price discount 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	AUCKLAND INTERNATIONAL AIRPORT	PUSHPAY HOLDINGS	THE A2 MILK COMPANY	DELEGAT GROUP
+18%	+11%	+9%	-15%	- 19%

PERFORMANCE

as at 31 March 2023

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	(2.3%)	+10.3%	+10.3%
Adjusted NAV Return	+3.9%	+9.5%	+9.1%
Portfolio Performance			
Gross Performance Return	+4.1%	+11.5%	+11.5%
S&P/NZX50G Index	+3.6%	+6.7%	+7.4%

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 March 2023

LISTED COMPANIES	% Holding
Auckland Intl Airport	8.6%
Contact Energy	4.0%
Delegat Group	2.2%
EBOS Group	4.0%
Fisher & Paykel Healthcare	16.0%
Freightways	3.4%
Infratil	17.1%
Mainfreight	16.9%
Meridian Energy	2.0%
Port of Tauranga	2.4%
Pushpay Holdings	2.1%
Ryman Healthcare	3.6%
Summerset	8.5%
The a2 Milk Company	4.7%
Vista Group International	3.1%
Equity Total	**98.6%**
New Zealand dollar cash	1.4%
TOTAL	**100.0%**

COMPANY NEWS

Dividend Paid 24 March 2023

A dividend of 2.79 cents per share was paid to Kingfish shareholders on 24 March 2023 under the quarterly distribution policy. Interest in Kingfish's dividend reinvestment plan (DRP) remains high with 40% 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.

KINGFISH
LANDING TOMORROW'S TROPHIES

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