QUARTERLY NEWSLETTER

1 April 2023 – 30 June 2023

Share Price	KFL NAV	DISCOUNT[1]
$1.34	$1.40	4.0%

as at 30 June 2023

In the June quarter, Kingfish delivered a Gross Performance Return of 2.3% and an Adjusted NAV return of 1.9%, versus the 0.3% return of the S&P/NZX50 gross index.

Quarterly performance was led by a recovery in the retirement village operators **Ryman** (+25% shareholder return in the quarter) and **Summerset** (+9%). The New Zealand housing market decline is now long in the tooth but with migration increasing and the Reserve Bank of New Zealand largely through its interest rate hiking cycle, there are increasing signs we may be nearing an inflection point. Other strong performers included **Infratil** (+12%), recent addition **Vulcan Steel** (+12% since addition), and cinema software provider Vista (+24%). Vista's new CEO started during the quarter and has experience in leading a business through a transition to software-as-a-service. He is also planning to remove unnecessary complexity in the business and accelerate the delivery of cash flows.

Kingfish's healthcare investments detracted from returns during the quarter. As we discussed last month, **Fisher & Paykel Healthcare** (–7%) is taking longer than expected to restore profit margins towards long term targets due to cost pressures. During June, **EBOS** (–21%) was dealt a surprising blow after competitor Sigma bid very aggressively to win its contract to supply Chemist Warehouse. Other detractors included **Freightways** (–12%) and **a2 Milk** (–14%). a2 continues to take market share and received regulatory approval for its reformulated product range, but China's infant formula market is being impacted by a lower number of births.

We continue to see economically exposed companies struggle, with both the earnings and share prices of those companies coming under pressure. Example of those domestically focussed consumer-facing companies that Kingfish does not own include the likes of My Food Bag, Briscoes and Kathmandu. While the likes of **Mainfreight** (+3% in the quarter) and **Freightways** (–12%) are less exposed to the changes in consumer spending, they are nevertheless seeing their performance muted by subdued freight volumes and cost pressures.

For these reasons, we have selectively taken the opportunity to increase defensive positions where the valuation is attractive, such as participating in the Infratil equity raising in June as discussed below. We are also on the lookout for opportunities to add quality cyclical investments with attractive longer-term growth prospects that have been sold off, such as Vulcan, although remain cautious given the tricky economic landscape.

Infratil has increased its ownership of One NZ

Infratil thinks of its infrastructure portfolio as 'ideas that matter' and has focused on being early to identify structural growth opportunities. One such area is connectivity and data.

During May, Infratil purchased the half of One NZ (formerly Vodafone NZ) it didn't already own from its partner Brookfield for $1.8 billion. This gives it full control of the company, increasing cash flows available for dividends and redeploying into growth opportunities at its other portfolio companies.

One NZ is towards the lower risk end of the risk spectrum as a result of its stable demand and strong cash flows. One NZ is now taking market share in mobile, the most valuable part of the business. Its management team have done well to increase profit margins since Infratil's initial investment. However, as with all Infratil investments there are hidden opportunities for higher returns. Management have aspirations to continue to further grow margins towards best-in-class levels from optimising mobile pricing and further efficiency gains.

Infratil raised $935 million of new equity to help pay for the acquisition. We participated and increased Kingfish's position size as a result of the logical acquisition and attractive discount on offer (shares were issued at $9.20 versus the prior price of just over $10).

EBOS maintains an attractive outlook, despite a setback

EBOS was dealt a surprising blow in June after competitor Sigma announced it had won the Chemist Warehouse pharmaceutical and FMCG supply contracts for Australia, commencing mid-2024. EBOS currently holds the pharmaceutical contract, which generates A$1.9 billion in revenue annually, although at a low profit margin.

We thought that the most likely outcome of the retender was that Chemist Warehouse would retain the status quo of EBOS and Sigma as dual suppliers, although we expected EBOS would likely need to slightly improve pricing. As it transpired, Sigma bid very aggressively for the contract, issuing new shares to Chemist Warehouse to hand it around an 11% shareholding and gifting A$24.5 million in assets. These combined equate to roughly five years of earnings generated from the revised Chemist Warehouse contract.

While this is a disappointing outcome and will result in a dip in earnings in the 2025 financial year, we still think EBOS is positioned for growth over time. Its animal care business continues to grow, and it has grown its healthcare business into medical devices and contract logistics, so the company has several growth avenues outside of its community pharmacy division. While early days, we expect competitive pressure within the community pharmacy wholesale market to improve as Sigma no longer has capacity sitting idle. We expect EBOS's TerryWhite Chemmart will continue to take market share, as the leading trusted advice-based pharmacy chain in Australia.

Matt Peek
Portfolio Manager
Fisher Funds Management Limited
17 July 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

RYMAN HEALTHCARE	VISTA GROUP	VULCAN STEEL	THE A2 MILK COMPANY	EBOS GROUP
+25%	+24%	+12%	-14%	-21%

PERFORMANCE

as at 30 June 2023

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+3.8%	+2.7%	+9.3%
Adjusted NAV Return	+1.9%	+3.3%	+8.0%
Portfolio Performance			
Gross Performance Return	+2.3%	+4.7%	+10.3%
S&P/NZX50G Index	+0.3%	+1.3%	+5.9%

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 June 2023

LISTED COMPANIES	% Holding
Auckland Intl Airport	8.4%
Contact Energy	4.2%
Delegat Group	2.3%
EBOS Group	4.0%
Fisher & Paykel Healthcare	13.3%
Freightways	3.0%
Infratil	17.1%
Mainfreight	17.3%
Meridian Energy	2.0%
Port of Tauranga	2.4%
Ryman Healthcare	4.4%
Summerset	8.8%
The a2 Milk Company	4.0%
Vista Group International	3.8%
Vulcan Steel	1.2%
Equity Total	**96.2%**
New Zealand dollar cash	3.8%
TOTAL	**100.0%**

COMPANY NEWS

Dividend Paid 23 June 2023

A dividend of 2.82 cents per share was paid to Kingfish shareholders on 23 June 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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