KINGFISH

LANDING TOMORROW'S TROPHIES

QUARTERLY NEWSLETTER

1 January 2021 – 31 March 2021

Share Price	KFL NAV	PREMIUM[1]
$1.90	$1.77	7.6%

as at 31 March 2021

Yes, New Zealand needs a trans-Tasman bubble — but we need more

New Zealand was the poster child in the fight against COVID, and the reward is a trans-Tasman bubble. Which is great. But we need more.

New Zealand pulled together and actively responding to COVID. According to *Our World in Data*, New Zealand has been 34 times more successful than the rest of the world in addressing COVID. The country's cumulative cases are a mere 2,531 or 0.05% of the population, well below the 132,420,000 or 1.7% of the population globally.

As a result, New Zealand's economy recovered faster. We stamped out COVID and re-opened quickly. We spent money locally instead of overseas. And our housing market boomed.

New Zealand's sugar rush is wearing off

Not only has the pace of the global recovery caught up, it's performing better than expected. Other countries are benefiting from reopening their domestic economies as they vaccinate their populations.

The share market can't keep up

New Zealand's share market was the worst performing developed market in the first quarter. Partly because the economy underperformed the global economy. Partly because 10-year bond rates nearly doubled, and the NZX50 has five times more defensives (companies sensitive to interest rates) than other global markets. And partly because of the lack of exposure to cyclical/reopening plays.

Hospitality is still struggling

Xero's monthly Small Business Insights tell us that New Zealand small hospitality businesses' sales in February are down 14% year-on-year, despite the domestic economy largely recovering (overall small business sales were up 1.5%). That's because tourism is a big slice of the economy. It contributed $41 billion to the economy and directly employed 8.4% of the workforce before COVID. With so much of the economy dependent on international travel, it is critical to restart international tourism, especially as recovery in other sectors could fade.

Restaurants, bars, and cinemas are open. Sports games have played in spectator-filled stadiums. But with international tourism such an important part of the NZ economy, international travel is the equivalent of our reopening trade

But Kingfish is outperforming the market

Kingfish has outperformed the local market in the March quarter, declining 2.0%, (gross performance) which was less than the 4.1% drop that the S&P/NZX50G index experienced. The Adjusted

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER

VISTA GROUP	PUSHPAY HOLDINGS	CONTACT ENERGY	MERIDIAN ENERGY	A2 MILK COMPANY
+31%	+15%	-19%	-26%	-29%

NAV was down 2.7% for the quarter.

This was because we have a much lower exposure to low growth defensives such as utilities and property. Defensives' valuations have been negatively impacted by rising interest rates generally. Contact Energy and Meridian Energy initially benefitted from an increased weighting in a large offshore clean energy exchange-traded funds (probably accounting for over 50% of the daily buying in December and early January). Since then, however, their weightings have been cut significantly and their shares have suffered.

In addition, over half our fund's revenue is generated offshore, so we are more exposed to the rapidly recovering global economies than the New Zealand economy.

Included in these largely offshore businesses are some "reopening trades" such as Vista. Cinema software business Vista is benefiting as COVID vaccines are rolled out and cinemas around the world reopen.

a2 Milk was the worst performer in the portfolio — a disappointing 29% drop. The weak "daigou" channel continued to impact the business. We originally underestimated the size of the issue and thought management could better navigate the problem. But we have adjusted and learnt from new information. We significantly reduced our target position in November and December 2020, and again in February and March 2021, as our channel checks remained persistently weak.

The trans-Tasman bubble is not enough

From 19 April, travellers between New Zealand and Australia will no longer have to quarantine. This is an important development as Australia is a large tourism market for New Zealand, much more so than the other way round. Australian travel represented about 40% of Auckland Airport's international traffic pre-COVID. And since Australians still cannot travel to many destinations, we may pick up some of their pent-up demand for international travel.

But — and this a big "but" — how many visitors will the travel bubble attract? New Zealand has had several COVID relapses,

[1] Share price Premium to NAV (using NAV to four decimal places).

and the border could close at short notice. Not everyone will be willing to take the risk (and without travel insurance). Still, the bubble is a start. Some Australians may be willing to gamble on an impromptu trip across the ditch. Our research suggests the bubble will be most attractive to those who are desperate to see friends and family, but these visitors are less likely to book high-value tourism experiences.

The global vaccine roll-out promises a rosier future

Much of our high-value international tourism has a long gestation, with visitors planning and booking their travel well in advance. For this to return, our travel bubble will need to extend beyond Australia and be able to withstand unexpected COVID outbreaks. Thankfully, global vaccine programmes are currently progressing broadly to expectations in many important countries.

Fisher Funds is optimistic that a recovering tourism industry will boost the New Zealand economy. Our pragmatism tells us that the trans-Tasman bubble will certainly not be a panacea. A meaningful recovery will take time. In the meantime, we'll build "all weather" portfolios.

There's plenty to be optimistic about.

Sam Dickie
Senior Portfolio Manager
15 April 2021

PERFORMANCE
as at 31 March 2021

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	(4.7%)	+26.2%	+19.5%
Adjusted NAV Return	(2.7%)	+18.5%	+16.1%
Portfolio Performance			
Gross Performance Return	(2.0%)	+22.1%	+19.2%
S&P/NZX50G Index	(4.1%)	+14.7%	+13.2%

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 net return to an investor after expenses, fees and tax,
- 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/

COMPANY NEWS
Dividend Paid 26 March 2021

A dividend of 3.71 cents per share was paid to Kingfish shareholders on 26 March 2021 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.

PORTFOLIO HOLDINGS SUMMARY
as at 31 March 2021

LISTED COMPANIES	% Holding
Auckland Intl Airport	7.6%
Contact Energy	3.4%
Delegat Group	3.0%
Fisher & Paykel Healthcare	15.4%
Freightways	3.6%
Infratil	14.0%
Mainfreight	17.6%
Meridian Energy	0.9%
Port of Tauranga	2.5%
Pushpay Holdings	1.7%
Ryman Healthcare	6.2%
Summerset	8.0%
The A2 Milk Company	6.3%
Vista Group International	4.0%
Equity Total	**94.2%**
New Zealand dollar cash	5.8%
TOTAL	**100.0%**

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