



June 2010 Update

Dear Shareholders

Global equity markets stumbled during the quarter ended 30 June as investor nervousness dominated market sentiment. Although Kingfish's NAV after adjusting for dividends paid, fell 7.2% over the quarter, it fared better than the NZSX Midcap (-8.4%) and 50 Gross (-9.1%) indices while lagging slightly behind the NZX Small Cap Index (-5.8%).

Following the publication of the 2010 Annual Report in June, the Annual Shareholders Meeting (ASM) was held in Auckland on 23 July. The turnout was good with 160 attendees and Directors were pleased to meet a number of new shareholders and of course the many shareholders who have supported the Company over the six years. It was also heartening to hear the positive feedback from many of you on the Company and management. We emphasised Kingfish's solid result for the 2010 financial year and the exceptional current dividend yield of 10-11%. Receiving a dividend cheque every quarter has put a smile on many faces.

Annabel Cotton and Carmel Fisher were re-elected as Directors and the Board given authority to fix the remuneration of our auditors, PricewaterhouseCoopers. The ASM presentation is included on our website under "Latest News" and "Investor Services" and minutes of the meeting will be available on the website by the end of the month.

At the meeting, the Board announced a new issue of warrants to Kingfish shareholders with a record date of 30 August 2010. This will be the second series of warrants issued by Kingfish, the first being the 58.5 million warrants issued for free to shareholders at

the 2004 IPO. 26.7million of those warrants were exercised up to the expiry date of 31 March 2008. The Board concluded the issue of new warrants is an appropriate measure to recognise the loyalty of Kingfish shareholders, and to give them another form of tradable securities with the potential opportunity to further participate in the growth of Kingfish. Details of the warrants issue are provided below and the investment statement and prospectus will be mailed out to shareholders shortly.

Our Manager, Fisher Funds, comments on the market and the activities within the Kingfish portfolio further in the newsletter, reiterating the quality of our investments and the long-term focus needed as we go through the next stage of the economic recovery.

On behalf of the Board,

Rob Challinor, Chairman
Kingfish Limited - 3 August 2010

Fisher Funds Quarterly Review

The June quarter was a forgettable one with world share markets struggling to make real progress against a backdrop of macro concerns. While share market investing is essentially about building ownership stakes in selected companies, macro issues can from time to time overshadow company specific factors. We are in the early stages of a global economic recovery and until it gathers pace, investors remain nervous that it will be derailed. We can liken the current share market environment to riding a bike on a bumpy road. At low speed, the bike

at a glance

Performance at 30 June 2010

	Three Month	Since Inception
Kingfish NAV*	-7.2%	28.8%
Kingfish Share Price	-4.4%	-13.0%
90 Day Bank Bill Index + 7% p.a.	2.4%	130.6%
<i>*including dividends paid, assumed to be reinvested</i>		
NZSX Small Cap Index (NZSCIG)	-5.8%	26.4%
NZSX Mid Cap Index (NZSEMCG)	-8.4%	35.9%
NZSX 50 Gross Index (NZ50G)	-9.1%	14.6%

Notable June quarter share price changes, including dividends

Delegats	-22%
NZX	-19%
Kathmandu	-16%
Freightways	-12%
Metlifecare	-12%

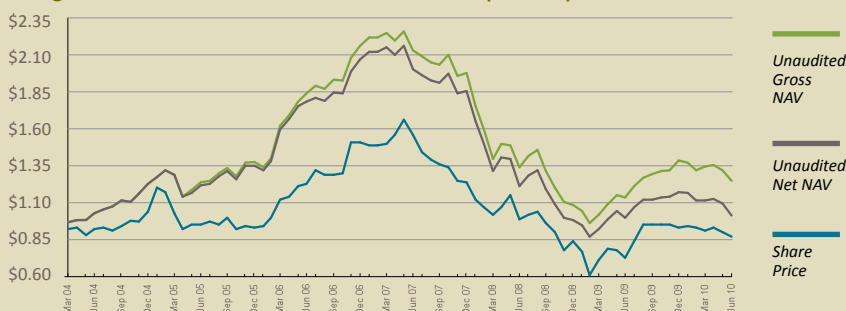
Portfolio Holdings Summary as at 30 June 2010

Listed Companies	% Holding
Abano Healthcare	4.0
Delegats	5.2
Freightways	7.0
Kathmandu	2.1
Mainfreight	18.3
Metlifecare	7.5
Michael Hill	4.1
NZ Exchange	6.5
Opus International	4.4
Pumpkin Patch	7.4
Ryman Healthcare	14.2
Tower Limited	2.2
Wakefield Hospital	4.1
Non-listed Companies	
Waterman Holdings	1.5
Total Equity	88.5
Total Cash	11.5
TOTAL	100.0

new warrants issue

- » 1:2 warrants issued to all shareholders with a record date of 30 August 2010
- » Exercise Price: 95 cents
- » Exercise dates quarterly from November 2010
- » Final exercise date in September 2012
- » Shareholders do not need to apply to receive the warrants

kingfish net asset value and share price performance



Note: Gross NAV includes dividends paid, assumed to be reinvested.

will veer from side to side and each bump will be painfully felt. At higher speed, the bike is easier to keep on track and bumps can be glided over, reducing their impact.

The performance of the New Zealand share market was broadly in line with global markets in the June quarter. Although it has become almost fashionable to criticise the New Zealand share market for its dearth of quality new listings and low turnover, the Government has begun to put stepping stones in place for a more favourable enforcement and operating platform for investors in the future. The setting up of a 'super-regulator' encompassing the Securities Commission, the MED, and parts of the NZX, with a mandate to be pro-active is a major step in the right direction. Similarly, the Government's endorsement and fast-tracking of many of the Capital Development Task Force's other recommendations should result in an increase in investor confidence and more investment opportunities in the medium term. Lastly, the general thrust of the May Budget was reform of the tax system to encourage saving and investment, together with discouraging borrowing and consumption. This puts share market investment in a strong position relative to property as an asset class.

No matter the investing environment, we remain very comfortable with the hand-picked companies in the Kingfish portfolio. The 'moats' around their businesses and sound management generally result in out-performance of these companies relative to the market, over any medium term timeframe. At the time of writing, the Kingfish portfolio has better one-year forward earnings growth compared with the market (16% v 10%), at a cheaper price (P/E of 11.4x v 13.8x), using analysts' consensus forecasts.

Portfolio Review

The Kingfish portfolio fell by 7.2% (dividend adjusted) during the June quarter, in what was a dismal quarter for equity markets around the world. While disappointing, the Kingfish performance represented a relative outperformance against the NZ50 Gross Index of 1.9% and 1.2% against the NZ Mid-Cap Gross Index.

The March reporting season was solid with few major earnings surprises.

Mainfreight, Ryman and **Tower** all posted impressive results, whilst **NZX's** was solid. The **Wakefield Health** full year result was disappointing, albeit in line with guidance.

Pumpkin Patch announced that it will shortly launch a new stand alone childrenswear brand aimed at the playwear end of the market. The introduction of a dual brand aimed at different segments of the market is a model that is run by many other international clothing companies (eg Gap, Gymboree). The aim is to leverage Pumpkin Patch's existing infrastructure and retail expertise to benefit both brands. The company plans to open an initial tranche of 6 to 8 stores by year end. We see this initiative as positive, given that management is rolling out in a controlled fashion and is targeting the

Australasian market, along with wholesale.

Michael Hill International is to close eight of the seventeen stores in the USA that it purchased from Whitehall Jewelers in July 2008. The purchase was a test to see if its retail concept would work in the USA, having bought the stock at 80% of book value (US\$5m), and taken over the leases. The test has been an expensive one for shareholders, with this division losing ~NZ\$14m in 2009 and 2010 combined, with a further US\$1.8m in closure costs. The closure of these stores draws close parallels with what Pumpkin Patch has done with many of its stores in the USA – consolidate to a smaller platform of stores in one geographic area. In Michael Hill International's case, these stores will all be in the greater Chicago area.

Ryman has started to landbank for future villages now that land prices have fallen materially – during the quarter it announced the purchase of vacant land for a new village in Tauranga and additional land in Christchurch. These purchases future proof Ryman's growth and are complementary to the extension work being undertaken on existing established sites (eg Ed Hillary). The company often has building activity underway on multiple sites at any one time. It aims to build (and sell) 300 units and 150 care beds per annum, and we hope that this will be stepped up over time – steepening its 'wave of earnings'.

NZX lost the derivative market trading business of Energy Hedge (Meridian, Mighty River Power, Genesis, Contact and Trustpower) to the ASX during the quarter. Continued delays in getting its trading platform and settlement system operational were clearly a major contributing factor. On the positive side, the company has announced a significant buy-back programme, semi-annual dividends (as opposed to annual) and re-iterated its confidence in its future earnings growth.

Post the sale of its 26% stake in Express Logistics, **Waterman** paid a special dividend and conducted a pro-rata buy-back. Kingfish has now received 80cps of its initial \$1.14 per share investment back in cash, and Waterman has two remaining investments – David Reid Homes and Guthrie Bowron.

Despite **Wakefield Health's** downturn in earnings in 2010, its debt levels are such that it can easily finance the purchase of other hospitals as acquisition opportunities come up. At the time of writing, it is attempting to consummate a majority holding in a private hospital in Tauranga, to add to its portfolio of three existing hospitals.

Portfolio Changes

During the quarter, we reduced our holding in **Michael Hill International** and added **Kathmandu** to the portfolio. Michael Hill International's track record seems to diminish every time it veers away from its successful model of green-field jewellery expansion, although it still remains impressive. We unsuccessfully bid for **Kathmandu** at the time of its IPO, but have been able to purchase shares at cheaper prices post the float, even

after it recorded a big increase in first half profits. We like Kathmandu's expansion plans and the fact that all stores in Australasia are profitable – no matter the store size or format.

We have maintained a larger than normal cash holding (~12%), notwithstanding the dividend paid in June.

Outlook / Strategy

At the risk of repeating ourselves, our strategy is to maintain a portfolio of New Zealand's best growth companies, each possessing a competitive moat which should enable profitability irrespective of the economic conditions. We will continue to adjust portfolio weightings as a result of changes to company STEEP scores that may emerge following profit results, company announcements and strategic developments. The portfolio has a relatively higher exposure to mid cap stocks than it had historically as our smaller companies have grown into larger companies, and we have grown with them. We may increase our exposure to some of the larger companies that tend to trade more often and be more liquid, as it is useful when we need cash to fund the quarterly dividend payments. We expect that the economic recovery will continue to unfold gradually, and as it does, investor confidence will eventually be restored. From profit results and updates that we have had from our portfolio companies in recent months, we are comfortable at the base level of profitability being achieved, and look forward to the upcoming results season for more current information. Economic recovery plus investor confidence plus quality businesses generating profit growth should all add up to the sort of long-term returns we have come to expect from the share market. It is just the timing that none of us can be certain of!



Carmel Fisher, Managing Director
Fisher Funds Management Limited
3 August 2010

whats coming up

Warrant Issue Record date
30 August 2010

Dividend Record date/Payment date
10 September/24 September 2010

Interim Period End
30 September 2010

Interim Result Announcement
November 2010

Interim Report Published
Early December 2010

Kingfish Update Reports will be produced for the December and June quarters. The Annual and Interim Reports will be produced for the March and September quarters. Should you prefer to receive future Update newsletters electronically please email us at enquire@kingfishlimited.co.nz.

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