



June 2009 Quarter

Dear Shareholders

A number of achievements over the last quarter kicked off an encouraging start to the new financial year. Kingfish's Net Asset Value (NAV) gained 12.8% for the quarter, the strongest growth since early 2007, indicating that confidence is creeping back into the equity markets.

The Board, as part of its capital management responsibility, investigated a number of initiatives to address the discount of the Kingfish share price to NAV and was pleased to announce a new dividend policy in June. The new policy is a fixed long-term distribution policy of 8% of average NAV per annum and allows shareholders the opportunity to access capital at Net Asset Value. The policy is an innovative approach for New Zealand and was well received by share brokers and financial commentators alike. Details of the policy are further on in this newsletter.

Earlier in June, Kingfish paid a dividend of three cents per share bringing the total dividends paid since inception to 18 cents per share. As this payment was made before the new dividend policy was announced, you will be pleased to know that the payment is effectively on top of any further distributions for the year.

Our Annual Shareholders Meeting (ASM) was held on 24th July in Auckland and we were happy that around 200 attended – thank you to those who could make it. Rob Challinor was re-elected as a director and the Board given authority to set the remuneration of our auditors, PricewaterhouseCoopers. The ASM presentation is included on our website under "Investor Services" and minutes of the meeting will be available on the website by the end of August.

Our next report to you will be in November when we announce the result for the interim period to 30th September. We look forward to the positive run we've had in the June quarter gathering momentum. In this regard we are pleased to note the significant increase in Kingfish's share price in the last two weeks.

On behalf of the Board,



Rob Challinor, Chairman
Kingfish Limited - 27 July 2009

at a glance

Relative Performance 30/06/09

	Three Month	Since Inception
Kingfish NAV*	12.8%	24.3%
90 Day Bank Bill Index (NZD) + 7% p.a.	2.6%	109.3%
NZX Small Cap Index (NZSCI)	11.8%	-2.5%
NZX Mid Cap Index (NZSEMC)	7.2%	-2.0%
NZX 50 Gross Index (NZ50G)	7.9%	7.8%

**Including 18cps dividends paid grossed up for any imputation credits attached.*

Notable June quarter share price changes, including dividends (local currency terms)

Pumpkin Patch	49%
Michael Hill	37%
NZ Exchange	24%
Metlifecare	19%
Waterman Holdings	-35%

Portfolio Holdings Summary, as at 30/06/2009

Listed Companies	% Holding
Abano Healthcare	1.8%
Delegats	7.4%
Freightways	7.5%
Mainfreight	14.4%
Metlifecare	8.4%
Michael Hill	6.4%
NZ Exchange	9.2%
Opus International	2.9%
Pumpkin Patch	6.0%
Rakon	1.9%
Ryman Healthcare	17.9%
Tower Limited	1.4%
Wakefield Hospital	5.2%
Non-listed Companies	
Waterman Holdings	1.7%
Equity Total	92.1%
New Zealand dollar Cash	7.9%
Cash Total	7.9%
TOTAL	100.00%

new dividend policy

The first distribution under the new policy will be made in mid-September 2009, followed by distributions in December, March and June. Each distribution will be calculated at 2% of the average preceding three months' Net Asset Value of the company, per share. For each distribution, you will receive a "PIE Distribution Statement" from Computershare.

Kingfish's Dividend Reinvestment Plan continues to be offered to shareholders as a means of additional investment in the company. A copy of the Plan and the participation notice is enclosed for those shareholders who are not on the Plan.

kingfish net asset value and share price performance



Fisher Funds Quarterly Review

The June quarter was pleasing in that for the first time in a long while, share market behavior and economic behavior were not joined at the hip. Even as poor economic data was being released, share markets around the world maintained a reasonably buoyant tone, and individual shares performed well on their own merits rather than as a reflection of the macro environment.

Economic data released during the quarter confirmed the extent of New Zealand's recessionary conditions, though we already knew full well how difficult the environment was, based on anecdotal feedback from consumers and companies in virtually every sector. The -1.0% March 2009 quarter-on-quarter GDP (-2.7% year-on-year) number announced last month was the fifth successive negative quarter of economic growth, with the NZIER now forecasting no increase in economic growth until the December 2009 quarter. Against this background, companies have needed superior business models and wide 'moats' to be able to hold profitability steady or increase profits. We aim to invest the Kingfish portfolio in such companies and were pleased that their competitive strength was evident in the recent March reporting season. Companies like Wakefield Health, Ryman Healthcare, Tower, Freightways and NZX all reported solid increases in profitability, whilst Mainfreight held profitability year-on-year.

The June quarter saw a re-emergence of capital raisings in New Zealand with over \$1.5 billion of new equity, a seven-fold increase in the same quarter last year. Both Freightways and NZX raised new

equity during this period, but we would put these in the 'comfort capital' category as opposed to 'bank imposed' raisings. The latter category is definitely to be avoided, and we are comfortable that the portfolio generally has low levels of debt.

Portfolio Review

The Kingfish NAV increased during the June quarter by 12.8% (dividend adjusted), which compared favourably against the broader market (NZ50G) increase of 7.9% and mid cap sector (NZSEMC) increase of 7.2%.

A number of stocks in the portfolio had strong June quarter share price performances. Retail companies Pumpkin Patch and Michael Hill International were the strongest performers in the portfolio. **Pumpkin Patch** (+49% share price movement) announced that it is to close 20 of its 35 US stores, cleverly using Chapter 11 USA regulations to minimise lease exit costs. This initiative is forecast to reduce its USA division losses from ~NZ\$13m in 2010 to NZ\$3m and break-even at store level. The **Michael Hill International** (+37%) share price bounced during the quarter after hitting a low at the end of the March. Although its trading margins will be down in the current year, jewellery sales have held up surprisingly well, especially in Australia.

NZX has been extremely busy with its portfolio of allied investments (eg TZ1/Markit, M-Co, BESA etc) which have either already added significant shareholder value, or have the potential to do so in the future. **Ryman Healthcare** noted during the quarter that its shareholder returns over the last decade amount to a 21% pa compound return and with

these sorts of returns, it is easy to see why Ryman remains a mainstay of the Kingfish portfolio. As stated previously, **Metlifecare** has been a disappointing performer but we note that it trades at less than half its asset backing.

Medical operators **Wakefield Healthcare** recorded earnings up 28% for the year ended March, whilst **Abano Healthcare** confirmed guidance for a ~20% increase in net earnings for the year ended May 2009. The earnings of freight operators **Mainfreight** and **Freightways** have to date been very resilient, despite the weak economy. Both are well run businesses and will do very well when the domestic economy turns. Freightways' Information Management division has been a stand-out performer.

The fundamentals of the Kingfish portfolio remain compelling. The 1 year forward P/E is ~10.5x, with a net yield of ~4.5% using consensus analysts' forecasts. Interest cover is over 7x.

Portfolio Changes

We made a number of small changes to the Kingfish portfolio during the quarter. We increased our holding in NZX and took up our rights issue entitlement. As stated above, we believe NZX's allied investment portfolio offers considerable upside. During the period we sold our holding in **Comvita** completely. Comvita was only a small part of the portfolio, but struggled to score well enough in our STEEPP analysis, particularly relative to other portfolio opportunities. We added a small holding in **Tower Limited** in April at prices around 20% below current levels. Tower offers earnings growth even in recessionary times, at a share price that we saw as compelling. We also reduced our percentage holding in Freightways and Ryman Healthcare though both remain key portfolio holdings and will remain so going forward.

Outlook / Strategy

Our strategy during the past three months has been to continue to balance our focus on growth with other criteria that become important at turning points in the economic cycle. We insist on profitability but have been prepared to tolerate lower growth, in an effort to make the portfolio defensive, while making sure that we don't overpay for profit growth. The Kingfish portfolio today has a higher exposure to defensive sectors



such as healthcare, and a lower exposure to cyclical sectors such as retail, than it did twelve months ago. If the global recession lasts longer than most expect, the Kingfish portfolio will be reasonably resilient; but equally, if economic activity lifts earlier than expected, the portfolio will benefit disproportionately.

In the last quarter the Kingfish portfolio and the Kingfish share price have outperformed the market, and the Kingfish discount to NAV has narrowed slightly. We hope that this bodes well for performance as market confidence continues to grow. Certainly we are looking forward to the profit result season in the weeks ahead, which we think will be less about earnings (they will clearly still be bad, and expectations have been lowered significantly) and

more about valuation. Any company that shows a better earnings performance than expected, or that highlights improving conditions such that future earnings will be better than expected, will likely be greeted with a share price re-rating. We have seen examples of this already with **Delegat's**, Pumpkin Patch and Sky City whose share prices have performed well after the companies positively surprised the market.



**Carmel Fisher, Managing Director
Fisher Funds Management Limited
27 July 2009**

what's new on our website?

Following a shareholder's suggestion, we will soon have a graph showing the Company's NAV and share price on the home page of our website. The graph will be updated weekly and at month end. If you have any suggestions on the information we provide in our communications that may be useful to investors, please contact the Kingfish office.

electronic communication

We are continuously looking for ways to reduce our printed material while maintaining our standard of communicating with you. If you wish to cut down on paper and receive your newsletters and/or reports electronically, please e-mail us.

whats coming up

First payment under new dividend policy: Mid-September 2009

Interim Result: November 2009

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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