fisher funds

FROM THE undergrowth

AUGUST08

It may not feel like it, but this is another of those great times for share market investors. During the August and September reporting season, we get to hear exactly how our businesses are faring, direct from the chief executives. We can watch their body language, take note of anecdotal comments, chat with other company directors, pore over annual reports and watch how our companies respond to tricky questions at annual shareholder meetings.

At a glance

As at 31st July 2008

Unit Prices ($)

NZ Growth Fund	3.1761
Australian Growth Fund	1.7949
International Growth Fund	0.9903
Fledgling Fund	1.1230
KiwiSaver	0.8960

Fund Sizes ($m)

NZ Growth Fund	101.7
Australian Growth Fund	97.0
International Growth Fund	5.7
Fledgling Fund	2.9
KiwiSaver	33.8

Performance (July 2008)

NZ Growth Fund	5.8%
Australian Growth Fund	-3.9%
Intl Growth Fund	0.9%
Fledgling Fund	4.6%
KiwiSaver	0.5%
NZ50 Gross index	4.4%
S&P/ASX 300 ($NZ)	-2.8%
MSCI Global Small Cap Index	1.8%

Your Portfolios

What has been going on since we last spoke?

July had a better feeling to it than June (thank goodness, you say) but the overall trend continued to be negative. The negative trend is not surprising when you think of the news that world markets have had to absorb of late – another three bank failures in the US, the rescue of Freddie Mac and Fannie Mae, and billion dollar losses and write-offs everywhere you turn. We've read so many dramatic headlines in the past six months that a billion dollar write-off is no longer so alarming. (As an interesting trivia question for the dinner table, do you know how many zeros are there in one billion? Answers on the Internet vary between nine and twelve, with the favourite being nine. Britons believe billion means twice as many ('bi') zeros as one million i.e. twelve, whereas Americans believe that a billion is one thousand million i.e. nine zeros.)

As well as the constant news flow from the US, investors in New Zealand were treated to a pleasant surprise from the Reserve Bank during July, in the form of a 25bp interest rate cut, which resulted in a weaker New Zealand dollar and a relatively good performance for the New Zealand share market. Oil prices also gave up some of their gains during July, falling 9% over the month.

The earnings season for New Zealand companies began in July, with a handful of interim results and updates from annual shareholder meetings. Reporting season provides good quality information and should be reassuring for all of us. Unfortunately, share prices often perform entirely independently of the underlying profit performance, at least in the short term. Professor Richard Rumelt of UCLA says "the problem is that stock prices respond to changes in expectations, not to performance. When you improve your profits, the stock price does not necessarily move at all. It goes up only if the increased profit was a surprise. If I treated my students that way, they would revolt! Imagine if Alan scored 50 in an exam and Barbara scored 80, but that I gave Alan an A and Barbara a B because Alan did better than the 40 I expected of him and Barbara did worse than the projected 90. The students would riot, waving signs saying 'unfair!' But that's how the stock market works."

Fortunately, the 'exam' results of our portfolio companies during July were fine and we are not expecting to give out any detention notices for the results due in August! Our New Zealand funds outperformed the broad market assisted by strong performances from Freightways, Infratil, Mainfreight and Michael Hill.

> "That is simply not how most people think about performance. It violates our basic notions of fairness."
>
> Richard Rumelt, professor at UCLA's School of Management

Ken spent two weeks in July travelling – one week in Asia, then a week in the U.S. It had been nearly six months since he was in the U.S and the slowdown was evident on the ground – less cars on the road, fewer consumers at the shopping malls and people are more concerned with paying their mortgage and just getting by as opposed to spending.

In contrast, while Asia is also slowing short term, the underlying dynamics remain bullish. This was highlighted by one of the most significant policy changes in China since the beginning of the bull market 5 years ago. Beijing announced that it will focus on maintaining growth and controlling inflation. This is a major change. Since 2003, double-digit economic growth has been taken for granted, with inflation and overheating being the main concerns. This change is likely due to a slowdown in exports, no thanks to the issues in the U.S and developed world. Consequently government and infrastructure spending as well as the individual consumer will need to take the growth baton. Remember that the Chinese economy is in an enviable position; the government has a surplus, companies haven't used debt to grow and consumers have been net savers. As China escalates its focus on growth and the trend towards urbanization continues many of the companies in the International fund will thrive.

July was not a great month for the Australian share market – concerns about the banking sector (which comprises such a large proportion of the Australian market) and a falling oil price made it difficult for the market to move ahead decisively. Economic data was mixed and while there was talk of future interest rate cuts, they were not implemented as in New Zealand. The market fell nearly 5% during July, with the blow for New Zealand investors softened slightly by a 2% currency gain. Our portfolio suffered from some investors' short-sighted selling of Arrow Energy and a poor performance by Bravura whose ownership wrangles have blinded investors to its underlying corporate performance. The Arrow Energy share price seems to fall every time the oil price falls, even though Arrow's output is sold at fixed prices under 20 year contracts. Meantime, Bravura announced its largest ever contract win with UK giant, Norwich Union, to take over a contract that competitor DST International had botched. But typical investors... never let the facts spoil a good story!

Your Companies

A summary of news from your companies in the past month

From our New Zealand companies we had some updates from annual shareholder meetings in July, we visited Pumpkin Patch and Mainfreight and met with the directors of Ryman Healthcare. **Rakon** announced a joint venture in China with the owners of Chinese based Timemaker Crystal Technology for the manufacture of crystals for high-end and high-volume consumer applications. The **Mainfreight** AGM was upbeat with the company confirming its expectation of a minimum of 15% growth from every operating division, no matter the country or the state of its economy. Mainfreight has started the year ahead of, and continues to spread its operations outside of NZ, opening up new trade lanes and reducing its reliance on the NZ economy.

Internationally we are in the midst of earnings season with results being released each week. **Zhuzhou CSR Times Electric** (China; the leading provider of electrical power supply equipment for the Chinese train manufacturers) announced two contracts for nearly Rmb1b (NZ$200m). This is significant as it represents half of 2008 sales thus providing good visibility into future sales.

After announcing good first half earnings, **Stratec Biomedical** (Germany; develops fully automated medical equipment systems) announced a new customer win.

In Australia, **Arrow Energy** confirmed that financial close has been reached on the Braemer 2 power station, the announcement of a gas sales agreement with Incitec Pivot and a major reserves upgrade. **Pipe Networks** provided a progress update on the Australia to Guam submarine fibre optic cable known as PPC1. Pipe noted that a number of the key milestones are now complete or ahead of schedule. After the end of the month, Pipe announced a 30% increase in profits and reaffirmed its guidance for 2009 which will see around 50% earnings growth. **Treasury Group** reported Funds under Management data for the second quarter. With volatile equity markets this release was understandably weak, with total funds under management falling $860m in the period.

Up Close & Personal

Carmel talks about NZX and why there is so much more to the company's future than the dwindling number of new listings on the New Zealand share market

NZX recently announced a name change from NZ Exchange, to reflect its diverse business interests. It is a company that we have enjoyed owning for some years as it represents many of the characteristics that we look for in a 'perfect company'. It has a virtual monopoly in its core business as a share market operator, it has a high quality CEO who as a significant share holder has interests aligned with ours, it has proven to be an all-weather company, achieving earnings growth even as the New Zealand share market has diminished, and it has implemented strategies to diversify revenues and create a platform for future profit growth. Many people look at the New Zealand Stock Exchange and assume the company's profitability must be threatened by few new listings and the possibility of some of our bigger companies listing in Australia. There is no doubt that our share market is struggling to maintain its relevance, but that has not stopped NZX from becoming a dynamic, internationally competitive business.

In announcing an 18% increase in first-half profit in July, CEO Mark Weldon talked about revenue growth through new initiatives, productivity growth through cost management and economies of scale, and future 'healthy' growth in all divisions. New initiatives which provide real growth options for the company are the AXE platform, a new Australian equity platform which will allow NZX to compete with the Australian Stock Exchange and TZ1 which is a voluntary credit emission registry and trading platform. While these initiatives may not mean much to us, what is impressive is the early support that NZX has received from interested participants, indicating that the company has done its homework to determine the market's needs and then delivered a solution.

We can't talk about NZX without making mention of the current debate (which has appeared with monotonous regularity over the last twenty years) about the merits of a merger between the New Zealand and Australian stock exchanges. Our firm belief is that a merger would result in our New Zealand companies (with maybe two exceptions) becoming invisible. Australian investors would pay no more heed to our companies than they do now, regardless of whether they all had Australian ticker codes. Therefore New Zealand companies would find it even more difficult over time to raise capital to allow them to grow and succeed. Rather than raising the white flag, we would prefer that initiatives are pursued to develop our market so that New Zealand's companies can appear on the global radar screen, where they belong.

A bird's eye view

What's new at Fisher Funds?

The 10th of August marks the tenth anniversary of the launch of the Fisher Funds New Zealand Growth Fund. Ten years old! Carmel and Hugh Fisher recall the launch of the fund from their home in Devonport, with the Investment Statement featuring photos of kingfishers and bark (denoting their habitat) taken around Narrow Neck Beach. The Investment Statement differentiated the Fisher Fund from others available at the time, partly because it looked different (some investors said they could detect a 'woman's touch'), it was written in plain English and it did not offer a confusing array of funds. It was just one fund, representing the best ideas of the fund manager, offered to every investor who wanted long-term capital growth from a share portfolio. Over ten years, it has grown to be the largest New Zealand equity unit trust (only now it has a fancy PIE label) and it is the best performing fund over that period.

Tenth birthdays are a cause of celebration, and we are proud of the Fund's achievements over the last decade. Indeed, this pride extends to the whole of Fisher Funds which in its tenth year is a little bigger than it used to be, and its offices have moved from Devonport to Takapuna… but the heart and soul of the company is very much unchanged. Those long-time investors who have been with us since 1998 will be hearing from us in the next few weeks – you deserve recognition for your loyalty and support – and we would love to hear stories from other early investors about your journey with Fisher Funds. Some of you will remember Bill the cat who added a friendly touch to the office, you may enjoy sharing tales of some of your favourite stocks that made a big impact on performance, and we would love to hear about how your investment has impacted on your lifestyle. We have heard from at least one investor that his annual holidays have improved markedly thanks to his investment with Fisher Funds!

And back to 2008… for those who asked for DVDs of the Roadshow, thank you for your feedback - we will certainly video future presentations for those who can't attend in person. We have some DVDs left, so if you would like to watch the presentation at your leisure, please let us know and we will send you a copy. A number of investors have enjoyed being able to rewind and focus on particular aspects of the presentation that they would not have been able to do during the roadshow itself.

Your questions

We share our response to some of the questions received from you during the month

Q: Please reassure me as to why I shouldn't sell out of the International Fund now. We all know where the US economy is heading, and I think it makes sense to take a small loss on the chin before it all disappears.

A: The Fisher Funds International Growth Fund was launched in October 2007 to give investors a hand-picked portfolio of international growth companies which would achieve long term capital growth through rising profits. Selling out of the Fund now would be far too soon as the portfolio companies have not had a chance to begin to achieve these performance objectives.

The easiest way to lose money in the share market is to try and predict short term movements and hope to profit from them. Few people can consistently make money out of the share market in any 6-12 month period. A study of trading patterns found that investors today have a median holding period of just 113 days. That's short… and at least 617 days less than we think is reasonable for any share market investor.

As the US share market hovers around a three year low, this is not the time to look for an exit ramp. Businesses will adapt (and already are adapting) to the changing economic environment. Consumer confidence will return – the lovely thing about humans is that we are resilient and tend not to stay down for too long! And share markets will continue their long-term upward climb.

As for your concerns about the US economy, remember that the International Fund has been carefully invested in a diversified portfolio of growth companies from US, Asia and Europe. These companies operate in a variety of sectors, from healthcare in Ireland to trains in China, and in many instances these companies are quite immune to the fortunes of the American financial sector. These companies have a history of profit growth and we expect them to achieve continued profit growth in the future.

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You also talk about the possibility of your entire investment disappearing, but we should keep things in perspective. The Fund invests in thirty very different global companies that are listed on world markets and readily traded. For the International portfolio to become worthless, each of those thirty companies would need to lose their value. This is extremely unlikely given that they are so diverse, have different customers, and are at different stages of their business cycle. Yes, patience is required, but take comfort from the fact that you are a part-owner of some great companies, and they are continuing to grow.

Fund facts

Fund Performance

Fund Net Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	-30.7%	-10.8%	3.4%	10.1%	12.3%
Australian Growth Fund	-30.5%	-5.5%	5.0%	na	6.0%
International Growth Fund	na	na	na	na	-1.0%
Fledgling Fund	-26.1%	-8.9%	2.5%	4.4%	1.8%
KiwiSaver	na	na	na	na	-10.4%

NB… annualised returns, after tax and fees.

Fund Pre-tax Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	-30.94%	-12.90%	6.75%	14.40%	15.21%
Australian Growth Fund	-30.34%	-2.55%	0.00%	na	7.26%
International Growth Fund	na	na	na	na	-1.0%
Fledgling Fund	-26.24%	-9.00%	4.90%	6.12%	2.00%
KiwiSaver	na	na	na	na	-10.4%

NB… annualised returns before tax and after fees. They differ from actual returns experienced during these periods.

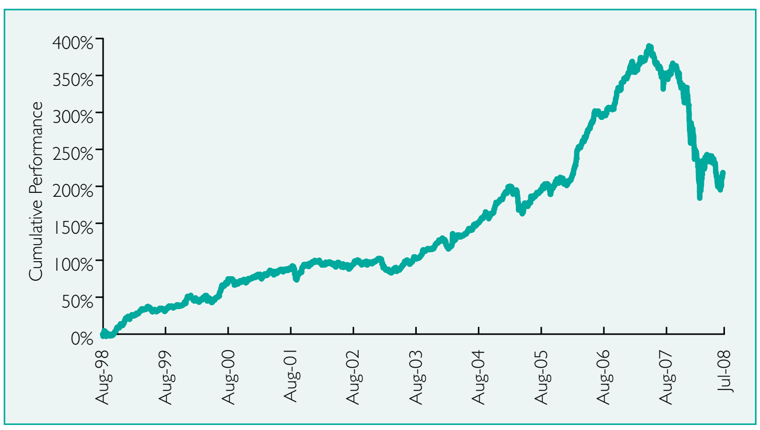
Market Indices	1 Year	2 Years	3 Years	5 Years	
NZ50G	-20.8%	-3.5%	-0.2%	9.2%	
90day bank bill	9.1%	8.5%	8.2%	7.4%	
S&P/ASX300 (Calculated in $NZ)	-3.5%	5.9%	14.0%	17.6%	
MSCI Global Small Cap Index	-13.8%	-8.6%	0.6%	7.0%	

**Not Annualised*

July's Biggest Movers

New Zealand	
Comvita	43%
Infratil	19%
Freightways	10%
Rakon	-10%
Australia	
Centrebet	21%
DWS Solutions	-11%
Treasury Group	-21%
Bravura	-29%
International	
Stratec Biomedical	37%
EBIX Inc	29%
OSI Pharmaceuticals Ltd	27%
Jamba Juice	-46%

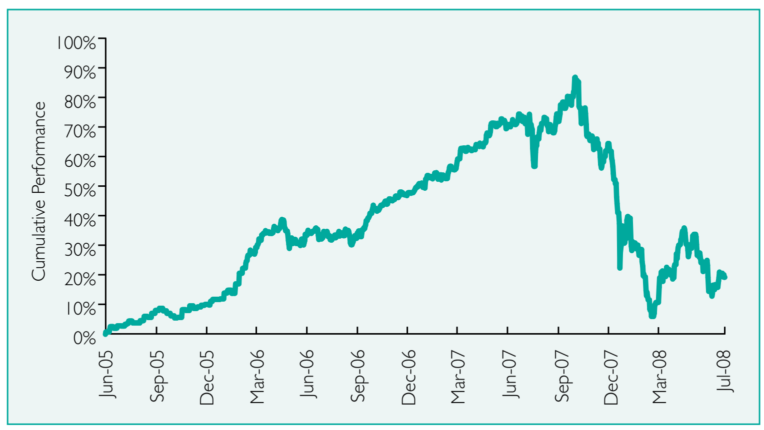
New Zealand Growth Fund



Fund Inception August 1998

Portfolio Holdings – Comvita, Delegats, Freightways, Infratil, Mainfreight, Metlifecare, Michael Hill, NZX, Opus International, Pumpkin Patch, Rakon, Ryman Healthcare, Sealegs, Wakefield Health.

Australian Growth Fund



Fund Inception June 2005

Portfolio Holdings – Aevum, Arrow Energy, Austbrokers, Bravura, Centrebet, Credit Corp, DWS Solutions, McMillan Shakespeare, Nick Scali, Oakton, Pharmaxis, Pipe Networks, Reckon, Toxfree, Treasury Group, Vision Group, WHK Group.

International Growth Fund

Fund Inception October 2007

Portfolio Holdings – Advent Software, Brembo, Celera, City Telecom, Conceptus, EBIX Inc, Equinix, Gameloft, Hansens Natural, Home Inns, Hongguo, Hyflux Limited, Icon PLC, Jamba Juice, Jumbo, Micros, Midas, Midland Holdings, Nokian Renkaat, O2 Micro, OSI Pharma, Ports Design, Raffles Education, Roth & Rau, Sarin Technologies, Sciele Pharma, Stratec Biomed, Times Electric, Ultimate Software, Wirecard.

Fledgling Fund

Fund Inception December 1999

Portfolio Holdings – Comvita, Delegats, Freightways, Infratil, Mainfreight, Metlifecare, Michael Hill, NZX, Opus International, Pumpkin Patch, Rakon, Ryman Healthcare, Wakefield Health.

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