

FROM THE undergrowth

FEBRUARY08



The markets' start to 2008 reminded me of a recent visit to Rainbows End where, emboldened by a thrilling rapid descent on the Fear Fall, I accompanied my daughter Devon on the corkscrew roller coaster. Devon laughed and screamed her way through the ride, while I counted the seconds trying to overcome my nausea. While Devon loved the excitement of not knowing what was coming next, I preferred the Fear Fall because I knew in advance what was going to happen – we were going to drop 80m in 6 seconds. I will go back to Rainbows End, because as with the markets, I know that the highs and lows (and nausea!) were well worth tolerating for the satisfaction and enjoyment that I felt at the end of the day.

At a glance

As at 31 January 2008

Unit Prices

NZ Growth Fund	3.7572
Australian Growth Fund	1.9566
International Growth Fund	0.9827
Fledgling Fund	1.2813
KiwiSaver	0.9089

Fund Sizes (\$m)

NZ Growth Fund	133.9
Australian Growth Fund	108.8
International Growth Fund	4.2
Fledgling Fund	3.3
KiwiSaver	15.3

Performance (January 2008)

NZ Growth Fund	-9.5%
Australian Growth Fund	-20.2%
International Growth Fund	-2.4%
Fledgling Fund	-10.9%
KiwiSaver	-7.4%
NZ50 Gross Index	-9.2%
S&P/ASX 300 (\$NZ)	-11.4%

Your Portfolios

What has been going on since we last spoke?

It is quite a challenge to write a newsletter at the end of January that succinctly and calmly summarises how world share markets ended 2007 and began their 2008 year. Of course it would have been even more challenging had we broken with tradition and distributed a newsletter in early January, since that was when the market was at its most nervous and uncertain. By now, you will be very familiar with the global market roller coaster and the reactions of investors and central banks to what has been a very sharp and severe correction. The two emotions classically associated with share market investing – fear and greed – have been conspicuous in the indiscriminate selling of shares by panicked investors and the selective buying by others in the belief that prices have bottomed. The fact that this correction occurred in an information vacuum, with company profit reporting season about to begin, only exacerbated things in that there were no road signs to point to real value. And even if real value was obvious, it was a brave investor who ventured into the markets when they were gyrating by up to 7% in a day!

There is no point pretending that we haven't been negatively impacted by the markets during the past four weeks. We are all less wealthy on paper than we were before Christmas, and that is on top of the paper losses that we experienced in the second half of 2007. For some investors who found the volatility too much to handle, their losses will be real as they have sold shares or units at a low price, possibly

lower than today's price. There is no point in us glibly saying that there is light at the end of the tunnel and we are confident that we will regain our paper losses over time, because we can't put numbers and dates on those assertions since nobody can be certain of the timing and extent of a recovery. What we can say, hand on heart, is that there will be a recovery and that the value of good businesses will again be reflected in their share prices. The optimists may be proven correct and the prices of Tuesday 22nd January 2008 may indeed represent the low-point of a sharp correction.

"The best way to beat the market is to catch its mistakes – to find the proverbial 'babies thrown out with the dishwasher' and snap them up before the market realizes what it has done."

Chuck Saletta, www.fool.com

World markets may steadily rebound, albeit with increased volatility, encouraged by the swift and assertive action of central banks and comforted in the coming months by company profit results that meet expectations. Or the profit result season could be disappointing, for companies around the world, or just in the US. In this event, share markets will not rebound uniformly, though there will still be some winners, particularly those companies whose share prices have been oversold. There is of course one other scenario, the one that the pessimists support,

Your Portfolios continued

which sees an extended correction in world share markets resulting from a US recession. Few proponents of this worst case scenario expect further falls of the magnitude that we have seen to date, but rather, they forecast flat performances from share markets for a couple of years with heightened volatility in the meantime. We are clearly not in this camp.

Although we cannot make any predictions or give guarantees, we can share our experiences of previous market downturns and corrections, all of which have been ultimately positive. But patience, tenacity and contrarian thinking have definitely been required and will be again this time. The older two members of the investment team (Terry and I) could talk about the 1987 crash and the lessons learned, but we were both still relatively young at the time and there have been more recent experiences that have proved more edifying. In the ten years of Fisher Funds' existence, we have managed portfolios through corporate scandals, impending war, 9/11, rising interest rates, strong currencies, political changes and economic slowdowns. We have had months of awful performance, and others where we achieved a whole year's performance in just four weeks. We have had share prices of individual stocks fall by up to 50% in a matter of days and we have seen others virtually double (often as a result of corporate activity). Most of our best performances have come from taking a contrary stance to the market – removing ourselves from the day to day noise and focusing solely on the underlying merits and prospects of individual companies. We need to give some specific examples because only then can you get a flavour of how exciting it can be to capitalise on investor sentiment (and we were reminded of this when we looked back at some of the newsletters we have written in the most volatile times). The Fisher Funds NZ Growth Fund had two strong years in 2000 and 2001, achieving returns of 16% and 13% respectively. Unfortunately 2002 proved to be a horrible year for world share markets featuring the Enron and WorldCom corporate scandals, and the NZ Growth Fund only managed a 1% return for the year. Investors who joined us in the early part of the year would have been disheartened to see the unit price fall 6% in a month and then take ten months to recover back to square. But if they had hung in there, and perhaps even bought more units when prices weakened, they would have thoroughly enjoyed the returns of the next two years of 12% and 25% respectively.

Most of our best performances have come from taking a contrary stance to the market – removing ourselves from the day to day noise and focusing solely on the underlying merits and prospects of individual companies.

Bringing it down to a stock level, two great examples are long-term portfolio companies Mainfreight and Michael Hill. Mainfreight had a horrible 2002 when its share price dropped 19% due to a tough year in its Australian operations. But when the turnaround came, it came with a vengeance. The share price lifted 42% in 2003 and another 44% in 2004. The beauty of having a portfolio of holdings is well illustrated by Michael Hill, which bucked the trend by having a strong 2002 year, its share price lifting 24%. Investors who jumped on the rising share price bandwagon in 2002 would have been disappointed though as the shares fell 20% over the 2003 year. But patience would have paid off because the company announced a strong result in 2004 leading to a 71% share price increase. This happened again recently when, after mediocre results in 2005 and 2006 leading to share price falls of 4% and 14%, the company announced strong performances in its increasingly global operation with a resulting share price lift in 2007 of 79%.

There are a lot of numbers in the two paragraphs above, but hopefully they give you a taste of the significant performances that can emerge from volatile markets. When investors change their attitude towards a business,

for the better, that company's share price will not just bounce by 1% or 2% – there will generally be a re-rating which can lead to double-digit performances in a short period of time. However, just as it was difficult to pick the rapid share price falls, it will be difficult to predict exactly when they will rebound.

The next month will be particularly important as profit results and accompanying commentaries provide some guidance as to the appropriate share price valuation. We would hope (and expect) that some of our companies will confirm that their share prices are currently undervalued.

So, enough of the comforting comments, what about specifics as they relate to your portfolios over the past couple of months? The New Zealand share market proved relatively resilient though was not spared entirely, falling 12% in the four weeks to 31 January 2008. There was literally no significant news from our companies over the Christmas break, as our chief executives and management teams took a well-earned break. The next month will be particularly important as profit results and accompanying commentaries provide some guidance as to the appropriate share price valuation. We would hope (and expect) that some of our companies will confirm that their share prices are currently undervalued. Our Australian funds had a far more torrid time as the Australian share market (and small companies index in particular) was hyper-sensitive to the news and market action in the US. The Australian Growth Fund unit price ended January at \$1.9566 representing a 20% fall for one month and 21% over two months. The Australian market fell twelve days in a row. Six stocks in our portfolio declined by more than 20% during January, in spite of five of these companies making what we consider to be positive announcements during the period. We will cover the news flow from these and other portfolio companies in conjunction with our update on the profit results season next month, and there is little point in discussing company news because that really wasn't the driving factor behind performances last month. It was investor sentiment, pure and simple. There are numerous statistics that suggest that the Australian share market is now "as bad as it gets" and that an improvement should be forthcoming. But, with sentiment driving prices, we know better than to call this the bottom, preferring instead to monitor the company results next month and hope that our companies can refocus investor attention on the fundamentals of their businesses. As for our International Growth Fund, we are still largely sitting on cash, so the unit price has been spared the worst of the global correction. Rather, we have used price weakness to selectively build the portfolio and expect to reach our target of being 50% invested within the next month or so. Interestingly, some of our target international companies have performed well in recent months such that we have been reluctant to pay up for these shares. Now that's a theme you won't have been reading much about in the financial press!

In summary then, we share your pain and disappointment over the share market performances of recent months, and thank you for hanging in there. We are probably more optimistic than you about the portfolio prospects because we have experienced these sorts of markets (and the subsequent rebounds) before, and we take solace in focusing our attention on the individual achievements of our companies. The share prices will take care of themselves over time once logic and intelligence takes over from emotion ... and this will happen.



A bird's eye view

What's new at Fisher Funds?

So much has happened since we last spoke with you in our December newsletter. In early December we talked about the market volatility and the buying opportunities that were emerging, we thanked you for your support of Marlin and our international fund, asked for feedback and then wished you all a Merry Christmas. As our office closed for two weeks, our team looked forward to a relaxing break at the end of a hectic year which had featured tax changes and the introduction of Kiwisaver. And then ... world share markets had their correction which then became a bear market. As we returned to the office (and for the investment team, there really wasn't a break, because it is hard to sit on the beach away from your computer screens when prices are leaping around each day) we waited for the calls from worried investors. It was immensely satisfying to find that by the second week in January, the tone of our conversations with investors had moved from "is it time to sell?" to "shall I invest more, now that we are close to the bottom?".

Had you visited our office in January, you would have found quite a relaxed bunch, because the international team was delighting in being

able to buy some of the stocks on their watchlist which had suddenly become affordable, and the Australian and New Zealand teams were considering bargains as irrational sellers offloaded shares at silly prices.

We are conscious that the next couple of months will be busy with the upcoming profit results setting the tone for the market's performance in the months ahead. At the end of March, Kingfish shareholders will have their final opportunity to exercise their warrants. With volatile markets, and a Kingfish share price not much higher than the \$1.00 exercise price, we know that we will be having a lot of discussions with shareholders about the merits of converting their warrants to ordinary shares. (For the record, Fisher Funds will be exercising its warrants as we believe in the long term potential of the Kingfish portfolio). Then in April, we expect that there will be another burst of publicity surrounding KiwiSaver, since employers will begin to make their contributions to their employees' accounts. So, a busy time ahead, but a period that provides welcome opportunities to talk to you and help steer you on the right path to financial success.

Your questions

We respond to questions asked by investors

Q: Can you please explain how I will benefit from any bargain buying that you do within the funds? Since I invested a long time ago at higher prices, I surely won't benefit, though I can see that new investors will.

A: Any astute buying that we complete for our funds in this bear market will benefit all our investors equally, regardless of when you invested. When we talk about buying cheap stocks, we don't just say it to gloat on behalf of new investors. Rather, we hope to make you as excited as we are about the opportunity to reduce your average cost and to benefit directly from the price rebound that we are confident will emerge. The mechanics are probably best described by way of example. Say you invested \$5,000 in our New Zealand Growth Fund on 1st January 2007. For the sake of simplicity we will highlight one of the portfolio stocks – Delegat's – but in reality the same process applies to each of the stocks to generate an overall portfolio return. When you invested your \$5,000, six percent of your portfolio was invested in Delegat's (because that was our target weighting) which at the time had a share price of \$2.35. The Delegat's share price slowly slid for a few months on concerns about the strong New Zealand dollar, hitting a low of \$2.10 in late July, causing its weighting in the portfolio to drop below 4%. So we bought some more shares in July and August at an average price of \$2.24. This brought our average cost price to \$2.29. When the share price subsequently recovered to \$2.87 in October, the unit price lifted accordingly. If we hadn't bought some more shares, the unit price would still have benefited from the share price rebound, but to a lesser extent. If we had done nothing, Delegat's

would have added 1% to the unit price. By adding more shares when the price was low, Delegat's added 1.7% to the unit price. These numbers may seem small, but if we can add incremental gains to each of our stocks, they add up to some serious value added over time. As cashflow has allowed, we have used market downturns and nervous selling to increase your exposure to cheap stocks in anticipation of the healthy rebounds that have already begun to emerge.

Any astute buying that we complete for our funds in this bear market will benefit all our investors equally, regardless of when you invested.

You can also practice this same technique by buying units regularly. Those investors who have a regular monthly or weekly investment into our funds benefit in the months that our stocks fall because they get more units for their monthly investment. When the unit price rallies, they buy fewer expensive units, and over time their average cost is reduced allowing them to achieve a higher return. If you wish to set up a direct debit and make regular investments, please contact our customer service team on 0508 FISHER.

Fund facts

Fund Performance

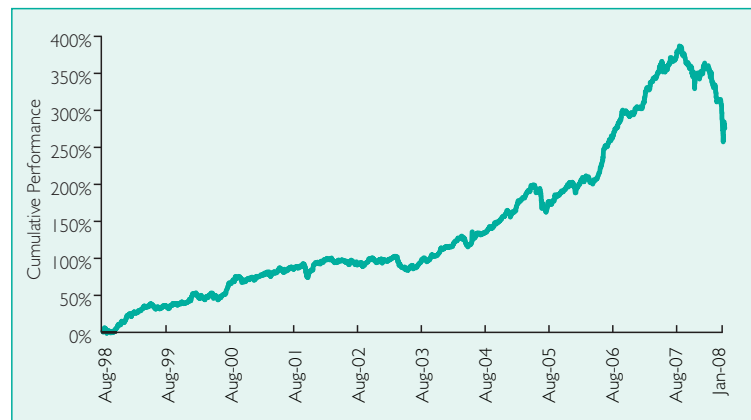
Fund Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	-17.43%	11.2%	9.0%	13.5%	15.0%
Australian Growth Fund	-13.89%	6.84%	na	na	10.7%
Fledgling Fund	-14.88%	7.0%	6.3%	7.4%	3.6%
International Growth Fund	na	na	na	na	-1.7%
KiwiSaver	na	na	na	na	-9.3%

Market Indices	1 Year	2 Years	3 Years	5 Years
NZ50G	-11.6%	4.7%	6.1%	13.4%
90 Day Bank Bill Index 0.76%	8.6%	8.2%	7.9%	7.1%
S&P/ASX300 (Calculated in \$NZ)	2.7%	13.3%	17.4%	20.0%

NB...annualised returns, after tax and fees

January's Biggest Movers	
New Zealand	
Optus International	-15%
Rakon	-16%
Michael Hill	-16%
Metlife	-17%
Australia	
Pharmaxis	-27%
WHK Group	-27%
Bravura Solutions	-30%
Arrow Energy	-36%
International	
Equinix	-25%
O2 Micro	-31%
Hongguo	-40%
Gameloft	-54%

New Zealand Growth Fund



Fund Inception August 1998

Portfolio Holdings – Comvita, Delegats, Freightways, Infratil, Mainfreight, Metlifecare, Michael Hill, NZ Exchange, Opus International, Pumpkin Patch, Rakon Limited, Ryman Healthcare, Sealegs.

Australian Growth Fund



Fund Inception June 2005

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

International Growth Fund

The International Growth Fund has only recently been launched. The Fund's objective is to provide New Zealand investors access to a hand-picked portfolio of international companies designed to maximize returns while providing greater diversity on an industry, economic and geographic level.

Fund Inception October 2007

Portfolio Holdings – O2 Micro, City Telecom, Conceptus Inc, Equinix, Gameloft, Hansen Natural, Home Inns & Hotels, Hongguo, Icon, Jamba Juice, Midas Holdings, Raffles Education, Wirecard.

Fledgling Fund



Fund Inception December 1999

Portfolio Holdings – Comvita, Delegats, Freightways, Infratil, Mainfreight, Metlifecare, Michael Hill, NZ Exchange, Opus International, Pumpkin Patch, Rakon Limited, Ryman Healthcare.

FISHER FUNDS MANAGEMENT LIMITED | PO Box 33 549 | Takapuna | Auckland | Telephone 09 445 3377
 Freephone 0508 FISHER (347 437) | Fax 09 489 7139 | Email enquiries@fisherfunds.co.nz | www.fisherfunds.co.nz

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