

FROM THE undergrowth

JULY08



It was tempting to send this newsletter out in a brown envelope... at least then some of you would have left it unopened for a few weeks! June was another negative month, ending a positively dreadful six months. It was a month during which everyone, not just share market investors, succumbed to the overwhelmingly negative environment of high petrol prices, rising inflation, slowing economies and gloom everywhere you turn. Perhaps we need to remember that it is often darkest before the dawn...

Your Portfolios

What has been going on since we last spoke?

By the time you receive this newsletter, you will likely have seen plenty of commentary referring to the June month and the June quarter as being record-setting periods... for all the wrong reasons. The statistics are attention-grabbing – here's a taste: The US share market had its worst June since 1930 and its worst single month performance since 2002; the Australian All Ords Index had its worst financial year since 1981; oil prices reached a new all-time high in June, after rising close to 40% over the quarter; and NZ consumer confidence is at its lowest since the 1991 recession. Reading these statistics will be a grim reminder of what will have been your worst period with Fisher Funds, so in the interests of balanced reporting, we have taken the opportunity to highlight some of the positive elements of the past three months that should grab your attention but have likely been overlooked amidst the carnage.

lowered their earnings expectations and share prices have fallen accordingly. A considerable amount of risk now appears to have been already priced into stocks. In the space of one year, the notion of good value has moved from stocks trading at a price earnings ratio (PER) of less than 20x to now those below 10x. According to Citigroup, the average PER for the Australian Small Industrials Index has fallen from 18x in November 2007 to 11x currently. The average PER of our Australian Growth Fund (excluding Arrow Energy) is now 9x. This represents a very real opportunity as our portfolio of companies, that will grow comfortably in excess of market earnings growth rates, is now trading at a significant discount to the already-discounted market.

“Bad times have a scientific value. These are occasions a good learner would not miss.”

Ralph Waldo Emerson, US essayist and philosopher

- **Diamonds in the rough.** Our New Zealand and Australian funds outperformed their respective markets for the month and three months ended June 2008. During the month of June, seven of your NZ portfolio stocks representing 56% of the portfolio outperformed the broad NZX50 Index. During the June quarter, eight of your NZ portfolio stocks representing 64% of the portfolio performed better than the broad market. In Australia, five stocks representing around 40% of the portfolio outperformed the market with Arrow Energy the star performer for the quarter.
- **Ten has become the new twenty.** Share markets have fallen over the past six months on anticipation of higher oil prices leading to slowing economies (probably recessions) and therefore slower corporate profit growth. Analysts have progressively

- **Currency helps in more ways than one.** The New Zealand dollar weakened materially during June, falling by around 3% against the Australian dollar, the US dollar and on a TWI basis. The New Zealand dollar has remained high as international investors have been attracted to our relatively high interest rates. However with the Reserve Bank indicating lower interest rates later this year, and economic data pointing to a pessimistic economic outlook, our New Zealand dollar was sold down in June. This lower currency has added to the returns of those investors in our Australian and International funds,

At a glance As at 30th June 2008

Unit Prices (\$)

NZ Growth Fund	3.0013
Australian Growth Fund	1.8672
International Growth Fund	0.9812
Fledgling Fund	1.0741
KiwiSaver	0.8918

Fund Sizes (\$m)

NZ Growth Fund	98.0
Australian Growth Fund	102.1
International Growth Fund	5.3
Fledgling Fund	2.7
KiwiSaver	30.6

Performance (June 2008)

NZ Growth Fund	-10.9%
Australian Growth Fund	-3.2%
Intl Growth Fund	-4.8%
Fledgling Fund	-9.4%
KiwiSaver	-4.0%
NZ50 Gross index	-11.9%
S&P/ASX 300 (\$NZ)	-4.8%
MSCI Global Small Cap Index	-5.7%

Your Portfolios continued

and also makes life more comfortable for our New Zealand companies with offshore operations.

- **The worry du jour.** Global share markets see-sawed during the June quarter, rallying in April and May before selling off in June. The credit crunch and looming recession were the main concerns in the first three months of the year but by mid-April investors were prepared to look beyond these issues in the belief that much of the bad news was factored in to share prices. The markets' focus shifted in June to the rising oil price and its impact on inflation. While we would never suggest that inflation is a positive, markets will at some point look beyond this 'worry du jour' and indeed any weakening in the oil price will likely result in a market rally. While we are talking about inflation,

it might be timely to talk about the impact of inflation on your investment returns. Inflation impacts the real return of all financial assets. While nominal returns tell you the growth rate of your money, the real return tells you how much your purchasing power is growing. With high growth investments you have the potential to maintain higher real returns than with low growth or seemingly low risk investments. To illustrate we can use a simplistic example:

Assume a growth investment (shares) is returning 20% per year; the low risk investment (cash) is returning 8% and inflation is 3%. Your real return is 17% for growth and 5% for cash. But what if inflation increases to 5%? Your real return for growth is now 15% and cash is 3%. Thus your real return for growth has decreased by 12% whereas the low risk investment has decreased by 40%.

Your Companies

A summary of news from your companies in the past month

There were a number of announcements from your portfolio companies during June, the vast majority of which confirmed the implementation of strategies that will enable or accelerate earnings growth which (at the risk of becoming too repetitive) we know will ultimately be reflected in share price performance. In New Zealand, **Mainfreight** announced another bolt-on acquisition, this time in Australia, which was reasonably priced and a logical and complementary extension of its business. **Delegat's Group** gave the market a nice surprise in announcing a 45% increase in its 2008 grape harvest and an increase in its earnings forecasts for the June 2008 year. **Comvita** announced a loss in line with its guidance, and referred to three significant acquisitions during the year which have strengthened its distribution and provided product diversification.

In Australia, **Arrow Energy** advised the market of an alliance with global energy player Shell which provides a powerful endorsement of Arrow's Australian and International strategy from a giant in the energy industry,

as well as offering an injection of both capital and expertise. Late in the month Arrow also announced the sale of its 50% interest in the North Queensland Gas Pipeline (NQGP), which was part of the gas assets **Arrow** had purchased from Enertrade in November 2007. The sale is a good deal for Arrow and the sale price highlights how smart its purchase of the Enertrade assets in 2007 was.

And from your International portfolio, **Hyflux** (Singapore; one of Asia's largest water and waste treatment companies) announced it will sell nine of its water projects in China. After selling, Hyflux receives an ongoing fee to manage the plant. The great thing about this arrangement is that it frees up capital for the company to bid for more projects and thus continue growing. **Ports Design** (China; men and woman's fashion retailer) has taken a 58% stake in a joint venture to sell the Vivienne Tam brand throughout China. **Roth and Rau** (Germany, solar power equipment) announced several large orders, which represent more than two times the expected revenues for the second quarter alone. **Raffles Education** (Singapore; Asia's premier post secondary private education company) announced a joint venture with Educomp which is one of India's leading K-12 education companies. Ken has met with Educomp a couple of times and has considered them for an investment in the fund. This JV will enable Raffles to expand its presence in India by using Educomp's extensive expertise in the country.

Up Close & Personal

Scott tells us why we have introduced Conceptus to our International portfolios



Conceptus is a company that developed, manufactures and distributes a medical device called Essure - a breakthrough in permanent birth control for women. The traditional method of permanent birth control is a surgical procedure called tubal ligation which requires a stay in the hospital and up to a week recovery time. The Essure procedure can be performed in 30-40 minutes in an outpatient setting, does not require incisions or general anesthesia, and allows the patient to return to normal activity within a day. Not only does the Essure procedure

offer clear benefits to the patient, but it also gives doctors a financial incentive as they can earn more per procedure and it is covered by major healthcare insurance plans in the United States. It also benefits the healthcare system as it is less expensive and uses fewer resources than a tubal ligation.

Since receiving FDA approval in 2002, over 7,000 doctors in the U.S have performed an Essure procedure, with zero pregnancies. The opportunity is huge with over 700,000 tubal ligations currently performed per year in the U.S alone. A 30% share of the U.S market represents more than \$200 million in annual sales; three times larger than the company's 2007 sales of \$65 million. While sales have mostly come from the U.S the market size internationally is at least as big again. The company does have operations in Europe, Asia and Australia (New Zealand is covered by an Australian distributor).

Conceptus operates in a market niche which has little correlation to the overall economic environment (the procedure actually saves money). The company has rapidly grown sales and spent the last 3-4 years building awareness of the procedure by hiring their own sales force and training doctors. Scott recently drove down to Mountain View, which is about one hour's drive from our San Francisco office, to talk to the CEO Mark Sieczkarek. In addition to continued strong sales Mark reinforced his continued confidence in Conceptus reporting profits in 2008. He highlighted to Scott that Conceptus has gained critical mass as the device is now selling itself and by leveraging the sales force it provides significant profit growth.

Both Scott and Ken have closely followed the company's progress for more than five years as Conceptus has delivered on its strategic initiatives. Now that Conceptus is on the cusp of profits it enables Fisher Funds to buy into this exciting growth company.



A bird's eye view

What's new at Fisher Funds?

June provided a welcome opportunity to meet so many of you during our roadshow presentations and Premium functions (it was a good month to be away from our screens!). Thank you for your warm reception and continued support, and a special thank you to Dunedin for a wonderful day (we are reliably informed that it is not always cold in Dunedin!). We have produced a DVD of our roadshow presentation – for those who didn't attend but would like a copy, please email us on roadshow@fisherfunds.co.nz or telephone 0508 FISHER (0508 347 437).

Our roadshow generated particular interest in KiwiSaver and our three listed investment companies. KiwiSaver was of interest to many parents and grandparents since we highlighted that any young investor (under the age of 18) can sign up for the Fisher Funds KiwiSaver Growth Scheme **without making an initial investment**. It is a straightforward process requiring a form and an IRD number. Once a child is signed up, he/she receives \$1,000 from the Government, which we hope to grow over time through wise investment decisions. When these young investors start work they will, as KiwiSaver members, automatically have deductions made from their first pay packet, and they will also be

entitled to receive \$5,000 when they buy their first home. This is a huge helping hand for any young New Zealander, and if each of us signed up our offspring we could change the face of the country by creating a generation of savers.

As for the listed investment companies, each of Kingfish, Barramundi and Marlin are trading at 20%-plus discounts to their net asset values, for no logical reason. This means that you can buy the same portfolio as the NZ, Australian and International Growth funds, at 20% less than they are actually worth. These large discounts are just another example of the irrationality that exists in today's markets.

And on a happy note, our sincerest congratulations go to our San Francisco-based analyst Scott Brown and his wife Maricor on the birth of their daughter Ava Madeline on 24th June. Mother and baby well, Dad happy to focus on soft toys rather than soft markets! Congratulations also to our Finance Manager, Brigitte Adelinger on her marriage to Mike on June 28th - enjoy your "trout fishing" honeymoon!

Your questions

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

Q: How is the high oil price affecting your funds, and what is Fisher Funds doing about it?

A: Oil prices have almost doubled in the past year to the extent that petrol prices are at levels comparable with the 1970s fuel crises. Each day we read about changes in the oil price reflecting changing supply levels in the Middle East, currency fluctuations, speculation activity, inflation concerns and any number of other influences. Unfortunately the oil price never seems to drop significantly and it is now generally accepted that cheap fuel is a thing of the past, with a \$2 petrol price more likely to continue into the future than the \$1 that we have enjoyed until recently.

A high oil price affects every country that imports oil, and every company with customers whose lives are impacted by the oil price (with the corollary being that countries and companies that produce oil are benefiting). We all feel the impact directly through a higher cost of transport and indirectly through a higher price of goods and services that we buy. Unfortunately petrol is one of those costs that is difficult to avoid – petrol is not really a discretionary item in our busy lives. In the short term we expect that the higher oil price will continue to impact our companies and our funds in the same way as it has over the past six months – it will affect consumer's mindsets (we all become more cost conscious) and it will be a challenge that our companies need to address if they are to maintain profit growth. The stronger companies will be able to pass their increased costs through to their customers, and those who can't, will look at reducing other costs to maintain their profit margins. Longer term, we are not in the school of thought that has oil prices continually climbing to extreme levels. Already we have seen changing behavior patterns as people around the world change their driving habits and replace their gas-guzzling cars. Businesses and governments have also begun to shift or at least consider alternative forms of fuel which become

economically viable with a high oil price.

Difficulties always seem worse when you are in the thick of them, but the world survives on its ability to adapt. In a world that went from horse and buggy to putting a man on the Moon in less than 100 years, we will learn to cope with rising oil prices, and in years to come we will refer back to the current period as just another point on the long-term (upward trending) chart of economic and share market growth.



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Fund facts

Fund Performance

Fund Net Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	-35.5%	-12.0%	1.7%	8.5%	11.7%
Australian Growth Fund	-26.7%	-3.5%	6.7%	na	7.5%
International Growth Fund	na	na	na	na	-1.9%*
Fledgling Fund	-30.1%	-10.5%	2.3%	3.3%	1.3%
KiwiSaver	na	na	na	na	-10.8%*

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	-36.37%	-14.20%	5.02%	12.68%	14.69%
Australian Growth Fund	-28.16%	-0.35%	9.53%	na	8.88%
International Growth Fund	na	na	na	na	-1.9%*
Fledgling Fund	-31.16%	-10.43%	3.90%	4.96%	1.49%
KiwiSaver	na	na	na	na	-10.8%*

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	-24.6%	-5.6%	-0.5%	7.6%
90day bank bill	9.0%	8.4%	8.1%	7.3%
S&P/ASX300 (Calculated in \$NZ)	-1.2%	7.2%	16.7%	18.4%
MSCI Global Small Cap Index	-17.1%	-11.4%	2.5%	7.7%

*Not Annualised

Biggest Movers (June 2008)

New Zealand	
Opus International	-15%
Infratil	-15%
Michael Hill	-20%
Comvita	-32%
Australia	
Arrow Energy	11%
McMillan Shakespeare	-24%
Nick Scali	-35%
DWS Solutions	-42%
International	
OSI Pharmaceuticals	17%
O2 Micro	-26%
Midland Holdings	-31%
Wirecard	-36%

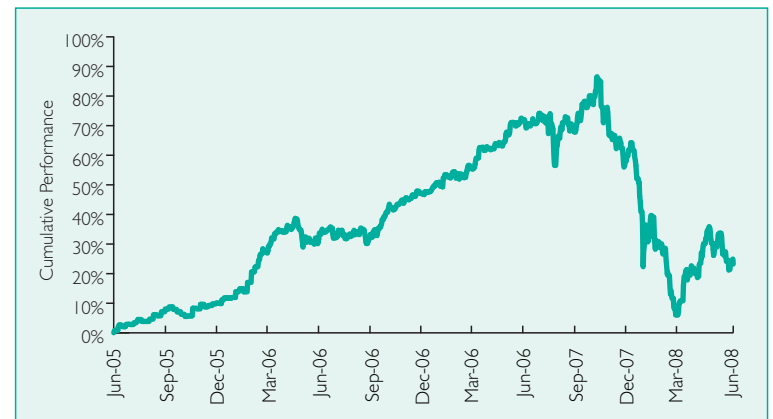
New Zealand Growth Fund



Fund Inception August 1998

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

Australian Growth Fund



Fund Inception June 2005

Portfolio Holdings – Aevum, Arrow Energy, Austbrokers, Bravura, Centretbet, 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, 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, Delegates, Freightways, Infratil, Mainfreight, Metlifecare, Michael Hill, NZ Exchange, Opus International, Pumpkin Patch, Rakon Limited, Ryman Healthcare, Wakefield Hospital.

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