

FROM THE undergrowth

JUNE08



Fog affected flights in and out of Auckland last week, and closed the airport for a whole day in mid-May. A different sort of fog impacted share markets last month – the sort of fog created by mixed messages, that allows you to see some things clearly but not enough to give you confidence to move ahead purposefully. Fortunately our investing experience has equipped us with an ability to think clearly ... even in foggy conditions!



Your Portfolios

What has been going on since we last spoke?

At a glance

As at 31st May 2008

Unit Prices (\$)

NZ Growth Fund	3.3666
Australian Growth Fund	1.9280
International Growth Fund	1.0312
Fledgling Fund	1.1858
KiwiSaver	0.9291

Fund Sizes (\$m)

NZ Growth Fund	109.4
Australian Growth Fund	106.3
International Growth Fund	5.1
Fledgling Fund	3.0
KiwiSaver	28.9

Performance (May 2008)

NZ Growth Fund	-1.2%
Australian Growth Fund	8.3%
International Growth Fund	1.7%
Fledgling Fund	-1.1%
KiwiSaver	3.1%
NZ50 Gross index	0.0%
S&P/ASX 300 (\$NZ)	2.9%
MSCI Global Small Cap Index	3.9%

May was a month of information, both economic and company-specific, and a month during which investor behaviour matched the vagaries of this autumn season – there were long pleasant spells with occasional showers, fog and black clouds, but certainly no need to reach for the wet weather gear! The New Zealand Budget and the Australian Federal Budget were released during the month, both designed to favour “working families” through tax relief and targeted spending increases, but neither having a significant impact on investment markets. We had a number of profit results from New Zealand companies which had been reasonably well telegraphed and therefore caused little price reaction. Internationally, energy and inflation were the issues du jour as the price of crude oil hit a new high during May before retreating and closing only 15% higher! The tug of war continued with US economic news...better than expected manufacturing, payrolls and upward revisions to GDP offset by weaker housing, consumer confidence, credit issues and rising cost pressures.

Our funds performed relatively well, with the Australian Growth Fund being a particular highlight lifting 8% during the month. Leading the portfolio higher over the month was Arrow Energy which benefitted from corporate activity in the coal seam methane sector resulting in a significant rerating of the sector. We mentioned Arrow’s performance in our last newsletter and the stock remained strong throughout May, culminating in an announcement in early June of an alliance with global energy player Shell. The deal includes a sell down of 30% of Arrow’s upstream Australian tenements for \$644m as well as Shell taking a 10% interest in Arrow International (Arrow’s holding company for coal seam methane

investments in India, China, Vietnam and Indonesia). The transaction is a significant one for the company; a powerful endorsement of the company’s strategy and the injection of both capital and expertise from Shell will enable Arrow to fast track its strategic plans. The Arrow share price finished a massive 42% higher for the month (before the Shell announcement). As an interesting aside, May is obviously a good month for Arrow Energy as those investors who were with us last year will attest – the Arrow Energy share price lifted 38% in May 2007 after demonstrating to the market that it could deliver on its growth promises.

“In this business, if you’re good, you’re right six times out of ten. You’re never going to be right nine times out of ten.”

Peter Lynch, retired Vice Chairman, Fidelity Magellan Fund

Oakton and DWS were also strong contributors to the Australian performance as the IT services stocks bounced back from oversold positions as investors’ fears of a significant IT spending freeze in the Federal budget were found to be unwarranted.

Although the NZ Growth Fund ended the month 1.2% lower, the majority of the portfolio performed well throughout the month and the unit price was dragged down on the last day of trading by a very small sale of Metlifecare shares at a price 7% lower than it had traded all month. The Metlifecare price rebounded 2% the next day, as an equally small parcel of shares changed hands. Pumpkin Patch was another poor performer (again) and had a negative impact in

spite of its reduced weighting in our portfolio. While this stock is now ranked by several brokers as one of the most undervalued stocks in the New Zealand market, currency concerns continue to impact its performance.

Our International Growth Fund continued its positive performance, lifting 1.85% during the month. Currency had a slightly negative impact on returns in May. While the NZ dollar ended the month close to where it began, it was an extremely volatile month with the peak to trough range being more

than 5%. The sell off was driven by expectations of interest rate cuts by the RBNZ in the midst of weak economic news. This reversed as Finance Minister Cullen promised earlier and larger tax cuts in the Budget, thus pushing out the timing and magnitude of the expected interest rate cuts. We believe the NZ dollar remains overvalued and have used the strength to move another 10% of capital offshore (currently more than 95% offshore).

Your Companies

A summary of news from your companies in the past month

We had a cluster of profit results from our New Zealand companies which were all reassuring, as were the follow up discussions that we had with each management team. Rakon announced a profit in line with guidance and the company commented that market demand for GPS units remains robust and that growth opportunities exist in the cellphone, camera and femtocell market. Although we sometimes need to have a dictionary or glossary nearby when considering the prospects for the crystal oscillator market, we understand growth when we see it. Mainfreight announced a strong result with profits up 15%, good integration of its international businesses and a strong start to the new financial year. We particularly liked Managing Director Don Braid's assertion that "Mainfreight doesn't do recessions"! The Ryman Healthcare result explains why it is a core portfolio holding – profits up 22%, a strong recurring earnings base from the sales and re-sales of units, capital gains, management and care fees, all delivered by a candid and consistent management team. It was encouraging to hear the Chief Financial Officer respond to a question that his biggest worry in this current climate was "getting resource consents and getting on with developing the villages". This is a good worry to have!

From our Australian desk, we have already mentioned the positive contributors to performance during May, and there were a couple of small detractors. The Bravura share price fell 11%, despite a take over offer from Ironbridge, due to uncertainty as the market awaits the resolution of the Lift Capital situation. Centrebet and WHK Group also harmed returns. The reason for Centrebet's underperformance is hard to fathom, and WHK Group fell on lower revised profit expectations although the market should not have been surprised as all financial services stocks have suffered of late.

Ken traveled to Singapore to attend a conference looking for new investment ideas and to visit five of our company holdings – Raffles Education, Midas Holdings, Sarin Technologies, Midland Holdings and Hyflux. Each of the meetings with our current companies provided confidence as to their potential for future profit growth, and Ken also visited Hyflux's water desalination plant which is an engineering marvel and supplies 10% of Singapore's daily water needs. Hyflux was also recently awarded a US\$600m project to build the world's largest water desalination plant based in Algeria. Two new companies were added to the International fund during May – Sarin Technologies and Nokian Renkaat. A truly international company; Sarin trades in Singapore, is based in Israel, and the majority of its revenues come from India. They are the worldwide market leader in providing equipment and tools for the diamond industry. Sarin's products are used to grade, cut and optimise the value of diamonds.

Based in a town called Nokia in Finland, Nokian Renkaat is the market leader for producing and selling specialty winter tyres in Scandinavia and Russia. Given the harsh winter conditions in that part of the world, vehicles need high performance tyres just to stay on the road and every car has 2 sets of tyres (one for winter, one for summer). Russia is a large growth opportunity with the backdrop of a strong Russian economy and an increasing consumption and investment story similar to China.

Up Close & Personal

Murray tells us why we continue to rate Ryman Healthcare very highly

Ryman Healthcare released its March year-end net profit result (+22%) during May which showed yet again the appeal of integrating retirement villages and aged care to create a compelling investment opportunity. The positive drivers of an aging population, longer life expectancy and the still relatively low market penetration of retirement villages in New Zealand, means that demand considerably exceeds supply – particularly for quality, well run villages. Ryman has grown steadily over a number of years and has development plans for 400 new residents annually. These development plans are put into perspective when considered against the 30,000 New Zealand residents who will reach 85 years+ over the next decade. Not surprisingly, Ryman are experiencing strong demand for their announced new developments in Orewa, Whangarei and Dunedin.



Much has been made of the potential impact of declining residential property prices on Ryman, but we have learned over the years to keep the property cycle in perspective. Residents typically don't enter retirement villages as a lifestyle choice, usually it is a change in personal circumstance. The majority of new occupants are mortgage-free, and are typically downscaling their property exposure when entering a retirement village (by selling a family home to buy a somewhat less expensive apartment). Two-thirds are moving in to participate in aged care facilities – a focus and key differentiator for Ryman. Notwithstanding this, Ryman is adapting to the more difficult residential market by using its considerable purchasing power and in-house development skills to lower the cost of build to offer a reasonably priced, but still good quality product. The company commented recently that whereas it was impossible to get tradesmen prior to Christmas, now they are promptly returning phone calls!

Ryman has a large land bank for future retirement / aged care units and has now got scale such that it has a strong tail of recurring earnings and cash flows. The company consistently under-promises and over-delivers, and remains one of our two largest core portfolio investments. Earnings have compounded at nearly 30% over the last 6 years, well above the company's long term goal of 15%. If the company can achieve its goals, profits will double every three to five years – just what we are looking for.



A bird's eye view

What's new at Fisher Funds?

May was a relatively quiet month at Fisher Funds with the investment team focused on profit results, company updates and finding new investment opportunities (with several new companies picked for the international portfolios, and two new investments identified for the New Zealand funds). The client services team was kept busy recording responses from those of you attending our roadshows in the next couple of weeks, our back office team had a fair amount of work to deal with related to year end and tax statements, and our listed investment company team had a busy month preparing the Kingfish annual report and getting ready for the company's upcoming AGM.

We look forward to seeing you at our roadshow and remind you to register on our website if you haven't already.

Among the highlights of the past month was our participation in an email newsletter for New Zealand parents of young children. In the newsletter we highlighted the advantages for young parents in signing their children up to KiwiSaver, particularly given that the Fisher Funds KiwiSaver Growth Scheme requires no up-front contribution, provides a \$1,000 kick-start from the Government and positions children early on their long-term investment growth path. We have had a number of enquiries from

interested parents and expect to participate in similar future initiatives as we are committed to getting as many young New Zealanders as possible on to a savings track, and teaching them about personal finance along the way.

We also contributed to a new book being written by financial author Mary Holm dispelling some of the myths around KiwiSaver. Some high profile commentators have unnecessarily focused on elements of KiwiSaver, often in an effort to promote their own schemes, but this has had the effect of putting investors off – sometimes the very people that will most benefit from KiwiSaver. We have enjoyed participating in the book, reminding readers that one of the attractions of KiwiSaver is that it features legislated transparency and simplicity – providers must disclose all fees, explain what their schemes invest in, and highlight the risks associated with their scheme. This cannot be a bad thing for improving this country's financial literacy. The book will be out later this year, but in the meantime, we would be happy to share our thoughts with you if you are debating aspects of KiwiSaver (or indeed any investment issue) with your friends, family and neighbours.

Your questions

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

Q: How can Fisher Funds justify charging a performance fee when your investors have lost money over the last twelve months?

A: Fisher Funds charges just one fee on an ongoing basis – the annual management fee of 1.25% pa which essentially covers the costs involved in managing and administering your funds such as research and travel. An entry fee may be charged, though is regularly waived, and a 10% performance fee is charged if we achieve performance that is better than the performance benchmark (the 90 day bank bill rate). Put simply, we don't earn a performance fee if we can't generate returns better than you could earn if your money was deposited in the bank. The better the performance, the more we earn as a performance fee, and therefore the better incentivised the investment team is to achieve good results.

The point at which Fisher Funds is paid a performance fee is called a High Water Mark, and we cannot earn another performance fee until that level is reached again. This means that we cannot be rewarded for recovering losses after periods of poor performance. To use an example, imagine that we begin a period with a unit price of \$1.00 and increase that to \$1.16 in the following twelve months. This equates to a 16% return and, assuming a 90 day bank bill rate of 9%, Fisher Funds would earn a performance fee of 0.7%

for the year, calculated as 10% of (16% – 9%). The unit price of \$1.16 then becomes the High Water Mark. If the unit price then fell to \$1.03 over the next six months and then recovered to \$1.15 by the end of the year (with this recovery equating to an 11.6% return, which is ahead of the 90 day bank bill rate) Fisher Funds would not earn a performance fee because the unit price would still be below the High Water Mark.

The High Water Mark for the NZ Growth Fund is a unit price of \$4.65 compared with the unit price at month end of \$3.37. The High Water Mark for the Australian Growth Fund is a unit price of \$2.54 compared with the unit price at the end of May of \$1.93. This means that Fisher Funds will not earn another performance fee until we achieve returns of 38% and 32% in our New Zealand and Australian funds respectively.

We think that the performance fee structure is positive because it aligns our interests with yours – we are incentivised to achieve good returns for you, and we are penalised if we achieve poor returns.

Fund facts

Fund Performance

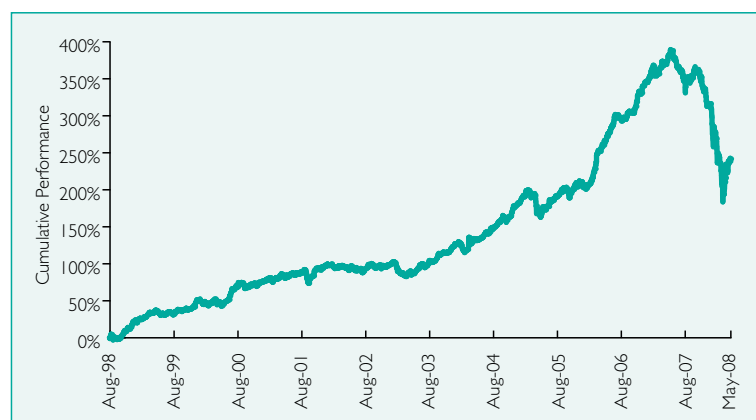
Fund Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	-30.6%	-5.2%	6.8%	12.1%	13.2%
Australian Growth Fund	-24.5%	-0.6%	na	na	8.9%
International Growth Fund*	na	na	na	na	3.1%
Fledgling Fund	-25.4%	-4.5%	7.7%	5.9%	2.5%
KiwiSaver	na	na	na	na	-7.1%

Market Indices	1 Year	2 Years	3 Years	5 Years
NZ50G	-15.8%	0.1%	6.1%	11.7%
90day bank bill	8.9%	8.4%	8.1%	7.3%
S&P/ASX300 (Calculated in \$NZ)	1.4%	12.6%	21.3%	20.1%
MSCI Global Small Cap Index (\$NZ)	-16.3%	-7.4%	6.1%	9.4%

*NB... annualised returns, after tax and fees. Returns marked with * have not been annualised.*

May's Biggest Movers	
New Zealand	
NZ Exchange	9%
Mainfreight	5%
Metlifecare	-7%
Pumpkin Patch	-12%
Australia	
Arrow Energy	42%
Oakton	41%
DWS Solution	28%
Bravura	-11%
International	
O2 Micro	19%
City Telecom	17%
Ultimate Software	15%
Raffles Education	15%

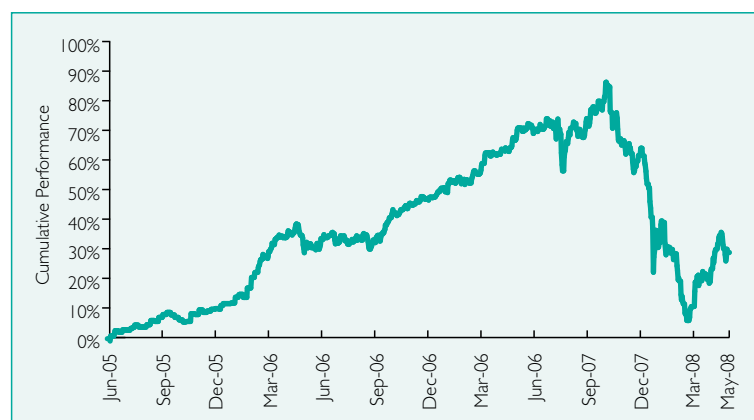
New Zealand Growth Fund



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 – 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 – 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, 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.

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