

FROM THE undergrowth

MAY08



What welcome relief! A positive month and some double-digit rebounds to remind us that things can and will get better. Both our New Zealand and Australian funds lifted around 8% during May, and Frank's good fortune (and therefore yours) has continued beyond the end of the month, so we thought we'd share that now rather than wait until next month's newsletter!



Your Portfolios

What has been going on since we last spoke?

In last month's newsletter we talked about periods of calm and glimpses of optimism that had emerged due to the actions of the Federal Reserve in averting a financial meltdown. During the month of April, optimism was apparent, abundant even, and share markets around the world rebounded strongly with the World Index up 6% for the month. There was still plenty of bad news, but investors, for now anyway, chose to look past the bad news at what might be beyond the current period. I remember at university thinking how challenging the concept of efficient markets was – the theory being that markets are basically a discounting machine which reflect all known information and are therefore unbiased in the sense that they reflect the collective beliefs of all investors about future prospects. If markets truly knew everything about future prospects, we wouldn't have undervalued stocks and therefore opportunities for astute investors to recognise value and invest in those companies before everyone else. But then, we shouldn't speak too loudly, because this environment has created such opportunities and we are revelling in them.

The two-tiered structure of the Australian economy doesn't help in that the raw materials sector continues to thrive as commodity prices remain strong. In the US, GDP data confirmed that the economy is not officially in recession, though consumer sentiment and housing data give little reason to cheer.

"I am an optimist. It doesn't seem too much use being anything else."

Winston Churchill

If all of the news referred to in the previous paragraph were released in February, we would now be talking double-digit share price collapses. But what gives us some, albeit tentative, optimism is that investors around the world appear to have moved from the "will there be a recession, and what impact will it have?" phase to the "we know growth has slowed, but all of that is priced in to the market, so where are the oversold companies?" phase. The bounce in markets has not been uniform, as we forewarned last month, with the best performing top 50 New Zealand stock for the month of April (Vector) lifting 25% and the worst performing stock, Fisher & Paykel Healthcare, falling 9% for the month. Ten of our thirteen New Zealand portfolio stocks outperformed the market with Mainfreight and NZ Exchange achieving double-digit gains (15% and 10% respectively). In our Australian portfolios, six of our seventeen stocks outperformed the market with five achieving double-digit returns and Arrow Energy lifting a massive 33% in the month! Our International funds were a little more subdued, but then they had less ground to recover, lifting 3% during May with positive performances across the portfolios.

At a glance

As at 30th April 2008

Unit Prices (\$)

NZ Growth Fund	3.4088
Australian Growth Fund	1.7808
International Growth Fund	1.0136
Fledgling Fund	1.1988
KiwiSaver	0.9011

Fund Sizes (\$m)

NZ Growth Fund	111.4
Australian Growth Fund	98.9
International Growth Fund	4.8
Fledgling Fund	3.0
KiwiSaver	24.8

Performance (April 2008)

NZ Growth Fund	8.1%
Australian Growth Fund	7.5%
International Growth Fund	2.5%
Fledgling Fund	7.3%
KiwiSaver	4.5%
NZ50 Gross index	4.4%
S&P/ASX 300 (\$NZ)	8.6%
MSCI Global Small Cap Index	4.4%

Economic news from New Zealand was unambiguously negative during April, with evidence that the man (and woman) in the street is under increasing pressure, has cut back on spending and is less confident about the future than they were this time last year. In Australia, economic data underlined the challenging position that the Reserve Bank of Australia finds itself in with consumer confidence plummeting to record lows but inflationary pressures (which admittedly are a rear view mirror statistic) intransigent. The strong inflation data led a number of analysts to call for further lifts in the Australian cash rate, which would be bad news for an already beleaguered consumer sector.

Your Companies

A summary of news from your companies in the past month

We added two new companies to our International funds during the month, Times Electric and Hyflux, bringing the total number of stocks to 26.

Times Electric (based in China, traded in Hong Kong) is the leading provider of electrical power supply equipment for the Chinese train manufacturers. The rail industry in China has entered a period of sustained growth with spending expected to triple during the next five years as compared to the last five years. **Hyflux** (based in Singapore, although they earn the majority of their revenue in China) is one of Asia's largest water treatment and environmental solution companies. We are currently more than 50% invested in our international funds and have 80% of our capital offshore in anticipation of additional investments in the short term.

Corporate news in our New Zealand companies was thin, but the few snippets released during the month were positive. **Opus Consulting** confirmed at its AGM that the company is on track to achieve forecast results for 2008. The company noted that while no business can be immune in recessionary conditions (if in fact they emerge), Opus has some resilience given the duration of its infrastructure projects and contracts, the nature of its major clients and the infrastructure deficits that the company's services are addressing. **NZ Exchange** announced a strong first quarter result with net profit after tax up 25%. The Chairman said that the company remained confident of delivering strong operating results throughout 2008. During April, we visited several of our portfolio companies including Opus, Rakon, Pumpkin Patch, Mainfreight, and Freightways and were pleased to come away knowing that our businesses have real growth options ahead and the durability to withstand the current market volatility.

The volume of news flow from our Australian companies was significant. **Aevum** announced the acquisition of two mature retirement villages on the NSW Central Coast for \$13 million. We particularly like the fact that the acquisition adds to Aevum's existing NSW coastal portfolio, increasing its exposure to what is a strong retiree demographic and the clustering of villages adds to operational efficiencies and improves the economics of these villages.

Arrow has signed a broad-ranging agreement with the Government of the Xinjiang Autonomous Region (X.A.R.) of the People's Republic of China (PRC). Arrow has also exercised its option to acquire the remaining 50% interest in Arrow Global CBM Pty Ltd which holds a production sharing contract in Vietnam and has numerous agreements with respect to coal bed methane assets in China and Indonesia. These are both strategically positive announcements as Arrow continues to build its portfolio of international

opportunities with the ultimate objective of its presence in each of India, China, Vietnam and Indonesia matching the size of its Australian operations. As for the news hinted at in our introduction, the Arrow share price responded exceptionally strongly (up 20% at the time of writing) to the audacious bid by BG Energy for Origin Energy at a 40% price premium, which effectively was highlighted to investors the huge potential value of Queensland's coal seam gas reserves.

Bravura Solutions announced a takeover offer from Ironbridge though the announcement was complicated by news that the shareholdings of two key directors have been caught up in the Lift Capital fiasco, having borrowed money to buy shares in Bravura. There is still some uncertainty about the timing of resolving these discussions and whether a satisfactory result will be achieved. The shares have been suspended while the sales process continues.

Pharmaxis announced that a Phase II clinical trial in children with cystic fibrosis demonstrated an improvement in lung function following three month treatment with Bronchitol. The product demonstrated lung function improvement that matches the existing best practice treatment but has significant advantages over it in the simplicity and application of the treatment. Despite this positive announcement the share price performed poorly over the month, due to an announced delay in the official launch of the drug for twelve months.

Nick Scali downgraded expectations for profits in the 2008 fiscal year noting that the full year after tax profit may be around \$6.0 million, compared with \$8.7 million in the previous year. The company noted; "It is clear that the most recent increase in interest rates on 5 March 2008 has had a further and significant impact on consumer spending patterns and confidence. The March interest rate rise appears to have had the most significant impact on consumer spending patterns that the Company has seen for many years." We are of the view that this is a broad problem across consumer discretionary sectors and does not represent any issues with Scali's offer or market positioning.

PIPE Networks announced that it has signed a Memorandum of Understanding (MoU) with Kordia Group of New Zealand (a government SOE) to build a new, private fibre optic cable that will link Australia and New Zealand. The company also released upgraded earnings guidance for the next financial year representing approximately a 60% increase on the current years expected earnings.

Up Close & Personal

Ken tells us more about International portfolio company O2Micro

One of the advantages of the International fund is the access it gives you to industries and companies not found in New Zealand or Australia. I introduce the E-Bike. This photo was taken outside O2Micro's headquarters in Beijing in early April. As you can see an Electronic Bike is a hybrid bicycle and scooter powered by battery. There were 15 million E-Bikes made in China last year, and anyone who has traveled there can tell you how

popular they are. Most E-Bikes currently use a lead acid battery to power them. Due to environmental concerns (air pollution) and the price of lead having tripled in the past few years there is a shift toward using Lithium Ion batteries. These batteries are made using specialized semiconductor chips by companies like O2Micro.

Before we get too carried away with the E-Bike, it represents less than 5 percent of O2Micro's sales. What really excites us about the company is they have created a technology platform where they design and produce best in class semiconductors for use in a variety of different products. They focus on 2 key areas; LED's and lighting, for products like LCD TV's and laptops, and battery power management, also used in laptops and other products like power tools and of course E-Bikes. Don't just take my word for it...the proof is in the profits. They have doubled earnings per share over the last 3 years



A bird's eye view

What's new at Fisher Funds?

We have had a relatively quiet, yet productive month at Fisher Funds. During April we began the planning process for our annual investor roadshow which is scheduled to begin in the second week of June. We have scheduled roadshow presentations in Auckland, Takapuna, Wellington, Christchurch, Dunedin, Tauranga and Napier and hope to see many of you there. We enjoy our annual roadshow schedule as it gives us an opportunity to meet you and find out what you really think,

and want to know. Having supported us through a tough six months, we recognize that this year it is especially important that we give you an update and our thoughts for the balance of 2008.

We continue to attract new KiwiSaver investors each month and are pleased at the level of awareness and interest being shown in the scheme. We believe that KiwiSaver is an essential addition to portfolios for those of you aged under 65 years, and for young people in particular (remember, you can enroll your children or grandchildren with no initial deposit, you simply need to complete a form). Please contact our client service team for more information on 0508 FISHER (0508 347 437) or 0800 FFKIWI (0800 335494).

Your questions

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

Q: As share markets have fallen and rebounded we have seen various references to markets and stocks being undervalued after 'earnings multiple contraction'. What does this mean?

A: A P/E or price earnings ratio is a valuation tool commonly used to determine how expensive a company is relative to its earnings. The P/E is sometimes referred to as the 'earnings multiple' because it shows how much investors are willing to pay per dollar of earnings. If a company were currently trading at a multiple (P/E) of 20, the interpretation is that an investor is willing to pay \$20 for \$1 of current earnings. In general, a high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E.

In times of uncertainty, investors generally become less willing to pay a high multiple for stocks in anticipation of future earnings growth, and sometimes an entire market can suffer from multiple contraction whereby the average P/E for all stocks reduces as investors are not prepared to pay for earnings growth that may or may not eventuate. Conversely, markets can also experience margin expansion, particularly coming out of downturns as investors become more confident that earnings growth will indeed emerge.

World share markets have experienced multiple contraction over the past six months, and growth stocks (which are Fisher Funds' specialty) which typically trade on higher P/E multiples have suffered worse than others.

To revert to a little bit of theory – total returns from shares generally reflect the growth of a company's earnings plus the dividend yield. However changes to P/E multiples add another dimension that can significantly enhance or undermine return. The table below shows the total return of the S&P 500 Index, illustrate this point.

Total Stock Market Annualized Return

Period	Earning Growth	Dividend Yield	Fundamental Return	Starting P/E	Ending P/E	Multiple Impact	Total Return
1950-1965	5.2%	4.8%	10.0%	7.2	17.8	6.1%	16.1%
1966-1981	7.0%	4.1%	11.1%	17.8	8.0	-5.2%	5.9%
1982-2000	6.4%	3.5%	9.9%	8.0	26.4	6.9%	16.8%
2001-2004	3.8%	1.8%	5.6%	26.4	20.6	-6.9%	-1.3%

If we look at the period of from 1966 to 1981, earning grew at a favorable 7.0% rate and dividend yield contributed 4.1%, while the P/E multiple declined from 17.8 to 8.0 which reduced the average gain by 5.2%, resulting in a total return of 5.9%. In contrast, from 1950 to 1965, corporate earnings grew at a 5.2% annual rate, and dividend yield contributed 4.8%. However, during this period, price-earnings multiples expanded significantly from 7.2 at the start of the period to 17.8 at the end resulting in an additional return of 6.1%. If we combine these two returns, we see a total return of 16.1%.

This 'double whammy' has hurt our returns over the past six months, but we expect to be rewarded in the future as our companies deliver on their earnings growth and their P/Es revert to more reasonable levels befitting the quality companies that we have invested in.

while continuing to invest in research and development keeping them one step ahead of the competition.

I recently spent a day at O2 Micro's headquarters in Beijing touring the facilities, meeting their engineers and employees and sitting down with the CEO Sterling Du. I've known Sterling for more than 5 years and he has a great vision and knows how to run a successful technology company. The weak stock markets of late have given us the opportunity to buy more stock at cheap prices and during April we took O2Micro up to our target weight. We were recently rewarded for our diligence when the company reported earnings on May 1. The stock rallied 20% on the profit result and is being discovered by other investors around the world. Short term price performance aside we believe there is significant opportunity and growth ahead for the company and a lot more return on this investment.



Fund facts

Fund Performance

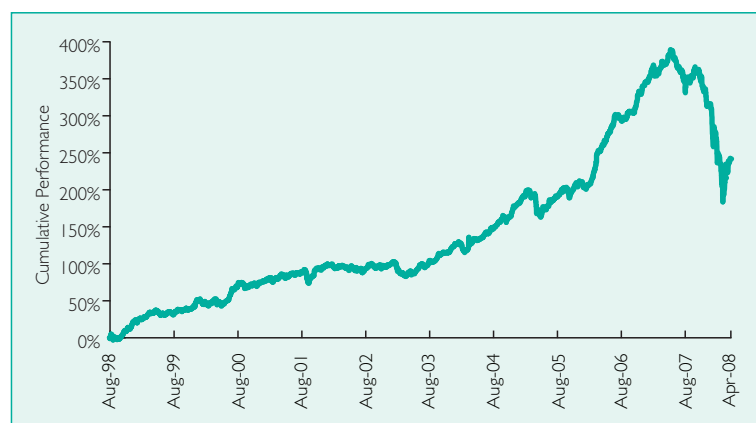
Fund Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	-27.5%	-2.7%	8.4%	12.4%	13.4%
Australian Growth Fund	-26.7%	-6.4%	na	na	6.2%
International Growth Fund*	na	na	na	na	1.4%*
Fledgling Fund	-22.5%	-3.2%	9.2%	6.2%	2.7%
KiwiSaver	na	na	na	na	-9.9%*

Market Indices	1 Year	2 Years	3 Years	5 Years
NZ50G	-13.6%	-2.3%	6.7%	12.5%
90day bank bill	8.9%	8.3%	8.0%	7.2%
S&P/ASX300 (Calculated in \$NZ)	1.4%	8.1%	21.6%	19.9%
MSCI Global Small Cap Index (\$NZ)	-17.2%	-11.5%	7.1%	10.1%

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

April's Biggest Movers	
New Zealand	
Comvita	52%
Sealegs	43%
Delegats	21%
Mainfreight	15%
Australia	
Arrow Energy	33%
Pipe Networks	22%
Oakton	-24%
Nick Scali	-38%
International	
Equinix	36%
Gameloft	35%
Wirecard	21%
Stratec Biomedical	19%

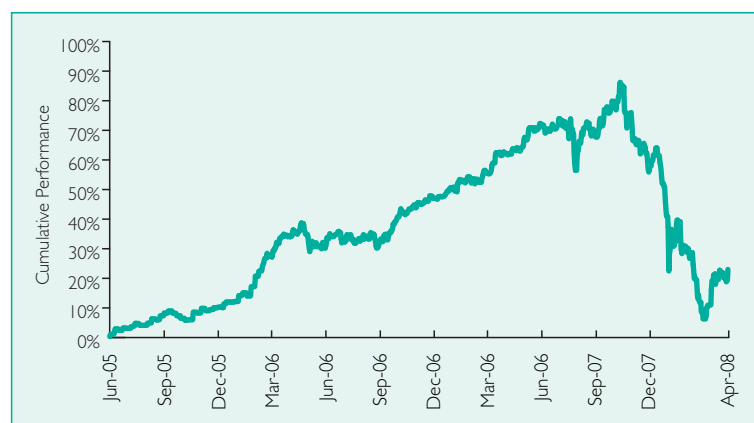
New Zealand Growth Fund



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, Centebet, Credit Corp, DWS Solutions, McMillan Shakespeare, Nick Scali, Oakton, Pharmaxis, Pipe Networks, Reckon, 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 – 02 Micro, Celera, City Telecom, Conceptus, EBIX Inc, Equinix, Gameloft, Hansens Natural, Home Inns, Hongguo, Icon PLC, Jamba Juice, Jumbo, Micros, Midas, Midland Holdings, OSI Pharma, Ports Design, Raffles Education, Roth & Rau, 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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