

FROM THE undergrowth

FEBRUARY 09



This is not the New Year we were hoping for. Whipsawing share markets are giving everybody heartburn. Everywhere investors are seeking something safe, something familiar, the financial equivalent of chicken soup. Forget comfort foods, we want comfort investments! Put your feet up and read on, and if you are a glass half-full sort of person, you might like to go straight to the more positive bits on page two! And if you've had enough of financial markets for the meantime, that's fine too. File this newsletter and check in again after the profit reporting season in March.



At a glance

As at 31st January 2009

Unit Prices (\$)

NZ Growth Fund	2.2227
Australian Growth Fund	1.1091
International Growth Fund	0.9061
Fledgling Fund	0.8320
KiwiSaver	0.7179

Fund Sizes (\$m)

NZ Growth Fund	72.0
Australian Growth Fund	52.9
International Growth Fund	5.3
Fledgling Fund	2.2
KiwiSaver	48.1

Performance (January 2009)

NZ Growth Fund	-3.9%
Australian Growth Fund	-3.2%
Intl Growth Fund	9.9%
Fledgling Fund	-3.3%
KiwiSaver	2.2%
NZ50 Gross index	2.2%
S&P/ASX 300 (\$NZ)	-1.9%
MSCI Global Small Cap Index	5.1%

Your Portfolios

What has been going on since we last spoke?

At Fisher Funds, we have the benefit (if indeed it is a benefit) of reading masses of commentary from around the world – Ken receives all manner of publication from the US, Asia and Europe each day, Frank's Australian peers always have lots to say, and in New Zealand, all sorts of commentators have made a contribution to the nation's conversation. Here is a summary of the commentaries that we have read over the past two months: *It is 2009, we are some twelve months into a global recession, just three months shy of the longest recession in post-war history, the economic news remains negative and will probably remain so for most of 2009 and maybe 2010. Investors have either given up on shares (because there's only so much pain we can tolerate) or chosen not to think about them again for a long time, because it's going to take a long time to recoup the massive losses from last year.*

What a lovely way to start the year, and comments like these are bound to lead to an improvement in investor confidence ... not!

In preparing to write this newsletter we thought we would distil these commentaries, capturing the very best thoughts from the most knowledgeable people from around the world. But even those commentators who have been around for many decades and lived through recessions before, and even those who have proven insightful and prescient in the past, preface their comments with a warning that these are unprecedented times and while history can provide some guidance, we are on our own in this and are writing new chapters for the world's history books every day.

“Something will turn up.”

Mr Micawber

For this reason, we are not going to devote a lot of time in this newsletter trying to analyse the global credit crisis – we all know what it is and how it happened. Instead, we are going to focus on what might happen from here. What is done is done, and we're with Charles Dickens' Micawber in believing that something will turn up and we want to make sure that we, and your investments, are well positioned to benefit when it does.

The share market is part fundamentals, part psychology. At the best of times it is 50/50, and at the worst of times the swing factor is emotion, which goes from euphoria to fear. Unfortunately as humans we are not particularly good at controlling our emotions. The classic flight or fight response has been programmed into our genes for millions of years. The 2008 year was about fear and panic and the more references to the Great Depression that were made, the more investors imagined the worst. Their flight response was triggered and they sold all risky assets in an effort to feel 'safe'. But humans have an uncanny ability to eventually become numb to bad news and then start to look forward to make things better – the fight response. Most economists have discarded the possibility of a depression like the one experienced in 1932, but even looking at that as a worst case scenario, after investors suffered real losses of 20% from 1929

Your Portfolios continued

to 1932, the share market then rallied a record 66.7% in 1933 – the biggest one-year gain of the entire past century.

After each of the worst 10-year periods going back to 1926, the US share market has returned no less than a 7% compound annual return for the following decade, and the best decade-long return was 15.6% in 1974-84.

At some point, even as the economy continues to deteriorate, investors and consumers will venture out and start spending again. We are already seeing evidence of this – there have been days in January and February when Wall St has rallied even as companies announced disappointing earnings results. Another example is the willingness of investors to put more money into the share market, even while the economic environment is negative. As companies have struggled to raise or repay debt from their banks to shore up their balance sheets, they have gone to shareholders to raise capital through discounted cash issues. In Australia, more than \$A5 billion has been raised just in the past four weeks. The willingness of investors to invest more (and capitalize on good buying opportunities) suggests that they are becoming prepared to look to the future.

Historically stocks hit bottom and start rising about five to six months before the end of a recession. If history repeats itself, we should be hitting bottom some time in 2009. Rises of 30%-50% over the first six to 12 months of a recovery are quite normal. After the two longest-lasting recessions in 1973

and 1981, once stocks started a rebound, they gained an average 32.4% a year after hitting bottom. At that rate, it would take less than three years to double your money. Compare that with the 'safe' route of bank deposits – at a rate of 4%pa it will take 18 years to double your money. Our long-term investors have experienced a 100% return before – it took five years to double the NZ Growth Fund unit price to \$2.00 in 2003, and it took three years for the unit price to double again to \$4.00 in September 2006. Given some of the share price bounces that we have seen in response to good corporate news of late, we are confident that we will see double-digit rebounds in some of our stocks at some point. Our stocks are undervalued by historical standards, they have not been directly impacted by the credit crisis as few have debt (and those that do have renegotiated terms to see them through), they are growing profitably and their competitive "moats" have left them well placed to gain market share in the current environment. We have repeatedly expressed our view that when investor confidence returns, buying support will tend towards the higher quality businesses such as those in your portfolio. We remain of this view, and what makes us feel even better right now, is that we are seeing some 'green shoots' of confidence returning to share markets; we are that much further through the recession and there will come a point where all the pieces are in place for a healthy rebound.

Up Close & Personal

We usually use this section to talk about one of our portfolio companies, and will do so again next month following the profit results season. This month we thought we'd focus on dividends because income is important to a lot of you, especially with interest rates at current levels.

Dividend investing has always been popular. Whether you were retired and needed quarterly cash payments to fund your lifestyle, or you were a conservative investor looking to reinvest your dividends to generate some growth, you bought shares in companies that paid a steady, predictable dividend with the intention of holding them for years. The logic was straightforward – dividends have historically accounted for more than 40% of the share market's total returns, and receiving cash in the hand feels far less risky than waiting for some capital growth that may or may not eventuate. Unfortunately, stocks with high dividend yields have been just as hard hit in the market downturn as others, and some of the yields have proven illusory as companies have had to retain more profits to survive, rather than paying them out to shareholders.

So is dividend investing still relevant? Yes, and arguably even more relevant following interest rate cuts around the world, as we now have a situation where dividend yields in the US, Australian and New Zealand share markets are higher than deposit rates. At Fisher Funds we normally focus on growth rather than income, but the dividend yields of our companies are now compelling. The forecast gross dividend yield for our NZ Growth Fund is 6.8% for the year ahead, our Australian Growth Fund is 5.9% and the Fisher Morrison Infrastructure Fund is targeting a net yield of 5%pa. We have researched our businesses, their cashflows and their balance sheets and talked to management about their dividend intentions, and we are confident that these dividend yields will be achieved.

While our growth funds do not currently pay dividends to you regularly, these dividends are received into the fund and reflected in the daily unit prices. If you need a regular income, there is nothing to stop you selling a few units

every quarter to provide a steady income. Assuming that share prices do not fall significantly from here, you will not be eating into your capital (and if you have read the previous page, you will know that we are expecting share price gains rather than falls this year) so even after receiving your quarterly income, your investment should still be growing nicely.





A bird's eye view

What's new at Fisher Funds?

Fisher Funds team (and hopefully you as well) have realized what a tough year 2008 was because she blessed us with wonderful summer weather, making it that much easier for the Fisher Funds team (and you as well hopefully) to refresh, reinvigorate and remember the merits of share market investing. The office re-opened in mid January and we were encouraged to find a number of investments and enquiries for the Fisher Morrison Infrastructure Fund and continued investments into our KiwiSaver scheme. We believe that the Infrastructure Fund is striking a chord with investors because it offers the best of both worlds – income and capital growth – without being as volatile as shares or locked in for long periods like a fixed interest investment.

As for KiwiSaver, it is encouraging to see people joining our scheme as they change jobs, talk to their friends and families (thank you for your referrals) or switch out of other schemes that offer no growth potential. At the time of writing, our KiwiSaver unit price is around \$0.72. Most of our KiwiSaver members have an average entry price of around

\$0.90, so they have incurred – on paper – a loss of approximately 20%. This would be a ghastly outcome if they needed their investment in the next few months, but of course KiwiSaver is a long-term savings scheme and many of our members won't be requiring their KiwiSaver funds for ten years or more. Not only that, but each KiwiSaver member has had at least \$1,000 added to their investment by the Government, so most members have not lost a cent of their own contribution. The fall in our KiwiSaver unit price represents a great opportunity to achieve even higher retirement savings than before. Each monthly contribution into KiwiSaver now buys more shares in great companies at \$0.70 than you'd get at a \$1.00 unit price, so you will benefit even more as these shares rebound and the returns compound over the years ahead. Those young investors who invested in the darkness of the Depression would have seen their investments grow ten times by the time they reached retirement in 1957. To find out more, please call our client services team on 0508 FISHER (0508 347437).

Your questions

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

Q: Why should we leave our money invested with Fisher Funds when we can achieve a guaranteed rate of return through the Government's deposit guarantee scheme?

A: We can understand the appeal of the Government's deposit guarantee scheme for savers, particularly after the virtual demise of the finance company sector and the uncertain investing environment of 2008. The scheme gives savers confidence that for all deposits made with approved entities until 12 October 2010, they are guaranteed to get their funds back, plus interest. The reaction to the scheme from savers has been immediate and significant with people switching their fixed interest investments to approved entities such as banks, finance companies, credit unions and other financial organizations.

While some managed funds and PIEs (Portfolio Investment Entities, which is what Fisher Funds offers) are covered by the scheme, it is limited to those that invest exclusively in government securities or debt securities. The deposit guarantee scheme does not extend to higher risk assets such as shares or property.

We deliberately refer to savers rather than investors in our discussion above, because although saving and investing both involve putting money aside for the future, saving typically means storing money safely to meet your short-term needs whereas investing generally means taking a higher level of risk in order to achieve higher rates of return for the longer term. The Government's deposit guarantee scheme is only relevant for savers looking to place funds on deposit and receive a fixed rate of return (interest). It does not make sense for investors to switch their funds from higher risk (but higher return) assets to fixed interest investments, because they will be forgoing the capital

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growth necessary to achieve higher returns over the longer term. While a lot of things have changed over the past year, some things remain constant. One is that there is a strong connection between risk and return – in order to achieve higher returns over time, you need to assume some risk. If safety is paramount, you can limit investment risk by sticking with fixed interest investments (especially with approved entities), but this will be at the expense of your total investment returns over time.

Fund facts

Fund Performance

Fund Net Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	-40.8%	-30.1%	-9.9%	-0.5%	7.9%
Australian Growth Fund	-43.3%	-30.1%	-13.5%	na	-7.9%
International Growth Fund	-7.8%	na	na	na	-7.7%
Fledgling Fund	-35.1%	-25.6%	-9.4%	-3.2%	-1.5%
KiwiSaver	-20.9%	na	na	na	-22.0%

NB... annualised returns, after tax and fees.

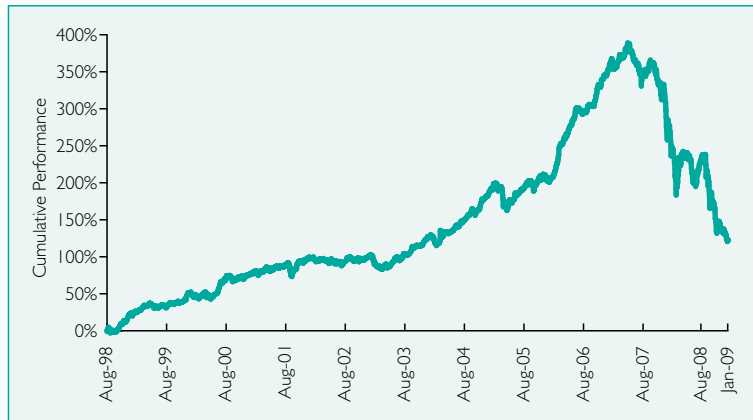
Fund Pre-tax Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	-40.1%	-30.8%	-9.9%	2.7%	10.8%
Australian Growth Fund	-43.3%	-30.1%	-11.6%	na	-6.9%
International Growth Fund	-8.8%	na	na	na	-7.7%
Fledgling Fund	-34.4%	-26.5%	-7.2%	-1.6%	-1.2%
KiwiSaver	-20.9%	na	na	na	-22.0%

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	-24.4%	-18.2%	-6.1%	2.3%
90day bank bill	8.5%	8.5%	8.3%	7.7%
S&P/ASX300 (Calculated in \$NZ)	-28.2%	-14.1%	-2.7%	7.9%
MSCI Global Small Cap Index	-11.3%	-16.3%	-8.6%	1.6%

January's Biggest Movers	
New Zealand	
Infratil	9%
Comvita	-13%
Mainfreight	-13%
Rakon	-24%
Australia	
Vision Group	-18%
Arrow Energy	-21%
Aevum	-21%
Oakton	-57%
International	
Wellstream	29%
O2 Micro	17%
Celera	-24%
Brembo	-51%

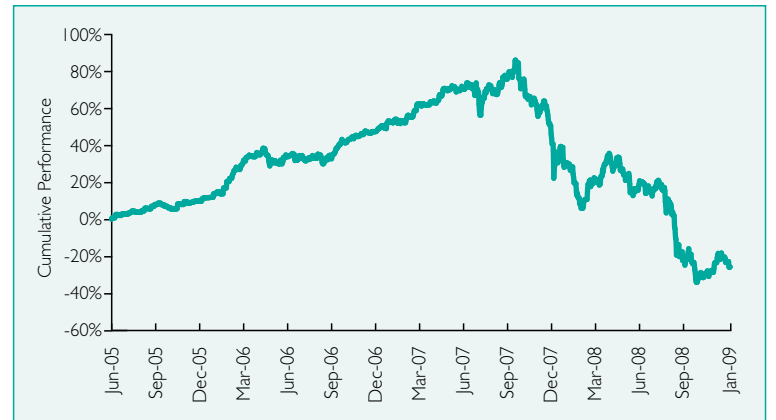
New Zealand Growth Fund



Fund Inception August 1998

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

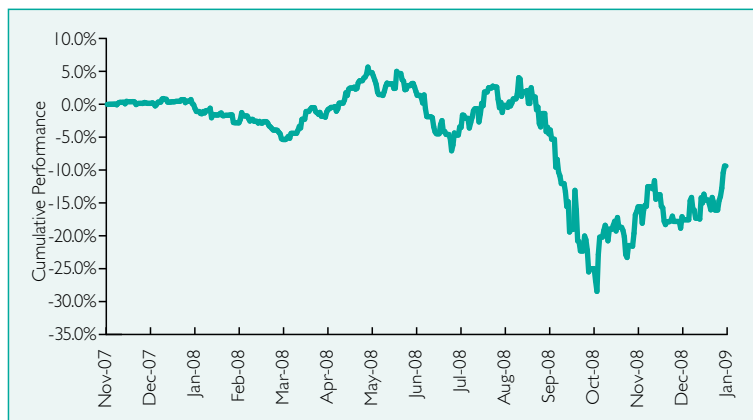
Australian Growth Fund



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.

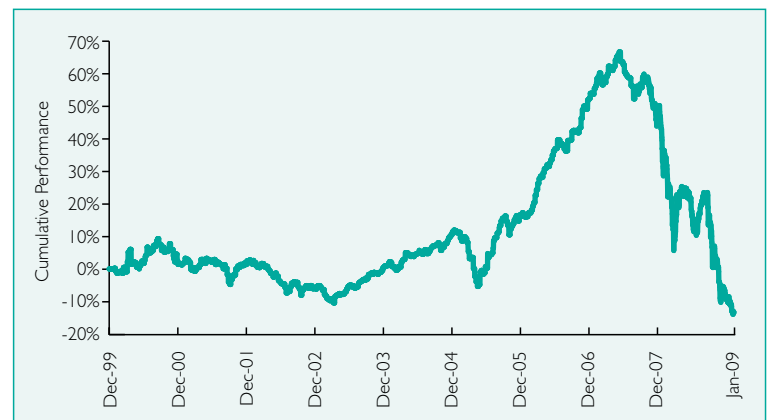
International Growth Fund



Fund Inception October 2007

Portfolio Holdings – Advent Software, Brembo, Celera, China Automation, City Telecom, Conceptus, EBIX Inc, Equinix, F5 Networks, Gameloft, Hansens Natural, Home Inns, Hongguo, Hyflux Limited, Icon PLC, Jumbo, Midas, Nokian Renkaat, O2 Micro, OSI Pharma, Ports Design, Qiagen, Raffles Education, Roth & Rau, Sarin Technologies, Stratec Biomed, Times Electric, Ultimate Software, Wellstream, Wirecard.

Fledgling Fund



Fund Inception December 1999

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

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