fisher funds

FROM THE
undergrowth

MARCH10

In the *Peanuts* comic strip, Charlie Brown once said that the secret to life is to replace one worry with another. Obviously a lot of today's share market investors have the same philosophy. Concerns about China were quickly replaced with fresh ones about Greece; and when the US housing sector started to look okay, the focus shifted to jobless numbers. Enthusiasm around good profit results last month was tempered by worries about the year ahead. Fortunately at Fisher Funds, we're not big Charlie Brown fans.

At a glance

As at 28 February 2010

Unit Prices ($)

NZ Growth Fund	2.9152
Australian Growth Fund	2.0001
International Growth Fund	1.1780
Fledgling Fund	1.0571
KiwiSaver Growth	1.0403
Infrastructure Fund	1.1997

Performance (February 2010)

NZ Growth Fund	-4.3%
Australian Growth Fund	-2.5%
International Growth Fund	1.8%
Fledgling Fund	-4.2%
KiwiSaver Growth	-0.4%
Infrastructure Fund	1.8%
NZ50 Gross index	-0.3%
S&P/ASX 300 ($NZ)	3.8%
MSCI Global Small Cap Index	2.5%

Our Portfolios

What has been going on since we last spoke?

In last month's newsletter we talked about a tipping point that would see investors return to the share market and a change of focus away from daily economic news back towards the fundamental growth prospects and value of individual businesses. We suggested that the February profit reporting season might provide the catalyst … but 'twas not to be. The profit season could best be described as mixed, and the market reaction to results was fairly muted. More column centimeters were devoted to politicians' spending habits than to profit results from listed companies. The fact that few companies were prepared to comment about future prospects, noting that signs of recovery are patchy at best, probably made it easier for journalists to look elsewhere for headlines.

Share market investing certainly seems a bit challenging right now. Investor sentiment remains lackluster, market trading volumes are tiny and there is a strong sense of something needing to happen to crystallise a new trend. Even though global share markets managed to finish February in positive territory, the performance felt timid and certainly not indicative of a positive trend.

But while the overall market feels a little flat, things are definitely happening at the individual company level, and it is anything but dull.

We have suggested before that corporate activity could be a key driver of the markets this year, and we had further evidence of this in February (and into March) with several portfolio companies being subject to takeover offers. The profit season also highlighted that with the prospect of a tepid economic environment, the efforts and strategies of individual companies to shape and grow their businesses will be by far the most significant determinant of success. The companies that have had the strongest earnings upgrades for the 2010 year have not been cyclical businesses whose earnings are lifted by an improving economy, but rather companies that have strategies and management expertise to generate profit growth despite the economy.

> "Investors can choose pessimism. Or they can look beyond the darkest days, secure in the knowledge that better times are almost always rooted in rocky soil."
>
> Jason Dorrier, MarketMinder publication

You've heard us refer to ourselves as stock pickers. This is the year of the stock picker. Some of our stock picks may occasionally disappoint, and as you'll read below, one or two of our companies did disappoint in the latest profit reporting round. But, some of our stock picks will exceed expectations, or announce a positive surprise, or be subject to corporate activity, and if

Your Portfolios (cont.)

we have positioned our portfolios well, we will benefit disproportionately. Already this year, we have achieved outperformance in our Australian and International portfolios by virtue of a handful of stocks. We don't mind how we get investment performance – we can benefit just by being fully invested during a market rally, or we can benefit by having exposure to stocks that outperform. If half a dozen stocks have enabled our outperformance year to date, imagine how much potential performance is sitting in the remaining 60 portfolio stocks waiting to be unlocked!

If you are interested in the profit results of individual companies, do contact us and the investment team can run you through the details. Otherwise, the following is a summary of the individual company highlights and lowlights during February.

New Zealand

The December results season was a mixed bag generally, and improvements in earnings were driven by cost side initiatives, rather than sales growth. Companies with Australian operations tended to outperform New Zealand based operations, and companies were 'cautiously optimistic' in their outlook statements. Within the NZ Growth portfolio, **Pumpkin Patch, Michael Hill International** and **Opus International Consulting** had better than expected results, whilst **Delegat's** full year guidance negatively surprised the market.

The -4.3% net return for the month was disappointing and was considerably behind the NZ50 Gross Index (-0.3%). **Delegat's** and **NZX** were the major contributors to the underperformance. As reported above, **Delegat's** surprised the market with full year profit guidance well down on that given at its annual meeting in early December, whilst **NZX** wrote down the carrying value of its TZ1/Markit investment and produced a full year result down on expectations. In this market, disappointments are savaged in terms of share price movements.

Australia

It was a poor month for returns in both an absolute and relative sense despite earnings results that we were generally comfortable with. The portfolio fell 2.3% in New Zealand dollar terms underperforming the benchmark S&P/ASX Small Industrial index by 4.3%, giving back last month's outperformance.

Other than a disappointing result from **Vision Group** it wasn't fundamental factors that led to the relative underperformance. Rather, the profit results broadly delivered to expectations, and "corporate" issues around two leading holdings impacted returns.

Aevum has recently merged with IOR Group, and following this merger there has been an overhang of stock which we expect will dissipate this month. The other significant detractor during February was **Arrow Energy**, whose shares fell 15.5%, as investors feared a possible capital raising. After month end, Arrow Energy announced it has received a takeover offer from Royal Dutch Shell and PetroChina. At the time of writing, the Arrow share price has lifted 45%, replacing the value lost in February by a factor of three!

International

The International Growth Fund had a positive month with its unit price lifting 1.7% during February. News flow was relatively light following the January results season. We exited our position in **Bare Escentuals** following the takeout offer from Shiseido at a 43% premium to the market price. We also sold our investment in **Ebix** as our research indicates that the company may disappoint investors in the future.

We added **Hanger Orthopedic** to the fund. Hanger is the largest owner and operator of orthotic and prosthetic patient-care centers in the United States. In addition they are the largest distributor of O&P devices and components in the US, and further have a division which develops products for patients who have had a loss of mobility. The product development division has recently begun sales of a new product called WalkAide which potentially could transform the growth profile of the company.

Infrastructure

The Infrastructure fund was up +1.9% for the month, again outperforming its benchmark indices. One new stock was added to the portfolio, **UNP**. Union Pacific Corporation (UNP) is one of America's leading transportation companies. Its principal operating company, Union Pacific Railroad, is North America's premier railroad franchise, covering 23 states across the western two-thirds of the United States.

Your questions

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

Q: There seem to be a lot of New Zealand stocks offering decent dividends at the moment. Given that we're going to struggle to get capital growth over the next year, why don't you shift your emphasis to capturing good dividends?

A: Fisher Funds is more of a growth investor than an income investor, in that we focus our efforts on trying to achieve capital growth rather than to maximise income for investors. With a number of our companies, we are lucky enough to have both capital growth potential and a high dividend yield, but sometimes we are quite prepared to tolerate a low dividend (or none at all) in expectation of capital growth. A company that doesn't pay a high dividend is not necessarily a bad investment, as we'll explain.

Imagine a restaurant that has been established for many years, with a loyal clientele and steady (but not growing) profitability. This restaurant may distribute all of its profits to its shareholders each year and they will happily receive this regular dividend.

Let's say that this single restaurant decides, for several years, to save its profits, and eventually it opens a second restaurant. This is the behavior of a growth company. The value of this business increases because, when the second restaurant opens, there is twice as much plant and equipment

A bird's eye view

Scott talks about his latest trip to Japan

Japan was one of the worst performing major markets last year as they fought headwinds from a strengthening yen, slow domestic growth, declining exports, and worries about the size of the government deficit. The Nikkei 225, the major Japanese stock index, still stands at about a quarter of its value at the peak which occurred in 1990. The country has fought asset deflation and slow growth for two decades now. To call an end to that cycle would be brave indeed, however as always, we are stock pickers and don't need a bull market to find great investments.

Japan still remains the second largest economy in the world and there is reason to believe there may be improving prospects for some Japanese companies in 2010. While the debt situation is cause for concern, about 95% of that debt is held domestically which somewhat alleviates concern about immediate credit risk.

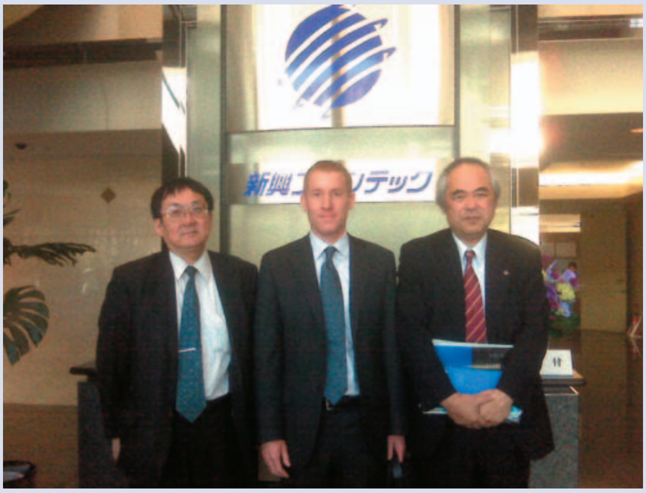
We visited Japan in December to search for new investment ideas, as well as to check in with our one and only portfolio holding in Japan, **Shinko Plantech**.

Shinko Plantech is an engineering and plant maintenance company based just outside of Tokyo. We first purchased shares in Shinko in the first half of 2009 when it was trading at an absurdly low valuation. Our model forecast that the company would generate its entire market capitalisation in cash within 5 years. While the stock has since increased in value it is still not expensive at 8x earnings.

In December I took the train from Tokyo to Yokohama to spend the morning with management. The management were relatively conservative about the outlook, but continue to believe they are well positioned with their clients and are also excited about some of the new growth opportunities they are pursuing.

In addition to meeting with Shinko, I attended the Nomura conference where over 200 Japanese companies presented. I had the opportunity to meet 20 different Japanese management teams as well as strategists, economists and politicians. Overall, the environment continues to be challenging and private consumption growth has been anemic. However, there is a new administration in Japan which aims to pursue pro-consumer policies to stimulate domestic demand, and unemployment is quite low at only about 5%. Export driven companies had an extremely challenging year in 2009 due to yen strength which made their products very expensive abroad, but most expect that to abate in 2010. The biggest source of potential growth for Japanese companies will come from expansion into other areas of Asia, most notably China. Exports to Asia now account for over a third of Japanese exports, bigger than both the US and Europe.

While valuations are low, the challenge in Japan is finding companies with real sustainable growth opportunities. We have uncovered what could be some diamonds in the rough and are continuing with our thorough due diligence…watch this space.



Scott with the management of Shinko Plantech

Your questions (cont.)

> In a growth stock, although the shareholders do not get a yearly dividend, they do own a company whose value is increasing. Therefore, the shareholders can get more money when they sell their shares

and twice as much profit being earned by the company. In a growth stock, although the shareholders do not get a yearly dividend, they do own a company whose value is increasing. Therefore, the shareholders can get more money when they sell their shares – someone buying the stock would see the increasing value of the company (the value of the buildings, equipment, etc.) and the increasing profit that the company is earning and, based on these factors, pay a higher price for the stock.

It is conceivable that the capital growth component of our portfolio returns might be lower in the coming year than historically. However, we would hate to switch our portfolio into low growth companies in order to get a 10% dividend yield, only to miss out on a 20% capital gain if our growth companies achieve or exceed their growth targets. Dividend income is one component of total return, but it's not the only, or the most important component. Just as the best property investments have good rental income and capital growth prospects, so do our ideal portfolio companies.

Thank you to all those who have sponsored Fisher Funds in the Oxfam Trailwalker challenge. We aim to raise over $10,000 to overcome poverty and injustice in some of the world's poorest communities. If you would like to sponsor the Fisher Funds Flyers or the Fisher Funds Fledglings, please visit the Oxfam website, www.oxfam.org.nz, and sign up.

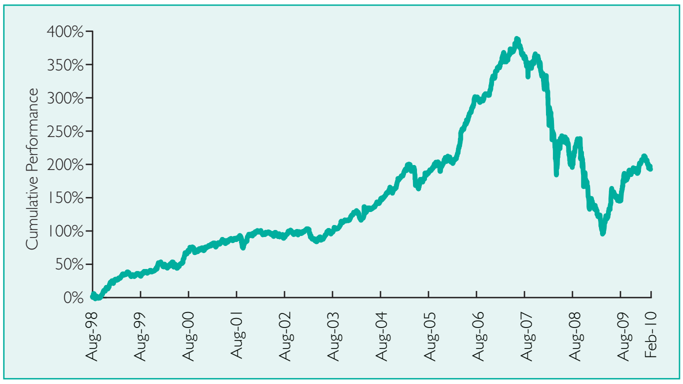
Fund facts

Fund Performance

Fund Net Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	43.7%	-6.8%	-13.8%	-0.5%	9.7%
Australian Growth Fund	70.9%	2.0%	-4.1%	na	6.4%
International Growth Fund	36.3%	10.0%	na	na	7.3%
Infrastructure Fund	23.5%	na	na	na	18.3%
KiwiSaver Growth Fund	46.5%	8.21%	na	na	1.7%
NB… annualised returns, after tax and fees.					
Fund Pre-tax Returns					
NZ Growth Fund	45.5%	-5.6%	-13.8%	1.7%	12.4%
Australian Growth Fund	71.7%	2.3%	-3.8%	na	7.3%
International Growth Fund	36.3%	6.0%	na	na	7.3%
Infrastructure Fund	23.5%	na	na	na	18.3%
KiwiSaver Growth Fund	46.5%	8.2%	na	na	1.7%
NB… annualised returns before tax and after fees. They differ from actual returns experienced during these periods.					
Market Indices					
NZ50G	25.1%	-6.1%	-7.9%	-0.3%	
90day bank bill	3.0%	5.5%	6.6%	7.0%	
S&P/ASX300 (Calculated in $NZ)	45.9%	0.1%	1.1%	10.1%	
MSCI Global Small Cap Index (in $NZ)	22.6%	-0.3%	-7.7%	1.6%	

February's Biggest Movers	
New Zealand	
NZX	-8%
Wakefield	-8%
Abano Healthcare	-8%
Delegats	-19%
Australia	
Aevum Ltd	-13%
Oakton	-16%
Vision Group	-19%
Arrow Energy	-21%
International	
02 Micro	29%
Sarin	23%
Gameloft	-18%
Telvent	-21%

New Zealand Growth Fund



Fund Inception August 1998

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

Australian Growth Fund

Fund Inception June 2005

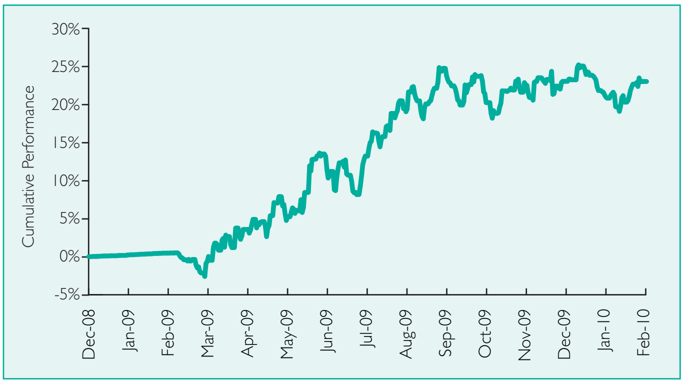
Portfolio Holdings – Aevum, Arrow Energy, Austbrokers, Bravura, Centrebet, Credit Corp, DWS Solutions, McMillan Shakespeare, Neptune Marine, Nick Scali, Oakton, Pharmaxis, Pipe Networks, Reckon, Toxfree, Treasury Group, Vision Group, WHK Group.

International Growth Fund

Fund Inception October 2007

Portfolio Holdings – Advent Software, Biotest, Brembo, China Automation, China Zaino, City Telecom, Conceptus, Equinix, F5 Networks, Gameloft, Hanger Orthopedic, Hansens Natural, Home Inns, Hongguo, Hyflux Limited, Icon PLC, Jumbo, Midas, Nokian Renkaat, O2 Micro, OSI Pharma, Ports Design, Qiagen, Raffles Education, Sarin Technologies, Shinko Plantech, Stratec Biomed, Telvent, Times Electric, Ultimate Software, Wasion Holdings, Wellstream, Wirecard.

Infrastructure Fund



Fund Inception December 2008

Portfolio Holdings – CSX Corp, Flughafen Wien AG, Fraport AG, Norfolk Southern Corp, TNT N.V., Flughafen Zuerich AG, Asciano Group, Auckland International Airport, Contact Bonds, Genesis Bonds, NZ Post Bonds, Vector Bonds, Wellington International Airport.

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