

FROM THE undergrowth

OCTOBER 08



OK, I spoke too soon! Last month I talked about the worst being behind us, and the growth, renewal and new life that comes with the Spring season. Instead, we had a month that nearly saw the total collapse of the US financial system, changing the structure of Wall Street irrevocably. Without being too Pollyanna-like, these changes were necessary, and are being dealt with. While there will be collateral damage along the way, a more robust financial system will come out of this for all of us.

Your Portfolios

What has been going on since we last spoke?

By now you will probably have read more than enough about the events that resulted in an awful September for global share markets. As we write this newsletter, volatility remains and there is no shortage of villains being accused of igniting the fire that has swept across US financial markets – greedy lenders, overpaid investment bankers, negligent regulators, gullible home-buyers, vicious short-sellers and so the list goes on. We don't want to make light of the situation, because it is indeed grave, however we do think it is important to keep perspective, particularly as we are all long-term, New Zealand-based investors with no holdings in US financial companies. We could spend every moment of every day reading the financial press and trying to second-guess the US regulators and the mood of markets, but while that would be interesting, the most important thing for us to focus on is your money, and how the value of your investment can return to its pre-October 2007 levels (and then some). And the most important thing for you to focus on is your investment timeframe (remember that you invested for three years or more) and the nature of your investment assets (you own a piece of a number of profitable and growing companies).

smart Wall Street investment bankers who must be at least partly blamed for the excesses that are now being unravelled. The following is an excerpt from an interview by CNBC's Becky Quick with Warren Buffett on August 22, 2008:

QUICK: "All right. Warren, let's get back to the state of the economy right here and around the globe. When you look around, what do you worry about most when it comes to the economy?"

BUFFETT: "Well, I don't worry that much in the sense that we've been through lots of recessions in the past, and the country always comes out stronger; and I expect stock markets to go down from time to time. I expect that we will uncover credit mistakes. I expect that we'll have recessions. But I also expect, and I'm totally convinced, that your children will live better than you and your grandchildren will live better. So I don't get upset about day-to-day, what's happening in the market. It may offer, in fact it does offer chances to buy things more attractively. I mean, if I go to a supermarket and things are on sale, I feel better."

QUICK: "All right. So let's talk about that. Are there bargains out there right now?"

BUFFETT: "Well, there are certainly things that are a lot cheaper than they were a few years ago, and the businesses are better. Now, that doesn't mean they're doing better today, but they are fundamentally worth more money than they were a couple of years ago, and people are just looking at the glass being half empty rather than half full now."

We own some businesses that we think are good businesses and if the stock market closed for the next three years I'd be happy owning. That's the real test.

"The stock market is a mechanism for transferring money from the impatient to the patient."

Warren Buffett

We quoted Warren Buffett in last month's newsletter, and want to do so again, not because we haven't got our own original thoughts, but because he has been investing for several decades longer than we have, and certainly a lot longer than many of the young

At a glance

As at 30th September 2008

Unit Prices (\$)

NZ Growth Fund	2.9463
Australian Growth Fund	1.5373
International Growth Fund	0.9163
Fledgling Fund	1.0512
KiwiSaver	0.8212

Fund Sizes (\$m)

NZ Growth Fund	93.8
Australian Growth Fund	80.9
International Growth Fund	5.3
Fledgling Fund	2.7
KiwiSaver	43.5

Performance (September 2008)

NZ Growth Fund	-10.9%
Australian Growth Fund	-14.7%
Intl Growth Fund	-9.1%
Fledgling Fund	-9.5%
KiwiSaver	-9.7%
NZ50 Gross index	-7.8%
S&P/ASX 300 (\$NZ)	-13.1%
MSCI Global Small Cap Index	-9.4%

I mean, if you buy a farm, you don't get a quote on it every day. If you buy an apartment, you don't get a quote on it every day. You look to the rents or you look at the crop in the case of the farm. We look to the business. So if I buy stock in a business, what I'm looking at is where I think they'll be in five or 10 years, and I can't pick bottoms. I don't think anybody can. I do want to stay away from the ones that I think are kind of dumbly managed."

QUICK: "What makes you look around and think, 'Hey, things are getting better'? What would it take to convince you that, 'OK, this is' – or is it just simply prices are too cheap and they shouldn't get there?"

BUFFETT: "If I were going to buy a farm, I know they're going to have a drought, we'll say, two years out of 10. I know prices are going to be lousy, we'll say, two years out of 10. I would rather buy it during the drought, you know, or when prices are bad because, I know what it's going to do over time, and the test is to buy it as cheap as you can, something that, where you really have a pretty good fix on what it's going to look like over 10 years. And you're much more likely to buy it when times are bad than when times are good."

The members of the Fisher Funds investment team share a similar investment philosophy, and many of our key beliefs can be found in Warren Buffett's advice. When adding companies to your portfolio, we look for good businesses that we will be happy to own for years, irrespective of how the share market prices them from one day to the next. We know that economies go through good and bad times, as do share markets, but that good quality businesses are worth owning irrespective of where we happen

to be in the economic cycle. Having selected good quality businesses to own, we enjoy taking advantage of any opportunities that arise to buy those quality assets at good prices. We don't know how to pick market peaks and troughs and we have never participated in the 'sharper' tools and techniques increasingly employed by Wall Street professionals over the past decade. We are old fashioned investors in proven businesses, end of story.

Some of you will be thinking 'that's fine for you Fisher Funds folks, you are young enough to wait for things to improve. What about me? My wealth has collapsed and I haven't got enough years to recover it'. We understand your concerns, and for many of you, it is doubly challenging because with interest rates falling, your fixed interest investments are not generating particularly good income either. In earlier newsletters we have given you statistics about recoveries from other downturns in the past, and how quick and significant they have been. This downturn is more about confidence than it is about the fundamental health of individual companies. When investor confidence begins to recover (and we know that it will, and we also think it will be within months rather than years) investors will focus on good quality businesses. What does that mean? Well, most commentators agree that the longest lasting impact of this credit crisis will be interest rates, and the cost of credit. Therefore, companies with a lot of debt will probably find life harder for longer, as they will not be able to afford to raise capital to allow them to grow. You will be pleased to know that your portfolio companies do not have the millstone of debt around their necks, and will therefore likely be early recoverers rather than laggards. Hence our relative confidence, even in the midst of this uncertainty.

Your Companies

A summary of news from your companies in the past month

New Zealand

Rakon provided earnings guidance at its AGM that 2009F EBITDA would fall in the middle of the brokers' range, providing some welcome relief to a nervous market. Rakon is a big beneficiary of a falling NZ\$/US\$ cross, albeit that it has hedged much of its current year exposure.

The **Pumpkin Patch** 2008 result was in line with expectations. Australasian and wholesale operations continue to perform solidly, but the newer UK and USA divisions remain problematic. The latter are 'hold and maintain' divisions until economic conditions improve.

Australia

PIPE Networks is in the midst of a significant business changing project – the construction of PPC-1, a submarine fibre optic cable from Australia to Guam. During September Pipe Networks advised the market that PPC-1 has been granted a cable landing license by the US Federal Communications Commission. This is an important part of the overall permitting required for the project.

Arrow Energy continued to pile up the milestones as it develops its LNG project and seeks to build upon the portfolio of international acreage acquired over the past year.

It finalised the sale of part of its upstream assets to Royal Dutch Shell. Important progress was made on getting the first of its LNG pipelines from its fields to Gladstone up to the plate. It is also about to start drilling 8 wells in Vietnam.

International

Midas (train manufacturer in China) – announced a major contract to supply 66 train bodies to the Incheon International Airport rail project in South Korea. This is a positive as Midas is getting success outside China which validates the quality of its products.

Brembo (Italian global leader in high performance braking systems) – reported 1H08 earnings above expectations. Sales grew 30% and earnings grew 21%, not bad considering the environment. Going forward management said that sales will continue to be strong in 2H08 and they have been able to raise prices to maintain margins. In addition, as they ramp up the new business with BMW and begin to penetrate the 'big 3' in the US, earnings will continue to be strong irrespective of the environment.



And lastly, **Sciele Pharma** (US pharmaceutical company that develops and sells branded drugs for the cardiovascular, women's health and pediatrics markets) – received a takeout offer from Shionogi, a Japanese Pharmaceutical company, at US\$31 per share or a 60% premium to the last closing price.



A bird's eye view

What's new at Fisher Funds?

It really is Spring – in August we were pleased to report the birth of James Paterson's second child, Oliver; this month Michael Raynes and wife Paula welcomed their second daughter Fleur Ella; and Diane Grant, the lady with the lovely Glaswegian accent, has left us to have her second child. See what happens if you don't keep our client service team busy on the phones!

Meanwhile, it has been a 'heads down' month for the rest of the Fisher Funds team. The investment team has watched the situation unfold in the US and occasionally used the market volatility to top up holdings of preferred stocks, but generally we have been observers rather than participants, safe in the knowledge that our portfolios are in good shape. The listed investment company team has begun preparations for the Barramundi and Marlin annual shareholder meetings that are coming up in October, and the KiwiSaver team has been kept busy with a steady flow of enquiries and new members signing up.

Without wanting to labour the KiwiSaver message, we feel compelled to mention it again this month because as you know, a general election looms in early November. Even if you have personally decided

against KiwiSaver, or are unlikely to benefit from it directly, please **encourage your younger friends and family members to sign up**. If there is a change of Government, there is a chance that the \$1,000 kickstart for under 18 year olds will disappear. This is money for nothing, and every child under the age of 18 can benefit from having this KiwiSaver balance, and then letting it grow over time. Yes, you do have to consider that a child enrolled in KiwiSaver will be obliged to contribute from their first pay packet, but is that really a big price to pay? After twelve months they can choose to take a contributions holiday, so they are really only obliged to save a small portion of their first year's earnings. And for that small sacrifice, they will have received \$1,000 from the Government for nothing, which can be invested and grow for them over time. If they sign up now, they will be investing at extremely attractive prices... and that has got to be good for their future returns.

A lot of people will have deferred any decision on KiwiSaver because the markets are volatile, and there is plenty of time to join. But please... do consider signing up your under 18 year olds before the election... there is \$1,000 available right now with their name on it... get it while it lasts!

Your questions

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

Q: What is the risk that Fisher Funds becomes another Merrill Lynch or AIG, requiring a loan or a bailout to stop you falling over?

A: Although no fund management company has joined the list of financial institutions reeling from losses or requiring a bailout, some individual investors still wonder whether they could lose any of the money they have invested in a managed fund if the fund company were to fail. The short answer is no. The security of the assets you have in a Fisher Funds managed fund has nothing to do with the financial health of Fisher Funds itself (which, by the way, is just fine). The reason is that the money you have in our funds is not part of Fisher Funds' assets. So it wouldn't be up for grabs to pay any obligations of the company. In fact, your Fisher Funds managed fund is a separate legal entity that is owned by individual unit-holders like you. Fisher Funds merely has an agreement with the fund to manage its assets. The assets of the fund – which are all the different shares that you see listed on the back of this newsletter, together with some cash – are held in a custodial account by the fund's trustee (Trustees Executors) on your behalf.

Fisher Funds is a private company owned by a handful of executive shareholders. It earns income from an annual management fee charged to each of the funds, as well as a performance fee from time to time in the years that above-benchmark performance is achieved. The company uses that fee income to pay its costs which are essentially the costs associated with sixteen staff, a Takapuna office and a small San Francisco office. While it has been a hard year, Fisher Funds is in good health. In particular it is comforting to note that very few investors have withdrawn their funds, even in the nervous environment of the past six months.

The security of the assets you have in a Fisher Funds managed fund has nothing to do with the financial health of Fisher Funds itself (which, by the way, is just fine).

Of course, the market value of the units in your fund is a different story. Regardless of the health of Fisher Funds, the value of your fund units is tied to the value of the assets that the fund owns. If you are invested in the Fisher Funds NZ Growth Fund, your wealth is going to be determined by the fortunes of companies such as Ryman Healthcare, Michael Hill, and Mainfreight. You may be interested to ask what the risk is of losing your money should all of these companies fall over. For a start, none of them are even close to falling over, since they have little debt and are all profitable, growing businesses. And even in the unthinkable event that one of your portfolio companies fell over, you will still own another ten or more companies who will be faring much better.

Fund facts

Fund Performance

Fund Net Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	-34.5%	-14.7%	-0.8%	7.2%	11.2%
Australian Growth Fund	-40.8%	-12.6%	-1.9%	na	0.8%
International Growth Fund	na	na	na	na	-8.4%*
Fledgling Fund	-29.5%	-12.2%	-1.9%	2.4%	1.1%
KiwiSaver	na	na	na	na	-17.9%*

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	-33.8%	-16.7%	2.5%	11.3%	14.2%
Australian Growth Fund	-40.8%	-10.2%	0.4%	na	2.0%
International Growth Fund	na	na	na	na	-8.4%*
Fledgling Fund	-28.8%	-11.8%	0.4%	4.2%	1.3%
KiwiSaver	na	na	na	na	-17.9%*

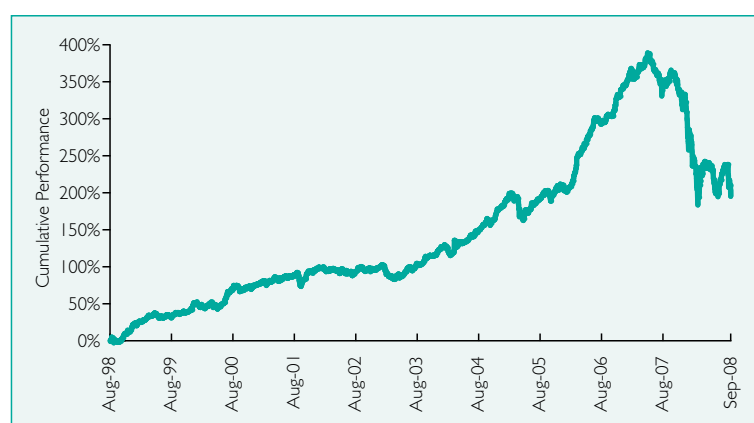
NB... annualised returns before tax and after fees. They differ from actual returns experienced during these periods.

Market Indices	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ50G	-27.6%	-7.2%	-3.6%	6.3%	
90day bank bill	9.1%	8.6%	8.3%	7.5%	
S&P/ASX300 (Calculated in \$NZ)	-26.5%	0.1%	6.4%	13.0%	
MSCI Global Small Cap Index	-17.9%	-9.9%	-1.7%	4.8%	

**Not Annualised*

September's Biggest Movers	
New Zealand	
Pumpkin Patch	-19%
Michael Hill	-20%
Rakon Limited	-21%
Sealegs	-28%
Australia	
Austbrokers	15%
Arrow Energy	-17%
Vision Group	-34%
Bravura	-52%
International	
Sciele Pharma	60%
F5 Networks	-31%
O2 Micro	-32%
China Automation	-46%

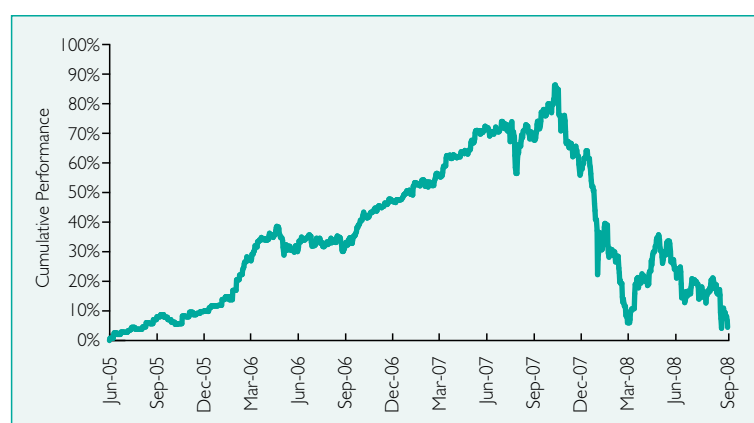
New Zealand Growth Fund



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.

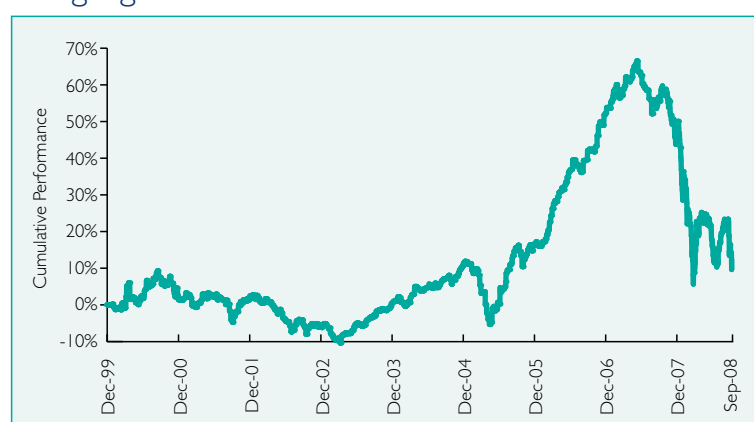
International Growth Fund



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, Micros, 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, Comvita, Delegats, Freightways, Infratil, Mainfreight, Metlifecare, Michael Hill, NZX, Opus International, Pumpkin Patch, Rakon, Ryman Healthcare, Wakefield Health.

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