

FROM THE undergrowth

AUGUST 09



In July, share market investors got a taste of what it must be like to be a Who Wants to Be a Millionaire? contestant. We had the exhilaration of wondering each day whether markets would continue to rise and blast through psychological hurdles – 9000 on the Dow Jones Index, 1000 on the S&P 500 and 3000 on the NZX50 Index. Even investors who didn't pick the best performing stocks still went home with something. It was a month during which patience and tenacity were well rewarded.



Your Portfolios

What has been going on since we last spoke?

At a glance

As at 31 July 2009

Unit Prices (\$)

NZ Growth Fund	2.6589
Australian Growth Fund	1.6582
International Growth Fund	1.0882
Fledgling Fund	0.9726
KiwiSaver Growth	0.9226
Infrastructure Fund	1.1420

Performance (July 2009)

NZ Growth Fund	8.4%
Australian Growth Fund	10.2%
International Growth Fund	6.1%
Fledgling Fund	7.4%
KiwiSaver Growth	7.7%
Infrastructure Fund	3.6%
NZ50 Gross index	7.9%
S&P/ASX 300 (\$NZ)	8.7%
MSCI Global Small Cap Index	6.1%

After a quiet June where investors seemed to run out of puff, July proved surprisingly buoyant, with most major share markets around the world lifting more than 5%. The most pleasing aspect of the markets' strong performance is that it was driven as much by reaction to company profit results as it was to an improvement in confidence. We commented last month that as the international profit reporting season unfolded, performance was more likely to be company specific than across the board, and we certainly saw evidence of this during July. We had more than our fair share of positive surprises from our portfolio companies, hence our outperformance of market indices in each of our portfolios.

There were down days on the market, some poor performances by individual stocks and a smattering of cautious commentaries warning investors not to get carried away with the market's rally. But overall, we saw in July a palpable improvement in investor confidence around the world and the crowd thinking that thumped share markets last year hoisted them higher last month. While we are normally dismissive of crowd thinking or the herd mentality, preferring instead to be contrarian investors, we do need to be mindful of investor mood at times like these, because it can create opportunities. Share markets have rallied strongly since March and some share prices have lifted more than 100% from their lows. When the crowd

becomes too negative, share prices can be oversold creating great buying opportunities. When the crowd becomes too optimistic, share prices can be buoyed to unrealistic levels creating selling opportunities. As you read through the comments about the individual portfolios below, you will see that we have made the most of opportunities to take the top off holdings that have become temporarily expensive, using the proceeds to top up on holdings that have been overlooked.

"In view of the silliness of the majority of mankind, a widespread belief is more likely to be foolish than sensible."

Bertrand Russell, English philosopher

We are often asked to explain our selling decisions and they certainly seem to be monitored far more than our buying decisions. It is important that you understand how we manage your investment portfolios. Occasionally we sell because a company no longer makes the grade – something about the business has disappointed us so the original investment case no longer holds. More often than not though, we sell because of the relative attractiveness of a stock declines – that is, it becomes less attractive than other stocks because its share price has lifted beyond what we think is

Have you joined KiwiSaver yet?*

Your Portfolios (cont.)

reasonable value. There is an opportunity cost in holding on to an overvalued stock – it is unlikely to perform as well as the market, and you miss out on the performance of other undervalued stocks that you could have owned instead. In a 'normal' year, we typically don't sell a lot but this year is far from normal, with large swings in investor sentiment and share prices creating more opportunity to both lock in profits and buy cheaply. We expect that world share markets will have heightened volatility for the rest of the year, but nothing like the volatility that made share market investing such a miserable experience last year. The reason for this volatility is that corporate and economic data continue to give mixed signals. While investors greeted profit results enthusiastically last month, most of the positive profit surprises were the result of serious cost cutting rather than improved sales. We saw bizarre examples of stocks rallying 10% in response to a 30% decline in profit. We also continue to see examples of short-termism and price momentum, rather than rational responses and valuations. As an example, F&P Appliances and Nuplex were standout performers in the New Zealand share market during July with their share prices lifting 30% and 27% respectively. Neither company was worth 30% more in July than it was in June, with both businesses facing challenges in the year ahead.

New Zealand

During July we decreased our holding in **Michael Hill International** (we now own 5.5% of the company) and increased our weighting in **Abano**. Both changes moved us closer to our target weightings as opposed to representing a fundamental change in our view of the respective companies. **Abano** announced a result in line with guidance, with profits up 24% for the July year. **Ryman Healthcare** indicated at its AGM that its first quarter trading performance is ahead of last year and that it expects to lift profits for the full year. There was mixed news from the **Mainfreight** AGM – first quarter earnings will be well down on last year, but trading during July has seen improvements in volumes, particularly in Australia. **Delegat's** announced a good result with profits up 60% on last year.

Australia

It was a quiet month for our Australian portfolio companies with the forthcoming results season dominating thoughts and many companies being in blackout periods. Trading activity was higher than average given the sometimes bizarre price swings over the month. Key trades included buying **Aevum** at 82 cents – the stock ended the month at \$1, resulting in a 22% gain for the month. Similarly, **Arrow Energy** nosedived as low as \$3.05 – we were buying on the way down – ending the month 40% off its lows at \$4.29. In our view, the strong rally of recent months has closed the valuation gap for many companies, meaning there are fewer outstanding new investment opportunities at the moment (at least at the valuation discounts we enjoyed over the past year).

International

We positioned the international portfolio more defensively in July by raising cash levels to 20% and rotating into more defensive sectors such as healthcare. Many of the portfolio stocks have had significant rallies this year. For example, **Ports Design**, was the largest position in the fund in early March before the market rallied. At the time it represented 6% of the fund. Now the stock has tripled, we have taken profits and recently sold down to a 2% weighting.

Infrastructure

During July the Morrison & Co team increased their holdings in three stocks and acquired two bonds in order to achieve the ideal balance between growth and income for the fund. World share markets showed excellent gains for the month, while the fund's return was relatively muted. When world share markets perform well, this fund is likely to relatively underperform due to the nature of its lower risk share market investments and holdings in high yielding infrastructure bonds. Notwithstanding this, overall returns since inception have been outstanding at over 16%, and are well in excess of the benchmark index.

Your questions

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

Q: I am 59 and considering investing in your KiwiSaver fund, but am not sure which one to go for. I think you have made it harder rather than easier by making me choose between your growth fund and your conservative fund.

A: Oh dear, we have always sought to make investing easy (and of course profitable, and enjoyable) so apologise if we have given you too much choice! There are no hard and fast rules about how your investment portfolio should change with your age, as every investor's circumstances and investment personality are unique. A well-known US fund manager John Bogle, who founded the Vanguard Group, is famous for saying that you should always have about your age in bonds. He is 80 and has around 80% of his investments in conservative assets and 20% in growth assets. His view is that a 60 year old should have around 55-60% in bonds and the balance in shares. He admits that this is conservative and

means less growth assets than most experts would advise "but then, I am a conservative person". Another rule of thumb that we've seen suggests 120 less your age in equities. This would have a 60 year old investing 40% in bonds, which is 20% less than Bogle. This makes some sense intuitively if you think about a 40 year old who doesn't intend to retire for twenty years, having 80% in equities and 20% in conservative assets. There's not necessarily any science to these guidelines and what works for one investor may not work for you. The good thing about having a choice is that you can change your mind along the way. Once you have established your KiwiSaver account, you can dial up the growth allocation as you feel

A bird's eye view

Providing a different perspective

We believe there is value in scratching beneath the surface of news stories, to find the hidden gems. Here is a selection of stories from the past month that might have more to them than meets the eye.

US Healthcare stocks lag because of uncertain healthcare reform plan

Healthcare stocks have been laggards during the recent market rally. Investors have been concerned at the potential impact of President Obama's healthcare reform plan, where he hopes to offer universal healthcare to US citizens. Our research indicates that the impact to our healthcare companies, and to many segments of the healthcare sector, will be significantly lower than many expect. In fact the government wants to continue to encourage innovation in new drugs and technologies which will ultimately bring healthcare costs down. This is evident from the US stimulus package which added over \$US14 billion in funding to healthcare research through 2011. How do we respond? We know that companies like **Qiagen** (a Netherlands based portfolio company that provides sample and assay tests for the healthcare market) will benefit, yet the stock has been flat during the market rally. We have been scooping up shares and Qiagen is now a top 5 stock in our international funds.

And speaking of healthcare, what's with Wakefield's profit warning?

In last month's newsletter, we highlighted John Key's announcement that health boards will be allowed to enter long-term contracts with private hospitals for elective surgery, which we expected would be positive for **Wakefield Health**. In May, Wakefield had noted that elective surgery performed under contract with DHBs "remained unpredictable both in regard to its extent and timing" and in the

last few days Wakefield warned that their profits would be 30% lower than expected, because of this and other factors. We have spoken to the company and while we are disappointed that this profit warning came out of left field (just two weeks after a company presentation which was conservative, but by no means alarming) we also understand the company's frustration at not being able to predict workflow that will come from the DHBs. The company is further frustrated at the dramatically reduced workload coming from ACC, following the Government's inquiry into its cost blowout. But are Wakefield's problems terminal? We don't believe so as we expect that our ageing population, rising health expectations and under-resourced public health sector will underpin long term growth in the private hospital space.

Are expectations getting ahead of themselves?

The recent rally has gained momentum as earnings results have consistently beaten expectations. Most of the improvement in earnings has been driven by cost cutting. We haven't heard the word "growth" used very often, rather words like stabilisation, expense control, enhanced productivity, and careful management have featured regularly. Many companies have observed that a recovery in operations has not yet started. But share prices are saying otherwise. An example of how stretched some markets have become, due to unrealistic expectations, is the Hang Seng Index in Hong Kong. It is currently trading 36% above its 200-day price moving average which is the first time it has been this extended since 1999. In the history of the Hang Seng it has only traded 35% above its 200 day moving average three times, and they were in far better conditions than those prevailing today. We maintain an extremely bullish mid to long term view on Asia as an investment destination, but the short term risk reward equation is much less compelling as investors have got a bit carried away.

Your questions (cont.)

more optimistic and dial it down if you feel uncertain. For what it's worth, we find that a lot of people choose the middle-of-the-road option – 50% in each of the growth and conservative funds.

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Given that you are considering Fisher Funds, we are preaching to the converted, but it is important to remember that as important as the allocation between growth and conservative, is your choice of provider. You need to find a KiwiSaver provider who has been managing people's

savings for long enough to have achieved a track record of success in varying market environments. KiwiSaver is still relatively young, but your provider's investment experience shouldn't be. Many of the features of KiwiSaver are common amongst all providers, and a number of the funds look similar to others – particularly the conservative ones as there are only so many short-term deposits and fixed interest investments to choose from. Client service is the other important differentiator – how about giving us a ring or visiting us, and we'll help you decide what mix suits you best. KiwiSaver should not be hard.

Fund facts

Fund Performance

Fund Net Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	-16.3%	-23.8%	-12.7%	1.5%	9.3%
Australian Growth Fund	-7.6%	-19.9%	-6.2%	na	2.5%
International Growth Fund	9.9%	na	na	na	5.0%
Fledgling Fund	-13.4%	-20.0%	-10.4%	-0.9%	0.1%
KiwiSaver Growth	3.0%	na	na	na	-4.3%

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

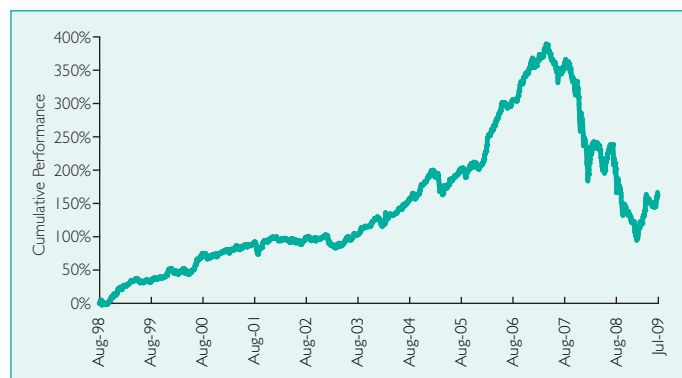
Fund Pre-tax Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	-15.3%	-23.1%	-13.4%	4.5%	12.1%
Australian Growth Fund	-5.9%	-19.0%	-3.7%	na	3.9%
International Growth Fund	10.0%	na	na	na	5.0%
Fledgling Fund	-12.5%	-19.3%	-9.9%	1.1%	0.5%
KiwiSaver Growth	3.0%	na	na	na	-4.3%

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	-9.6%	-15.4%	-5.6%	1.6%
90day bank bill	5.6%	7.3%	7.5%	7.4%
S&P/ASX300 (Calculated in \$NZ)	-11.6%	-7.6%	-0.3%	11.2%
MSCI Global Small Cap Index	-11.7%	-12.7%	-9.6%	1.2%

July's Biggest Movers	
New Zealand	
Abano Healthcare	15%
Metlifecare	14%
Michael Hill	12%
Opus International	11%
Australia	
Bravura	36%
Oakton	25%
DWS Solutions	25%
Treasury Group	22%
International	
EBIX Inc	32%
Midland Holdings Ltd	32%
Wasion Holdings	29%
Celera	-21%

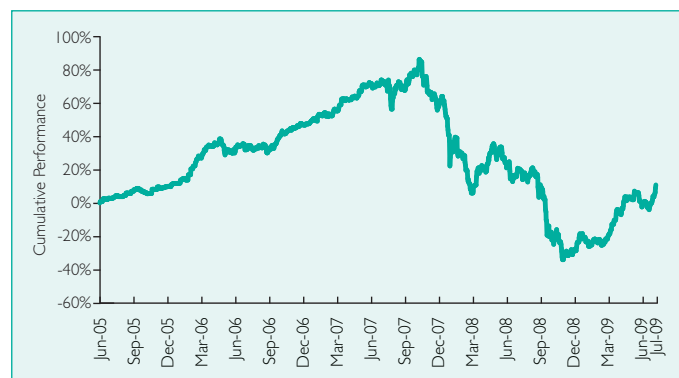
New Zealand Growth Fund



Fund Inception August 1998

Portfolio Holdings – Abano Healthcare, Delegats, Freightways, Infracore, 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, Nick Scali, Oakton, Pharmaxis, Pipe Networks, Reckon, Toxfree, Treasury Group, Vision Group, WHK Group.

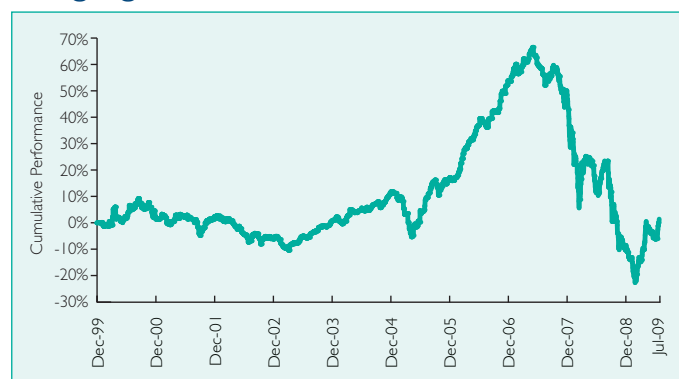
International Growth Fund



Fund Inception October 2007

Portfolio Holdings – Advent Software, Biotest, Brembo, Celera, China Automation, China Zaino, 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, Sarin Technologies, Shinko Plantech, Stratec Biomed, Times Electric, Ultimate Software, Wasion Holdings, Wellstream, Wirecard.

Fledgling Fund



Fund Inception December 1999

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

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* For an investment statement on any of our funds, please go to our website or call us on 0508 FISHER (0508 347437).