

FROM THE undergrowth

SEPTEMBER 08



August was good. Our companies came through the reporting season in good shape, our stocks performed broadly as they should, the Olympics were a nice distraction and the gradually improving weather made it easier to get out of bed each day. Before we know it we will be through the hard times and we'll be able to put 2008 in perspective. It has been a hard year so far, but as share market investors we expect one bad year out of every four or five. Now that we've almost got it behind us, we can look forward to another three great years!

Your Portfolios

What has been going on since we last spoke?

At a glance

As at 31st August 2008

Unit Prices (\$)

NZ Growth Fund	3.3064
Australian Growth Fund	1.8017
International Growth Fund	1.0084
Fledgling Fund	1.1618
KiwiSaver	0.9090

Fund Sizes (\$m)

NZ Growth Fund	104.9
Australian Growth Fund	95.6
International Growth Fund	5.9
Fledgling Fund	3.0
KiwiSaver	43.8

Performance (August 2008)

NZ Growth Fund	4.1%
Australian Growth Fund	0.4%
Intl Growth Fund	1.8%
Fledgling Fund	3.5%
KiwiSaver	1.5%
NZ50 Gross index	0.5%
S&P/ASX 300 (\$NZ)	-0.7%
MSCI Global Small Cap Index	4.6%

Warren Buffett talks about pessimism being the most common cause of low prices. Sometimes the pessimism is pervasive and sometimes it is specific to a company or industry. Buffett suggests that he enjoys doing business in such an environment, not because he likes pessimism but because he likes the prices it produces.

A recent *New York Times* article pointed out that bearish sentiment, as measured by the Conference Board, has hit an all-time high. 55% of the people questioned in July expected the US stock market to decline over the next 12 months. Why is this of interest today? Because each time the bearish sentiment has exceeded 35% over the past 21 years, the market has confounded that sentiment by *gaining* ground over the following year, at an average pace of 20.5%. Now this is not to say that history will repeat and the market will rise from here, but sometimes history can give us some comfort, some guidelines as to what might happen next. And anyway, it seems a nice optimistic way in which to begin this newsletter!

August was profit reporting month, and while the Olympics were the highlight of the month, our profit results were far from being a lowlight. For all three of our portfolios, the reporting season was a good one, with the overwhelming majority of our companies meeting or exceeding expectations. Over the page, we mention some of the highlights, but probably the more important question is what happens now? The earnings results are a historical record of the period to June 2008, a period which featured recessionary conditions, high oil prices and volatile currencies. While it is great that many of our companies came through the difficult period in good shape, their progress over the next six to twelve months will determine share price performance from here. US Business Week

magazine suggests that from September "investors get serious and the summer market doldrums officially come to an end. Traders jump back into the market, and portfolio managers make their bets for the rest of the year." Investment theory tells us that the share market looks ahead and should anticipate corporate earnings and economic conditions six months or so in the future, rather than focus on the current conditions. However, during the result season, a number of companies chose not to give profit guidance for the period ahead, citing too much uncertainty to allow an accurate prediction. It is therefore going to be incumbent on investment analysts to monitor their companies, keep in contact with company management, and feel their way through what will likely continue to be a volatile period. There are clearly signs of improvement – in New Zealand we are seeing improved business and consumer confidence and sentiment has improved globally as oil prices have backed off and news from credit markets and the US financial sector is not as overwhelmingly negative as earlier in the year.

"The most common cause of low prices is pessimism."

Warren Buffett

Investor sentiment will drive the recovery of share prices from here and we know that when investors start buying again, they will buy quality first. The result season has confirmed that our companies are in good shape and are well placed to grow earnings in the year ahead. We just need to wait for investors to be ready to 'get back in the water'. It is a little bit like the Australian tourism ad which promises that the beer, the beach and the barbecue are ready and then asks where the tourists are. We're tempted to ask the same thing of investors!

Your Companies

A summary of highlights and lowlights from the result season

With more than sixty results and other announcements, it is difficult to do justice to the reporting season in the confines of this newsletter. We encourage those of you who would like more detail or comment to contact our client services team and we would be happy to bring you up to date with your companies. Meantime, below is a selection of highlights and lowlights from the NZ, Australian and International profit result season.

New Zealand

Ryman Healthcare AGM – Ryman indicated that first quarter performance is in line with expectations and new villages are performing well “We have already adapted to the changes in the property market and are well-positioned to weather a downturn. We have a strong balance sheet, a healthy landbank and there is a burgeoning need for our services”.

Opus International IH 2008 Result – NPAT up 38% was well above our expectation, and came despite an unexpected \$1m loss from its UK operations. Although Opus retained its prospectus 2009F forecast, consensus forecasts are above this and we expect the company to upgrade guidance later in the year.

Michael Hill 2008 FY Result – Although the final result was \$1.5m below consensus,

it was seen as a credible result in a difficult sector and the share price has rallied hard since the result on the back of traction gained in the Canadian market, and an entrepreneurial purchase of a chain of stores in and around Chicago.

Freightways 2008 FY Result – The full year 2008 was in line with expectations and outlook for the current year is for a similar result (+5%). Whilst this is not exciting short-term growth, we concur with the company's comment that in the medium to long-term, Freightways is “exceptionally well positioned to reap the benefits of any improvement in the New Zealand marketplace”.

Delegat's 2008 FY Result – The NPAT result (+77%) was above both consensus and recent guidance given by the company. The outlook continues to be strong on the back of a bumper 2008 harvest and buoyant export markets.

International

Icon plc (Ireland; contract research organization) grew earnings 36% and that's after growing earnings 37% in 2007 and 51% in 2006. Their customers, biotechnology and pharmaceutical companies, aren't affected by the overall macro economy and continue to award new contracts. The stock has marched along nicely this year increasing 32%.

Hyflux (Singapore; one of Asia's largest water treatment and environmental solutions companies) grew earnings 311% as they began building the world's largest water desalination plant. The outlook for their business is strong and demand continues to increase on the back of social pressure and government initiatives.

EBIX (U.S; the world's largest software and services company focused exclusively on the insurance industry) grew earnings 127%. This is a company that has been very successful in the US and has embarked upon a global strategy with 1/3 of business now coming from outside the US. The stock has increased 50% year to date.

Hongguo (China; woman's fashion shoe retailer) grew earnings 14% which is lower than the 20%+ the company has been growing for the last 3-4 years.

The new Naturalizer stores (joint venture with Brown Shoe) are still ramping up so continue to be a drag on profits. The stock is only trading at 4x current earnings, but it has traded at 15x in the past.

Sarin (Israel; the worldwide market leader in providing equipment and tools for the diamond industry) grew earnings 11% although sales grew 43%. The company has been expanding its sales and marketing network and investing in research and development for two new products.

Stratec Biomedical (Germany; develops medical equipment systems) earnings decreased 8%. They have seen a delay by one of their customers, Siemens, although things are on track to kick off in the second half of 2008.

Jamba - announced the resignation of the CEO and CFO, a decision that was made by the board of directors. The board was looking for a scapegoat given the poor sales and earnings (the real culprit is the economy in Ken's opinion). The reason we held onto Jamba despite the poor environment was the quality of management, track record of success under his leadership, value in the brand and long term growth opportunity. Now that the CEO is gone, we have sold our position.

Australia

Arrow Energy delivered a FY2008 result in line with analyst expectations. Arrow did not provide forward profit guidance in the result although indicated that they are looking to produce and sell c24PJ of gas in the FY2009 year – an increase of 44% over this year.

Aevum (eps up 4.3%) delivered a solid FY08 result in line with analyst expectations. Late in the month Aevum announced the departure of CEO, Simon Owen. This was of great surprise to the market. Not much rationale for the departure was provided by the company although it appears to be a decision driven from the Board and signals a likely step up in the property development side of the business.

Centrebet reported a solid 17% increase in NPAT to \$13.0m for its June 2008 year. Overall, a good FY08 result, and sound growth forecast for FY09 (a very good sign in the current uncertain environment).

Credit Corp reported its full year FY08 results following two downgrades in the past twelve months and the departure of the CEO. The result came in line with company forecasts following the downgrade and, if anything, was marginally ahead of analysts, admittedly very cautious, expectations. This result should go some way to re establishing CCPs credibility.

Pipe Networks (eps up 30.8%) – a strong result particularly considering that some of the costs from PPC-I sneaked into this result given that the project is ahead of timetable, and costs weren't factored into the company's previous guidance.

Reckon reported a NPAT of \$5.6m, up 12% on the pcp, overall a sound result however it was around 3% lower than analyst forecasts and may lead to a small downgrade.

Toxfree Solutions released a strong operating result reflecting organic growth of 25% along with the benefit of acquisitions completed over the last couple of years.

Treasury Group posted a small gain in earnings per share of 2%. Whilst on the surface this was a sound result in what was a difficult operating environment we, and the market, were disappointed by an overall increase in expenses.

WHK Group reported results in line with recent guidance. For the year earnings per share grew 11% despite the hostile environment for the financial services part of its business.



A bird's eye view

What's new at Fisher Funds?

Spring is the season associated with a time of growth, renewal and new life. The reporting season gave us growth in the form of profits, we are sensing a renewed interest in the market as investors acknowledge that we may be through the worst, and the Fisher Funds team is delighted to celebrate the arrival this week of baby Oliver to James and Anna Paterson. Yes, Spring has definitely sprung!

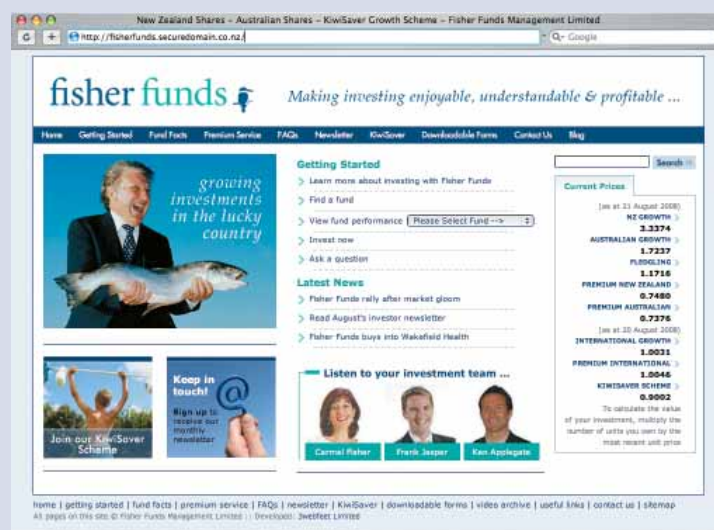
Speaking of renewal, if you are a regular visitor to our website you may have noticed a new look recently. We have just gone live with the latest version of our website. We've overhauled the site to make it much easier for you to navigate and access the information you want.

Features of the new site include:

- A series of videos from the investment team. You can listen to us talk about our respective portfolios and why we like the investment opportunities on offer
- A Fund Facts section for each of our managed funds
- An investor blog allowing you to interact on topical investment issues with your investment team. The first blog is scheduled for Friday 19 September so be sure to keep an eye out for this!

This is the first in a series of steps to enhance our online services for you. We intend for the website to become more interactive bringing you the latest on Fisher Funds and your portfolios as it happens. We encourage you to pay a visit to the website – we hope you'll be impressed.

Here is a snapshot of the homepage that will greet you.



If you have any feedback or suggestions of what you'd like to see on our website please email us at enquiries@fisherfunds.co.nz.

Your questions

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

Q: How do you decide the timing and the level at which you protect our international funds from a rising New Zealand dollar?

A: One of the ways that we can help enhance your return and manage risk is to protect the value of your offshore portfolio as the New Zealand dollar exchange rate rises. When the Kiwi rises against offshore currencies this reduces the value of offshore currencies in the hands of New Zealand investors, resulting in a loss.

We can protect your portfolio from this risk by hedging currency exposure. Hedging involves us locking in the current exchange rate, on the day that we undertake the hedge transaction. Should the Kiwi then rise, it will have no impact on the value of your portfolio and hence the loss you would normally face is avoided.

Unfortunately judging the right time to put a hedge in place is very difficult – despite all the expert opinion provided on the topic we've yet to be convinced that anyone is very good at picking short term trends in the currency. Notwithstanding this, there are tools that can help provide a useful long term perspective on the direction of the New Zealand dollar. We typically focus on the relative economic momentum (how is the New Zealand economy performing relative to the rest of the world), the direction of short term interest rates and long run valuation measures like purchasing power to help give us a sense of medium term currency trends. We do not for a moment suggest that we are currency experts, but rather, we like to monitor the risks and rewards associated with currency to ensure that currency does not take away the hard-earned gains that we have achieved

through stock picking. Currency fluctuations will impact our monthly returns but over time, they tend to be a zero sum game in that monthly gains will be offset by monthly losses. From time to time however, the New Zealand dollar reaches a point where it can start to eat into our stock-picking returns, and it is at this point that we will look to hedge.

We like to monitor the risks and rewards associated with currency to ensure that currency does not take away the hard-earned gains that we have achieved through stock picking.

Right now, we believe that the Kiwi still has room to fall against most international currencies. If we are right in our view this will enhance returns on the Fisher Funds International Growth Fund for New Zealand investors, so we have not hedged.

Against the Australian dollar though, we are less certain about the future direction of the cross rate. On this basis we decided in August to hedge 10% of the currency risk of your Australian portfolio against upward movements in the Kiwi. This proved to be the right decision as the New Zealand dollar rose 5% against the Australian dollar for the month meaning the hedge provided some protection to investors in the Fund.

Fund facts

Fund Performance

Fund Net Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	-26.7%	-8.5%	3.8%	10.3%	12.6%
Australian Growth Fund	-29.4%	-4.9%	4.3%	na	5.9%
International Growth Fund	na	na	na	na	0.8%
Fledgling Fund	-22.3%	-6.7%	2.5%	4.7%	2.2%
KiwiSaver	na	na	na	na	-9.1%

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	-27.23%	-10.43%	7.05%	14.37%	15.53%
Australian Growth Fund	-29.44%	-1.92%	0.00%	na	7.19%
International Growth Fund	na	na	na	na	0.8%
Fledgling Fund	-22.44%	-6.69%	4.89%	6.26%	2.38%
KiwiSaver	na	na	na	na	-9.1%

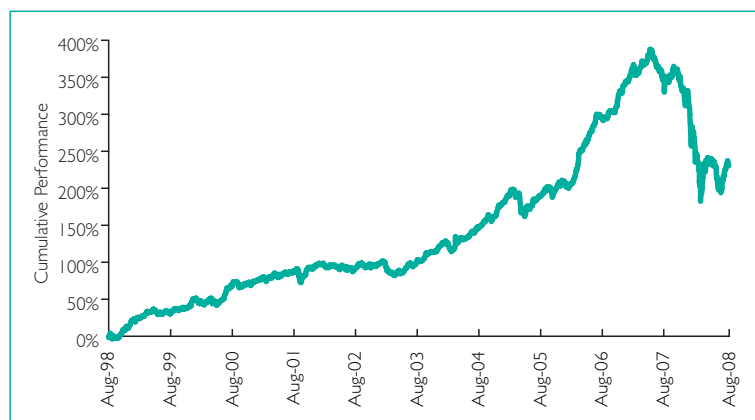
NB... annualised returns before tax and after fees. They differ from actual returns experienced during these periods.

Market Indices	1 Year	2 Years	3 Years	5 Years
NZ50G	-18.6%	-2.3%	0.0%	8.6%
90day bank bill	9.0%	8.5%	8.2%	7.4%
S&P/ASX300 (Calculated in \$NZ)	-10.3%	7.0%	13.9%	16.7%
MSCI Global Small Cap Index	-14.5%	-5.0%	2.6%	6.6%

**Not Annualised*

August's Biggest Movers	
New Zealand	
Delegats	14%
Rakon Limited	9%
NZ Exchange	-11%
Comvita	-19%
Australia	
Oakton	36%
Pharmaxis	33%
Nick Scali	27%
DWS Solutions	23%
International	
Wirecard	38%
Raffles Education	-27%
Midas	-28%
Hongguo	-29%

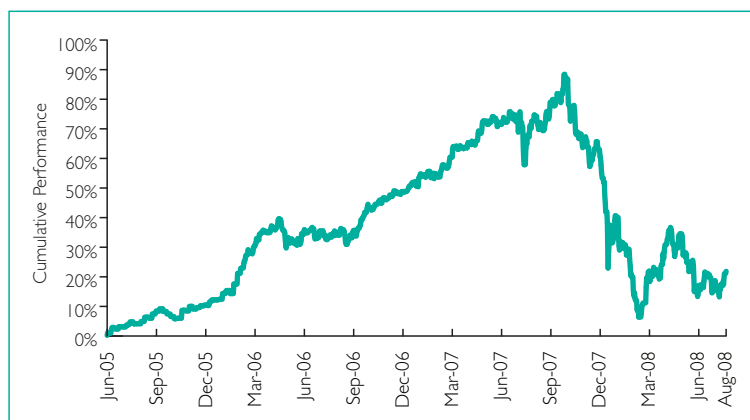
New Zealand Growth Fund



Fund Inception August 1998

Portfolio Holdings – 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.

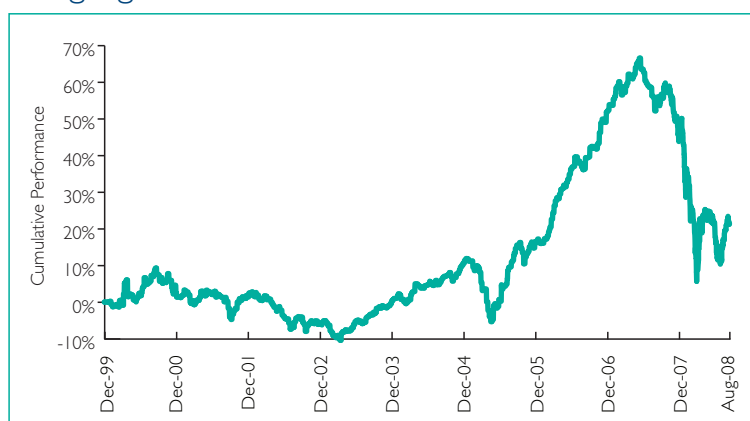
International Growth Fund



Fund Inception October 2007

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

Fledgling Fund



Fund Inception December 1999

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

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