

# FROM THE undergrowth

APRIL 10



The wonderful thing about having diversified portfolios is that on any given day, something interesting is happening to one of our investments. It is easy to look at the world through a generic lens and assume that all economies and companies are experiencing the same painfully slow recovery as we are in New Zealand. Thankfully we know to look beyond the generalities and deal with the specific, for this is where it gets interesting.

## Our Portfolios

What has been going on since we last spoke?

### At a glance

As at 31 March 2010

#### Unit Prices (\$)

NZ Growth Fund	2.9646
Australian Growth Fund	2.1349
International Growth Fund	1.2041
Fledgling Fund	1.0731
KiwiSaver Growth	1.0755
Infrastructure Fund	1.2546

#### Performance (March 2010)

NZ Growth Fund	1.7%
Australian Growth Fund	6.7%
International Growth Fund	2.2%
Fledgling Fund	1.5%
KiwiSaver Growth	3.4%
Infrastructure Fund	5.8%
NZ50 Gross index	3.5%
S&P/ASX 300 (\$NZ)	6.4%
MSCI Global Small Cap Index	5.7%

The word interesting is, well, interesting because it can be used to describe something that is curious, amusing, pleasing, intriguing, suspicious or thought-provoking. It is therefore a good word to use in the context of global share markets and investor behavior. There are some curious things happening in world markets – why, for example, is the US share market going from strength to strength even though their economy has got a heap of work to do to get back to its normal growth path? Some investor reactions are amusing – those investors who have been fully invested over the past twelve months are feeling somewhat smug as their tenacity has been well rewarded with share price performance, whereas those who have missed the rally continue to predict a double dip, since that is the only way they can explain why they've missed out on the 30%-plus returns of the past twelve months. It has certainly been pleasing to see companies embark on merger and acquisition activity to better position themselves for when economic activity returns to normal (especially when we've owned the target companies). It is intriguing to see which stocks are featuring as top performers and which are being overlooked. It is hard to imagine that any of the top five performers on the NZ share market over the past six months will be able to double their profits over the next three to five years, whereas a number of recent underperformers have doubled their profits historically and could do so again in the future. As for suspicious, unfortunately the media is providing plenty of fodder in this regard as the actions

of the problem children of the finance company and property development sectors are revealed.

Mostly though, for us at least, global share markets are thought-provoking. This is not the sort of market environment that will produce double digit returns for any old stock. Being a good, profitable business is not enough to attract investor attention. Being a politically stable, well managed country that is likely to grow at 2%-3% each year is not enough to catch the attention of international investors and being Australia's next door neighbor is no longer enough of a reason for our dollar to keep parity with the Australian dollar. One broker commented, at the

I think and think for months and years. Ninety-nine times, the conclusion is false. The hundredth time I am right

Albert Einstein

end of an extended trip aimed at promoting New Zealand shares to offshore investors, that there was little interest in New Zealand as our market is not leveraged to what the country actually does; and unfortunately, there are plenty of other great countries with opportunities aplenty. Thank goodness Fonterra is considering a structure to allow non-farmer shareholders to have an exposure to the business, albeit a non-voting one. A "good on you"

Have you joined KiwiSaver yet?\*

## Your Portfolios (cont.)

also to NZX, for developing a commodities trading business around what New Zealand does well. They will start with milk, power and grain contracts and in the future, will consider other products such as meat and forestry. Hopefully over time this will encourage international investors to realise that the New Zealand share market is about more than just Telecom and Fletcher Building.

So, this is a thought-provoking market environment and an interesting point in the economic cycle, and we want to ensure that our portfolios are positioned appropriately to catch the specific opportunities. We've said countless times before that this is a stock-pickers market, and the divergent share price performances we see each month are evidence of this. For this reason, debating whether the Dow Jones will hit 11,000, blast through to 12,000 or drop to 9,000 is a waste of time. The Dow Jones Index comprises 50 stocks and is a tiny sample of the broad US market. In the US share market, as in every market around the world, some stocks will flourish, some will fail and some will tread water. Our job is to find the flourishes, and pleasingly, we had a few in March.

### New Zealand

The +1.7% net return for the month was well below the NZ50G Index (3.5%). **Delegat's** and **NZX** were again the major contributors to the underperformance. As reported last month, Delegat's earnings have been hurt by the currency, especially against the sterling and NZX slipped for a second month despite giving a comprehensive investor briefing on its strategic initiatives for the year ahead. On the positive side, **Mainfreight** continues to benefit from a rebound in economic activity and this has shown in its outstanding share price performance over the past three months.

### Australia

What a month! Not one but two potential takeovers. On top of the takeover offers for **Arrow Energy** and **Centrebet**, strong Australian economic data and an RBA tightening drove the NZD/AUD cross lower by 0.7% adding to returns for New Zealand based investors.

The star of the show during March was **Arrow Energy**, rising over 50% on a takeover offer, underlining the merger and acquisition theme that we identified for 2010. The **Centrebet** share price lifted 13% on the receipt of indications of offers to acquire the company. Also **Pharmaxis** lifted 11% on positive trial results for its ASM8 compound. On the flip side, **Aevum** was again a drag on performance, falling 11% on continued merger related selling as was **Bravura**.

### International

China and the other BRIC markets have been underperforming the US and developed markets this year as they apply the brakes to economic growth. Ultimately we believe this is positive in the long term as these developing nations transition to more normalized economic growth. Importantly, domestic demand and consumption will continue to be increasingly important to the Chinese economy. We continue to have more than 30% of the fund invested in Asia.

We decided to accept the offer by **Hongguo** to privatise the company at a 37% premium to the market price even though we believe the business is still undervalued. We could have remained a shareholder of Hongguo as a private company but we believe being listed provides transparency, accountability and liquidity which is especially important in China. Also, the management want to merge the shoe business with other assets owned by the founders and transform the company which changes the investment thesis and dilutes us as shareholders.

**OSI Pharmaceuticals** received a takeover offer from Astellas Pharmaceutical, a Japanese pharmaceutical company, for US\$52 per share or a 40% premium to the market price. Astellas have been pursuing OSI Pharma (unsuccessfully) for more than a year and filings indicate historical price discussions in the US\$55-57 range. Despite the hype that another company, likely Roche, may turn this into a bidding war and OSI Pharmaceutical's rejection of the proposal we have decided to sell our shares in the open market at \$57 per share.

### Infrastructure

The Infrastructure fund continued its outstanding run and is now up 30% since its inception in December 2008. Infrastructure assets traditionally offer a lower risk/return profile than equities, however our colleagues at Morrison & Co have created a portfolio of eight internationally diversified infrastructure companies that are positioned well for the burgeoning growth in infrastructure spend that is happening around the world.

## Your questions

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

**Q:** I invested some money for my daughter five years ago in your Fledgling Fund. Since KiwiSaver has come along, you seem to prefer that for kids rather than the Fledgling Fund. Should I swap?

**A:** The Fisher Funds Fledgling Fund was launched back in 1999 and was designed with young and first-time investors in mind. Its quarterly newsletter, Friends of Freddie, includes sections for children, teens, and parents and guardians and aims to educate new investors so that they can learn while they earn! The Fledgling Fund is more flexible than our other funds as it accepts lower minimum investments (a \$500

lump sum or regular savings of \$50 per month). Parents and grandparents can invest on behalf of their children and specify a minimum age at which the children can withdraw their investments.

We believe that the Fledgling Fund is certainly relevant, irrespective of KiwiSaver, and where possible, children should have an investment in both. As a minimum, we believe that children should become KiwiSaver

# A bird's eye view

## Carmel talks about Delegat's and our strategy following the company's disappointing performance in recent months

We have owned shares in Delegat's since it first listed on the New Zealand stock exchange in April 2006. We wanted to own Delegat's because it had a long history of growth and profitability, and we were impressed with the profile and market share that Delegat's had achieved in international markets, despite very tough competition.

Delegat's has been a successful investment for us, outperforming the NZ share market since 2006. We initially bought into Delegat's at \$1.40 per share and enjoyed a 100% gain in the first 20 months of owning the shares. Delegat's was one of our better performers during the 2009 year, but unfortunately has been our worst performer for the first three months of 2010 with a share price down 30% year to date.

Casual observers would suggest that the poor performance of Delegat's was to be expected given the wine glut and falling wine and grape prices around the world. However, it is not as simple as that. There has been a wine glut for some time now, and will likely be for another 18-24 months. There has been widespread discounting, even by established wine makers. Notwithstanding this, Delegat's has sold more wine, in more markets, and has held its prices.

The poor performance of the Delegat's share price has been as much about poor investor relations as it is about company performance. In February the company announced its interim profit which was down 12%, or a net 4% after adjusting for a bad debt from a UK distributor. This result was in the ballpark of most analyst expectations. It was the bombshell that accompanied this result - guidance from the company that net profit for the year will be 30%-40% lower than last year - that investors took exception to.

After the result presentation, we visited Jim Delegat and his management team and discussed the three key variables that will determine Delegat's profit path in the next twelve months - currency,

price pressure in the UK market and penetration in the US market. The UK makes up almost half of total case sales forecast for the 2010 June year. With the currency at 46.5p against sterling (a free float high), this has had a severe and disproportionate impact on current year profitability. Some UK distributors are trying to pressure Delegat's to discount its pricing, however Delegat's is prepared to forgo sales, knowing that once a wine gives up its premium positioning, it is virtually impossible to regain it.

Delegat's gave a presentation at a broker's conference last month which provided new information and enabled investors to better understand the Delegat's business and its potential profitability.

We are disappointed that Delegat's dropped the ball in terms of communication, particularly since in the past the company has tended to under-promise and over-deliver. We are encouraged though by the company's more open communication of late, and continue to believe in Delegat's as a growth story. A tough exchange rate is not a death knell for the company; the UK market will require a disciplined approach but the company has dealt with competitive markets before; and the US market represents an enormous growth opportunity.

### Fisher Funds and the Oxfam Trailwalker Challenge 2010

By the time you receive this newsletter, the Fisher Funds Flyers and Fledglings will have completed the Oxfam Trailwalker Challenge. Hopefully we will have completed it in one piece, and will still be happy to share office space with each other afterwards! Thank you to those who have sponsored us, and for those who would like to, it is not too late. You can visit the Oxfam website [www.oxfam.org.nz](http://www.oxfam.org.nz) and support a good cause.

## Your questions (cont.)

The Fledgling Fund can encourage savings habits, and will hopefully grow faster over time than traditional bank deposits, because shares are the best performing asset over long periods of time.

members because it doesn't cost anything to join, and the children receive \$1,000 from the government. This \$1,000 contribution may not always be available, so we think children should join KiwiSaver before the government changes its mind on this!

However, any additional savings for your children should be put into a fund that is accessible before the age of 65. You or your child might want to access their savings to pay for their education or some other purpose, and it will be frustrating to say the least if you have to wait until age 65 to get your money!

We like to think of the Fledgling Fund as an alternative to a bank savings account for children. We all remember having our school savings accounts, and although they never seemed to grow very big, at least they got us into the habit of saving. The Fledgling Fund can encourage savings habits, and will hopefully grow faster over time than traditional bank deposits, because shares are the best performing asset over long periods of time.

# Fund facts

## Fund Performance

Fund Net Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	37.0%	-3.0%	-13.8%	0.3%	9.8%
Australian Growth Fund	69.8%	13.5%	-3.5%	na	7.7%
International Growth Fund	45.8%	10.3%	na	na	8.1%
Infrastructure Fund	28.6%	na	na	na	22.1%
KiwiSaver Growth Fund	48.9%	11.69%	na	na	3.0%

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

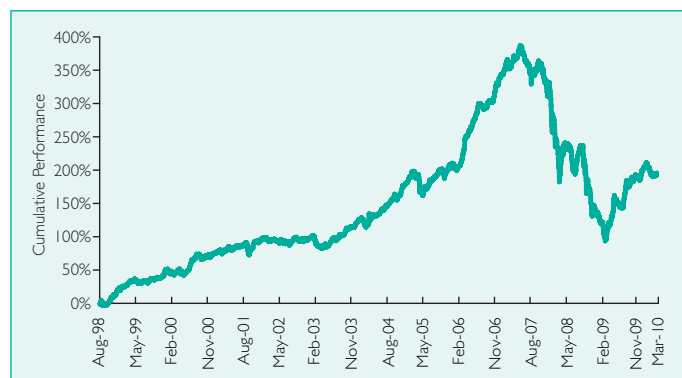
Fund Pre-tax Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	38.6%	-1.9%	-13.8%	2.9%	12.5%
Australian Growth Fund	70.7%	13.9%	-3.6%	na	8.7%
International Growth Fund	45.8%	5.9%	na	na	8.1%
Infrastructure Fund	28.6%	na	na	na	22.1%
KiwiSaver Growth Fund	48.9%	11.7%	na	na	3.0%

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	26.2%	-3.0%	-7.3%	1.5%
90day bank bill	2.9%	5.3%	6.4%	6.9%
S&P/ASX300 (Calculated in \$NZ)	48.4%	5.2%	1.8%	11.8%
MSCI Global Small Cap Index (in \$NZ)	34.2%	2.4%	-6.1%	2.9%

March Biggest Movers	
<b>New Zealand</b>	
Pumpkin Patch	12%
Mainfreight	8%
Wakefield Healthcare	7%
Delegat's	-17%
<b>Australia</b>	
Arrow Energy	52%
Centrebet	13%
Vision Group	-12%
Bravura	-19%
<b>International</b>	
Sarin Technologies	63%
OSI Pharmaceuticals	52%
City Telecom	31%
Wellstream	29%

## 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, Ryman Healthcare, Tower Limited, Wakefield Health.

## 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, Ports Design, Qiagen, Raffles Education, Sarin Technologies, Shinko Plantech, Stratec Biomed, Telvent, Times Electric, Ultimate Software, Wasion Holdings, Wellstream, Wirecard.

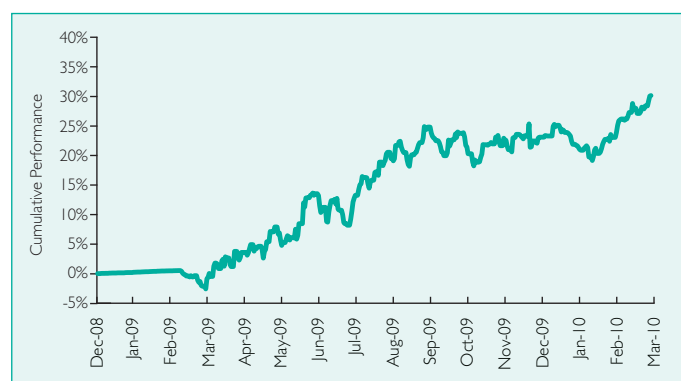
## Australian Growth Fund



**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.

## 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.

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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).