



FROM THE undergrowth

DECEMBER 10



And so we come to the end of a long year. It was not all bad, in fact some months were really quite exciting. But the year tested our patience and we had to tolerate a wee bit more volatility than we had hoped for. We were reminded again in 2010 that we live in a global village. Thankfully, our little corner of the village proved a rather nice place to be.

Our Portfolios

What has been going on since we last spoke?

At a glance As at 30 November 2010

Unit Prices (\$)

NZ Growth Fund	2.9682
Australian Growth Fund	2.3710
International Growth Fund	1.1963
Fledgling Fund	1.0694
KiwiSaver Growth	1.1077
KiwiSaver Conservative	1.0266
Infrastructure Fund	1.2694

Performance (November 2010)

NZ Growth Fund	-1.2%
Australian Growth Fund	-0.9%
International Growth Fund	1.1%
Fledgling Fund	-1.1%
KiwiSaver Growth	-0.1%
KiwiSaver Conservative	0.0%
Infrastructure Fund	0.2%
NZ50 Gross index	-1.2%
S&P/ASX 300 (\$NZ)	-0.4%
MSCI Global Small Cap Index	3.7%

If Aesop was asked to sum up 2010, he could probably use any number of his fables to describe the twelve months that were. He would certainly refer to the Ant and the Grasshopper (the moral being to prepare today for lean times tomorrow) and the Dog and the Bone (if you get greedy, you risk losing what you already have) and the Goose that Laid the Golden Egg, which tells us that greed and impatience destroy wealth. For most of us, these lessons had well and truly been learned before and after the global financial crisis, but still, some countries, businesses and individuals paid the price in 2010 for not having heeded these lessons early enough.

The underlying theme of world share markets during the year was global creditworthiness. The performance and progress of individual companies, and the valuation of their shares, were completely overshadowed by concerns about whether entire countries could afford to repay their debt. Rich nations had to bail out poorer nations, and as soon as one bailout was complete, the focus would move to the next nation in difficulty to see how long they could survive before another bailout was required. National pride made the process a protracted one – no country wants to admit they have failed and need help – and because few countries are feeling particularly flush after the past few years, it took quite a bit of negotiation to get things sorted. Countries like Greece and Ireland learned the hard way that just as miracle weight-loss programmes can't work

without exercise or dieting, there cannot be a recession cure without reduced debt and sacrifice.

“The little reed, bending to the force of the wind, soon stood upright again when the storm had passed over.”

Aesop, Greek philosopher

If you took away the episodic volatility created by these geopolitical concerns, the investment landscape was broadly positive throughout the year. There were certainly some highlights at the individual business level. The profit reporting rounds featured few disappointments, with companies around the world demonstrating that they have used the tough times to structure their businesses to cope with a lower level of demand. This is a positive and important development because nobody knows how long this period of low global economic growth will continue. If the hangover has to be directly proportional to the scale of the party, we could be in for a few years of low growth yet.

One four letter word (DEBT) became passé in the past twelve months and was replaced with an altogether more appealing four letter word (CASH). Companies have reduced debt or replaced it with equity capital, and cash reserves have been allowed to

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Your Portfolios (cont.)

grow, to the extent that many companies are sitting on war chests which will give them flexibility as they look for future growth.

There have been some encouraging snippets in economic data releases, which while too sporadic to suggest a trend, nevertheless point to improving rather than deteriorating economic conditions.

As we have suggested in our newsletters throughout the year, all these positive highlights are coming together nicely ... we just need the human element, confidence, to improve and we'll be away laughing.

There is no doubt that investors have found 2010 a challenging year. Perhaps not as difficult as 2008 and 2009, but nevertheless challenging enough to encourage them to park their investment funds in cash and wait for better days. In New Zealand, in the nine months to September 2010, nearly 80% of money invested into retail managed funds went into conservative and low risk funds according to FundSource. Parallel trends have been seen elsewhere around the world, with more than \$300 billion invested in US bond funds in the past ten months. Before the market collapse in 2008 it was typical for stock funds to take in twice as much money as bond funds in any given month. But lingering volatility continues to leave investors wary of stocks.

So how was the year for Fisher Funds?
Actually, not bad at all. A number of our stock picks came up trumps, not least being those that were taken over at a significant premium. We clawed back some of our under-performance in the New Zealand fund; the Australian fund was an absolute standout; the International fund held its own and would have had a great year were it not for the troublesome currency; our KiwiSaver Growth fund was a top performer; and the Infrastructure fund provided investors with exactly what it said it would – a combination of growth and income, with lower volatility than our equity funds.

New Zealand

The gross portfolio return of -1.1% for November was in line with the NZ50 Gross Index which was quite an achievement given that the index return was bolstered by Telecom which lifted 8% during the month. The largest contributors to the NZ Growth portfolio return were **Mainfreight** and **Ryman Healthcare**, after good profit results while **Pumpkin Patch** fell 13% reflecting challenging retailing conditions. During the month we had good profit releases from **Tower**, **F&P Healthcare**, **Infratil** and **Wakefield** with positive outlook commentaries from Mainfreight, Ryman and **Delegat's**.

Australia

The portfolio performed in line with the Small Industrials Index during November. Leading the portfolio on the positive side was **Credit Corp** (+18.2%) following supportive AGM comments and another earnings upgrade – the dark days of 2007 are becoming a distant memory for this company. Another historic problem child, **Bravura Solutions** lifted 10.7% in the month following supportive AGM comments reiterating previous guidance and reminding investors that BVA has its cost base in order and has dramatically increased the proportion of its earnings derived from annuity style contracts. Last but not least was **McMillan Shakespeare** (+3.9%) as its rerating continues. On the negative side was **Centrebet** (-5.1%) with a negative reaction to "Project Rocket", its recently announced growth strategy. **Pharmaxis** (-4.3%) slipped on profit taking following its recent strong run. Also falling for the month was **Toxfree Solutions** (-9.6%). For Toxfree it was fears that the company's AGM would deliver an earnings downgrade that got investors spooked (this did not eventuate and we used price weakness to acquire more stock).

International

There was ample news flow to keep markets volatile. Our International fund managed to post a positive return although it was more due to a weak New Zealand dollar:

Rockstar, the third-largest energy drink in the US brand behind Red Bull and **Hansens** is "exploring strategic options including a potential sale". We believe this is a positive development as it will highlight Hansens as a superior company that is undervalued. Ken and Scott visited Japan during November and have added two Japanese companies to the portfolio. They have known both companies for a couple of years and given compelling valuations and potential catalysts, believe that now is the time to introduce them to the fund. **Horiba** manufactures and markets analytical instruments and systems focused on the automotive, analytical, medical, and semiconductor markets. In each segment they operate in niche markets where they have high market share. The company has excellent long-term growth prospects in its business in particular in the automotive emissions testing and medical areas. **Torishima Pump** is a leading supplier of specialised pumps for water desalination, water sewerage and power plants. They have successfully transitioned the company over the last the last decade from a purely domestic focused company into one of the leading global suppliers in the water industry.

Infrastructure

The Fisher Morrison portfolio posted a gain of +0.67% for November, a good performance in a difficult market. The fund outperformed the broader utility and infrastructure sector by +2.3%. **Union Pacific** and **Fedex** were again strong performers this month and **Vienna Airport's** results helped push the stock higher over the period. **Asciano** rallied during the month alongside the listing of its rail competitor QR National. The Fisher Morrison Infrastructure fund had good inflows during the month and additional contributions are being invested across the portfolio.

A bird's eye view

We thank you for your continued support.

This is the last Fisher Funds newsletter of the year and we take this opportunity to thank you for your support and wish you and your families a relaxing and enjoyable festive season. Our next newsletter will hit your inboxes and letterboxes in February next year and we warn you now, it will be positive in tone. It will provide an update of some exciting developments at Fisher Funds which you will benefit from in 2011 and beyond, and it will hopefully find you well-rested, invigorated and ready to shake the dust off your investments in preparation for the next stage of the economic cycle.

The Fisher Funds team will be bigger in 2011 (and we're not referring to excessive consumption of Christmas treats!). We have listened to your suggestions and comments and we understand that you want choice along the risk spectrum, or in plain English, you want to be able to move your money into lower risk assets when you're nervous and then dial up the risk again when you are feeling more confident. You want proper diversification – not just a choice between New Zealand, Australia and International. And you don't want us to lose the things you like about Fisher Funds – our accessibility, our candid communication and our investment expertise. You want us to remain committed to you as an investor whether you are small or large, and whether you have joined the Fisher Funds family as a KiwiSaver member, a fund investor or a Premium client.



We have listened, and we are going to do a bit more listening as we embark on a market research programme in the New Year. With more than 40,000 investors, we know we're not hearing everybody's point of view. We intend to direct some questions to a larger group so that hopefully we get the good, the bad and even the ugly feedback.

Do you remember flying with Air New Zealand and the hostess would always say "We appreciate you have a choice of airline, and we thank you for choosing us." We feel the same. We know you have many choices as to where you put your hard earned funds, and we sincerely appreciate that you have chosen us.

Once again, all the best for the festive season. We'll talk next year.

Your questions

This month we've had several questions from investors along similar lines:

Q: You speak confidently about there not being a double dip on the horizon, but that depends on your timeframe. Already we've had markets fall then rise then fall again. Surely to do us investors the best service, you should remain vigilant and expect the unexpected?

A: I agree that it is our responsibility to remain vigilant and adhere to our disciplined investment strategy so that we can minimize the impact of the unexpected on your investment returns. However, that shouldn't stop us from having views as to what might happen in the future, and our view is that a double-dip global recession and a double-dip market correction will be avoided, largely due to the common goals and coordinated efforts of central banks and governments.

It is hard to expect the unexpected because the unexpected is just that. Our strategy to protect your investments against the unexpected is multi-faceted. Firstly, we work hard to know each of our portfolio companies better than any other investor; so that we don't get unexpected surprises (though we don't mind positive ones!). We maintain a base level of cash in each of our funds to provide a buffer and some liquidity in the event

of an out-of-left-field outcome. We ensure that our portfolios are well diversified so that you are not exposed to the risk of any one investment, sector, or geography failing. We regularly communicate our strategy to you, and explain our wins and our losses, so that your investment outcome is not totally unexpected. And we do remain vigilant on your behalf – I suspect that you would be pleasantly surprised if you knew just how many man hours the investment team devotes to reading, research and talking to people so that we can stay on top of information.

What we don't do though is park your money on the sidelines just in case the unexpected occurs. We do not believe in the Chicken Little philosophy. While we know that the future is unknowable, we nevertheless believe that good preparation can avoid the worst of unexpected outcomes.

Fund facts Fund Performance

Fund Net Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	2.7%	9.6%	-11.9%	-0.8%	9.2%
Australian Growth Fund	17.0%	49.9%	-1.6%	7.8%	8.8%
International Growth Fund	8.7%	19.1%	6.1%	na	6.0%
Infrastructure Fund	11.2%	na	na	na	15.9%
KiwiSaver Growth Fund	9.7%	26.1%	4.0%	na	3.3%
KiwiSaver Conservative Fund	2.4%	na	na	na	1.8%

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

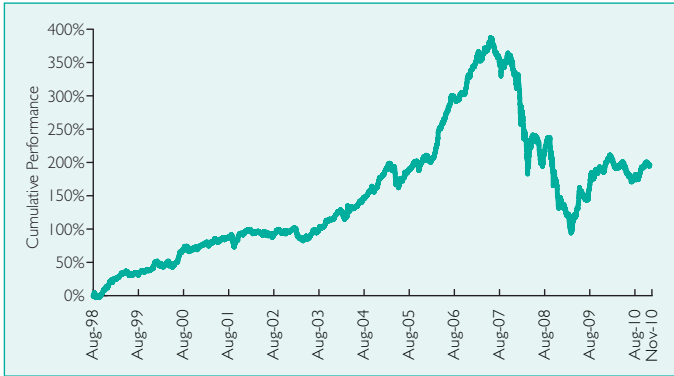
Fund Pre-tax Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	3.7%	10.8%	-10.9%	1.4%	11.9%
Australian Growth Fund	17.1%	50.3%	-1.4%	na	10.5%
International Growth Fund	8.7%	19.1%	6.1%	na	6.0%
Infrastructure Fund	11.2%	na	na	na	15.9%
KiwiSaver Growth Fund	9.7%	26.1%	4.0%	na	3.3%
KiwiSaver Conservative Fund	2.4%	na	na	na	1.8%

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	4.4%	9.7%	-7.0%	-0.3%
90day bank bill	3.0%	3.3%	5.2%	6.3%
S&P/ASX300 (Calculated in \$NZ)	2.8%	20.9%	-3.5%	8.7%
MSCI Global Small Cap Index (in \$NZ)	16.3%	14.1%	-0.8%	1.1%

November's Biggest Movers	
New Zealand	
Pumpkin Patch	-14%
Wakefield Health	-9%
Fisher & Paykel Healthcare	-8%
Tower	5%
Australia	
Oakton	-24%
Credit Corp	18%
Bravura	11%
Toxfree Solutions	-10%
International	
Ports Design	31%
ZhuZhou CSR	28%
City Telecom	19%
Travelsky	13%

New Zealand Growth Fund



Fund Inception August 1998

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

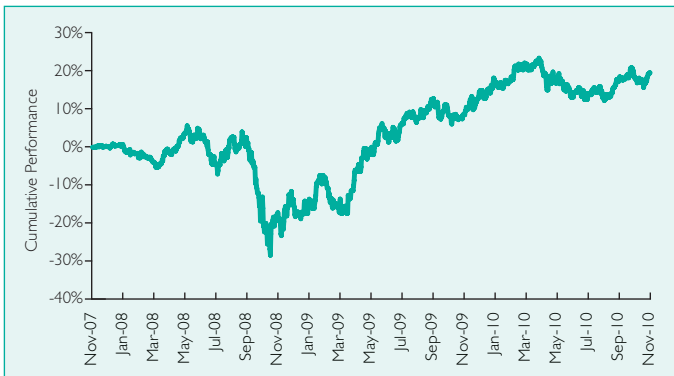
Australian Growth Fund



Fund Inception June 2005

Portfolio Holdings – Austbrokers, Bravura, Centrebet, Credit Corp, Dart Energy, DWS Solutions, McMillan Shakespeare, Nanosonics, Nick Scali, Oakton, Pharmaxis, Reckon, Retail Food Group, Toxfree, Treasury Group, Universal Biosensors, Vision Group, WHK Group.

International Growth Fund



Fund Inception October 2007

Portfolio Holdings – Actelion, Advent Software, Autodesk, Bawang International, Biotest, Brembo, China Automation, City Telecom, Conceptus, Equinix, Gameloft, Hanger Orthopedic, Hansens Natural, Horiba, Hsu Fu Chi International, Hyflux Limited, Icon PLC, Interactive Intelligence, Icon PLC, Jumbo, Midas, Nokian Renkaat, O2 Micro, Okano Valve Manufacturing, Ports Design, Prestige International, Qiagen, Raffles Education, Sarin Technologies, Shinko Plantech, Stratec Biomed, Telvent, Torishima Pump, Travelsky, Wasion Holdings, Wellstream, Wirecard, Zhuzhou CSR Times Electric.

Infrastructure Fund



Fund Inception December 2008

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

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