

FROM THE undergrowth

JULY 10



Thank goodness for the FIFA World Cup. Amidst deteriorating weather and choppy stock markets, we could at least enjoy football fever and feel a surge of national pride at our All Whites' achievements. Soon the semi-finals and finals will be played, and while they will be interesting games, particularly for hardy football supporters, the excitement will soon fade and it will be back to reality... bad weather and choppy markets.

Our Portfolios

What has been going on since we last spoke?

At a glance

As at 30 June 2010

Unit Prices (\$)

NZ Growth Fund	2.7480
Australian Growth Fund	1.9288
International Growth Fund	1.1447
Fledgling Fund	0.9917
KiwiSaver Growth	0.9993
Infrastructure Fund	1.2015

Performance (June 2010)

NZ Growth Fund	-3.9%
Australian Growth Fund	-5.9%
International Growth Fund	-4.2%
Fledgling Fund	-4.1%
KiwiSaver Growth	-4.9%
Infrastructure Fund	-2.4%
NZ50 Gross index	-2.9%
S&P/ASX 300 (\$NZ)	-3.9%
MSCI Global Small Cap Index	-5.2%

New Zealand is more of a sporting nation than an investing nation. We are enthusiastic sports participants and supporters and have achieved sporting success disproportionate to the size of our country and population. We are relatively less enthusiastic and adventurous when it comes to investing, and unfortunately, our investment successes are nothing to boast about on the world stage. It is perhaps because we are relatively new to investing that we remain skeptical and diffident. In New Zealand, managed funds and share market investing really only came into vogue in the 1980s, and for many, the 1987 crash marked the beginning of the end of a short and unsatisfying investment experience. Contrast our relative inexperience with the 30–50 years of investment experience, performance, and education that investors in the US, Europe and even Australia have enjoyed, and it is easier to understand why we are somewhat less inclined to stick to our investment strategies when markets go haywire.

“This too shall pass.”

| [1 Corinthians 10:12](#)

Since we understand sport so well, perhaps we should consider why it is that we are happy to support teams that have a bad season, or sit through low scoring games and still enjoy them, whereas we

pack up and leave investment markets at the first sign of short term volatility? Okay, the analogy is not brilliant because let's face it, the global financial crisis was rather more than just a little short-term volatility. And playing or supporting sports generally doesn't have a major impact on our wealth and financial well-being. But, the analogy works in part. We are happy to support teams through a bad season if we have seen enough performances in previous seasons that we think might be repeated in the future. We are also happy to sit through game after game where nobody scores, because we know that there is always a chance, even in the final minutes of a game, that a goal will be scored. The better the team and the coach, and the longer the team has played together, the greater the likelihood that goals will ultimately be scored. At this point your eyes will be rolling and you'll know what comes next. Share market investing has been high scoring in the past and there is a reasonable certainty that it will be high scoring in the future. If you pick companies that have had a history of profit growth by virtue of good management and a competitive moat, there is a good chance that they will achieve profit growth in the future. In selecting an investment team to manage your investment portfolio, you have a better chance of success if you choose an experienced team with a competent coach and a track record that can give some confidence that goals will be achieved, irrespective of the playing conditions.

Have you joined KiwiSaver yet?*

Your Portfolios (cont.)

For those of you attending our roadshow in August, we will again use a sporting theme to review your portfolio performance over the last year and discuss the portfolio lineup for the upcoming season. We will talk specifically about which companies have been benched or promoted and why, and what sort of businesses we expect the conditions will favour in the year ahead. We believe that your portfolios will ultimately return to their rightful position on the investment leader board, though we acknowledge that it has been a trying season for even the hardest of fans.

We are now at half time in what has been a very ordinary investment period. The first six months of 2010 have featured increasingly volatile markets and overall negative returns. At the beginning of the year many commentators suggested that the second half would be better than the first because by mid-year, some of the effects of the global stimulus packages should be starting to work. By now we should be seeing signs of consumer spending, a fall in unemployment, greater spending by businesses as they become more confident about the future, and an increased risk appetite for investors as they realise the worst is behind us. Not so.

The economic numbers are not yet convincing, anywhere, and consumers are still struggling to boost their savings and reduce debt, let alone start spending. Add in the European debt concerns, the removal of stimulus measures, increased regulation and still nervous investors and the investment outlook is clouded with uncertainty. The one positive is the consensus that there is no "double-dip" recession on the horizon. Indeed, central banks, keen for economic growth, will do everything in their power to avoid it.

The second half of the calendar year may very well herald improved investing conditions.

Bring it on.

Half time can be a great refresher. No matter how frustrating the first half was, with missed opportunities and conditions just not favouring a team's style of play, players can return to the changing rooms, re-group, and come out firing. Similarly, supporters can stretch their legs, get some refreshments and wait for the whistle, knowing that irrespective of what has gone on before, the second half can be a different game altogether. The second half of the calendar year may very well herald improved investing conditions. Bring it on.

New Zealand

The fall in share prices on the NZ share market was broadly based in June, with the mid-cap, small cap and NZ50 gross indices posting similar negative returns – another relatively torrid month. The net portfolio return of –3.9% for June represented an underperformance against both the NZ50G and the Mid-Cap gross index (NZSEMCG). Only one stock in the portfolio rose during the month, with our two retirement-related companies causing most of the underperformance. There was a placement of existing stock in Ryman during the month at \$1.97 (we did not participate), which has caused some indigestion but there was no company related news on Metlifecare. NZX has been very much unloved by the market, but the buy-back announcement and re-iteration of its future expected earnings growth (double-digit) has seen its stock price bounce in early July.

Australia

The Australian share market struggled in June with the broad market falling 4.0% in New Zealand dollar terms. With risk aversion on the rise the smaller companies that are the focus of our portfolio found the going harder with the Small Industrial Companies index falling a nasty 6.3% for the month.

We remained cautious in our portfolio construction carrying heavier than normal cash weights and we remain more than 50% hedged against rises in the New Zealand dollar against the Australian currency. Despite our cautious positioning the portfolio performed poorly for the month although the portfolio did do better than the small industrial index.

The key movement for the month was a fall in the share price of Pharmaxis on a disappointing trial result for Cystic Fibrosis treatment, Bronchitol. This narrowly missed one of the goals of the trial, and in a risk averse market, was punished with a steep fall in its share price. Whilst disappointed with this one aspect of the trial, we believe that the broad tenor of the trial was very supportive proving the efficacy of this treatment and remain confident that it will ultimately be approved and drive the Pharmaxis share price higher.

International

During what was a difficult month, we focused on our individual companies rather than try to make sense of what was a volatile and erratic global market environment. We sold our shares in **Home Inns** and **China Zaino**. Nothing has changed fundamentally with Home Inns – it is still a good company – but the valuation more than reflects this and we are finding better use of your capital elsewhere. The decision to sell our shares in **China Zaino** follows numerous disagreements we've had with management regarding decisions implemented. This decreases our confidence and we have voted with our feet.

We introduced a new company to the fund. **Prestige** is a leading business process outsourcing company in Japan that specialises in roadside assistance and insurance assistance. They operate in a niche segment of the market where they are the dominant provider. The company has consistently grown revenues and profits in the past and plans to double the business over the next three to five years. Prestige has a solid balance sheet with over 30% of its market capitalisation in cash and a price/earnings ratio of just 6x.

Icon announced it has signed an agreement with Bristol-Myers Squibb, a global pharmaceutical company, to be one of two companies providing support for clinical trials over the next three years. The press release states that "because of a robust pipeline and significant in-licensing activity, Bristol-Myers Squibb is preparing for a large volume of clinical development work".

Infrastructure

June reversed the previous month's outperformance, with infrastructure not being spared the weakness seen in global equity markets. The major changes during the month were a reduction in exposure to Fraport and CSX, and a significant increase in our investment in Transpower inflation indexed bonds. Freight transport remains the largest sector exposure in the portfolio, followed by passenger transport.

A bird's eye view

Carmel suggests strategies that might help in these choppy markets ...

A choppy market is one that trades up and down in similar and sometimes significant percentage movements, while staying within a broad value range. The past six months have seen increasingly choppy markets with indices not having moved significantly, but 2% daily swings becoming almost normal.

While the overall percentage movement in markets over the past six months is not particularly unusual or concerning, the daily swings in share prices and indices have been particularly scary for investors. Part of the scariness is because we don't know whether a 2% daily fall is the beginning of a trend, the first of more to come. Some of it is because there is no logical explanation to allow us to make sense out of it.

The strategies that we have employed in these markets make sense to us. We have focused on the knowable – our companies – rather than the unknowable – market movements. We have increased our cash position to provide some firepower for the inevitable opportunities that emerge, and we have worked to reduce portfolio risk (while still maintaining some risk in order to capture the upside) through diversification and ongoing valuation analysis to ensure that our stocks are not overvalued (and therefore vulnerable to panic selling).

You can apply similar strategies in your own portfolios. Focus on the knowable rather than the unknowable and random features of your investments. Remember why you have equities in your portfolio in

the first place – they are there to provide long-term capital growth which you need in order to achieve your investment objectives. No other assets will be able to provide the level of capital growth your portfolio needs. However, you may have too great an exposure to equities, or you might have the wrong mix of equities and not have enough diversification. This could be the time to review and restructure your portfolio to still achieve growth but allow for a more restful life. We have reviewed the portfolios of a number of our clients in recent months and found that they have benefited from reallocating some of their portfolios to, for example, infrastructure assets, which provide lower growth (but still some growth) and lower day to day volatility. Some clients have also found themselves too exposed to Australian or New Zealand equities and have added an International equities exposure.

A surprisingly simple but effective strategy to assist with choppy markets is communication. We certainly find day to day markets a lot easier to deal with when we talk to our chief executives and find out how their businesses are travelling. We would encourage you to contact us and any of the investment team would be happy to discuss your portfolios and the companies we have chosen on your behalf.

Q. How can you possibly say that your (KiwiSaver) Growth Fund has performed well when it has crashed from 1.1044 in April to 0.9987 today? What is the explanation? Should we call in the SFO on this?

A. Thank you for your email. If you look over the last 12 and 24 months, then I think we can say that our Growth Fund has performed well, relative to local and global share markets and other KiwiSaver providers. As at the end of May, the Fund was the best performing KiwiSaver Growth Fund as reported by Morningstar over 12 and 24 months. The Growth Fund will experience volatility; that is the nature of share market investing. We obviously try and reduce this volatility through our research and investment process and by the way we manage your assets eg. the levels of cash holdings and the weightings held in each company. During the last couple of months, June in particular, we have seen increased volatility in share markets. Concerns over macro issues such as a possible slowdown in China's growth and Europe's sovereign debt worries are behind this. We nevertheless remain very happy with our portfolio holdings as nothing fundamental has changed in our view of them. The portfolio is being very actively managed by the team. During the first part of the year, after a very strong run, we raised our cash levels. That has meant investors have been afforded greater downside protection and we can take advantage of lower share prices and redeploy money into still high quality but cheaper assets.

Editor's note: We did not respond to the client's question regarding the SFO as we believe, in this instance, the question was rhetorical. Nevertheless, there will be some investors for whom the Allan Hubbard/SFO issue is the final straw. With all the breaches of trust that investors have experienced over the past two years, it can be hard to know who to trust nowadays. We do think it is important though to differentiate between losses caused by fraudulent actions and those caused by market movements. Fraud can lead to permanent loss; market movements are generally temporary (albeit they can last for several years). We have never invested in companies that have experienced significant and permanent loss of value due to fraud. We have safeguards in place to protect our clients from fraud within our business and our portfolio companies – our investment process and guidelines, the securities regulations that govern our business, documents such as the investment statement and trust deed, the regular auditing of Fisher Funds and our individual funds, and the constant oversight of every single transaction by the independent trustee. While we know that from time to time, market volatility will cause angst for our investors, we know that our trustworthiness never will.

Fund facts

Fund Performance

Fund Net Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	12.1%	-4.3%	-16.1%	-0.8%	8.9%
Australian Growth Fund	28.1%	1.6%	-8.8%	4.7%	5.2%
International Growth Fund	11.6%	8.0%	na	na	5.2%
Infrastructure Fund	11.5%	na	na	na	15.1%
KiwiSaver Growth Fund	16.6%	5.86%	na	na	0.0%

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	13.4%	-3.2%	-15.5%	1.9%	11.5%
Australian Growth Fund	28.2%	1.9%	-9.0%	na	6.9%
International Growth Fund	11.6%	8.0%	na	na	5.2%
Infrastructure Fund	11.5%	na	na	na	15.1%
KiwiSaver Growth Fund	16.6%	5.9%	na	na	0.0%

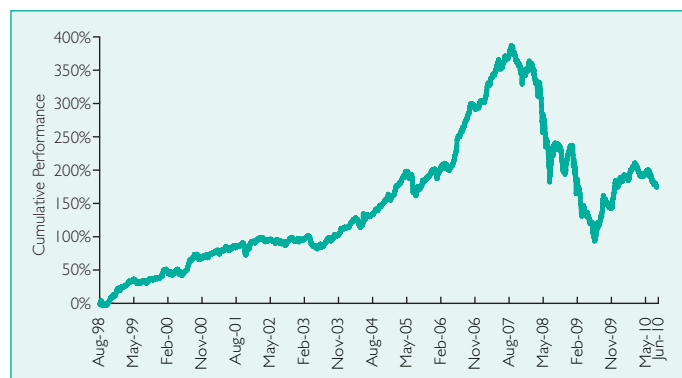
NB... annualised returns before tax and after fees. They differ from actual returns experienced during these periods.

Market Indices	1 Year	2 Years	3 Years	5 Years
NZ50G	6.3%	-3.5%	-11.1%	-1.7%
90day bank bill	2.8%	4.5%	6.0%	6.7%
S&P/ASX300 (Calculated in \$NZ)	11.1%	-6.3%	-4.6%	6.9%
MSCI Global Small Cap Index (in \$NZ)	14.1%	-0.7%	-7.3%	0.7%

June's Biggest Movers

New Zealand	
Kathmandu	8%
Metlifecare	-7%
Opus International	-8%
NZX	-10%
Australia	
DWS Solutions	20%
Centrebet	-18%
Pharmaxis	-33%
Vision Group	-40%
International	
Raffles Education	-15%
Wirecard	-16%
Autodesk	-18%
Telvent	-29%

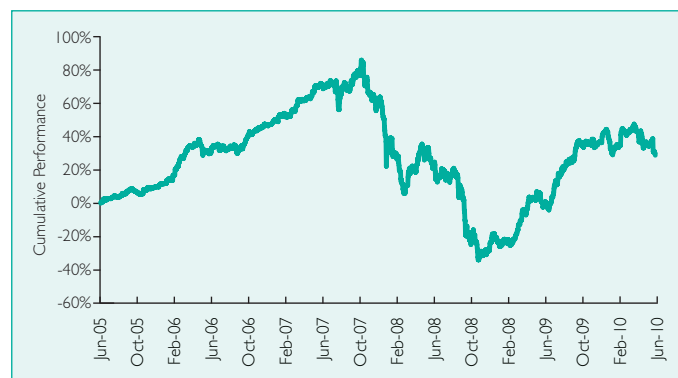
New Zealand Growth Fund



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 – Aevum, Arrow Energy, Austbrokers, Bravura, Centrebet, Credit Corp, DWS Solutions, McMillan Shakespeare, Nick Scali, Oakton, Pharmaxis, Reckon, Toxfree, Treasury Group, Vision Group, WHK Group.

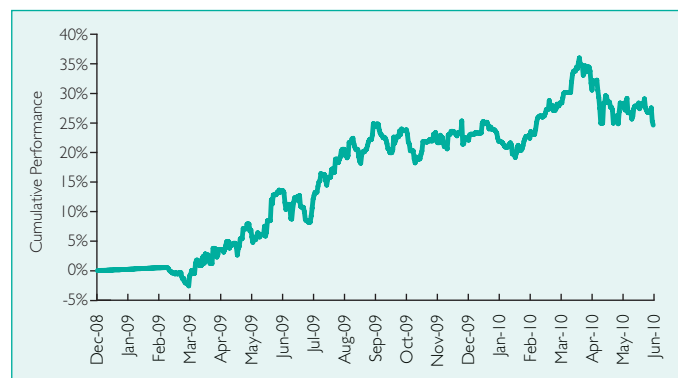
International Growth Fund



Fund Inception October 2007

Portfolio Holdings – Actelion, Advent Software, Autodesk, Bawang International, Biotest, Brembo, China Automation, City Telecom, Conceptus, Equinix, F5 Networks, Gameloft, Hanger Orthopedic, Hansens Natural, Hsu Fu Chi International, Hyflux Limited, Icon PLC, Interactive Intelligence, Jumbo, Midas, Nokian Renkaat, O2 Micro, Okano Valve Manufacturing, Ports Design, Prestige International, Qiagen, Raffles Education, Sarin Technologies, Shinko Plantech, Stratec, Telvent, 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, Auckland Airport Bonds, Contact Bonds, Genesis Bonds, Meridian Energy 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).