fisher funds

FROM THE undergrowth

JUNE 10

A headline during the month suggested that "Goldilocks has been Mugged by the Three Bears". The article said that the 10% fall in world share markets during May was because the Goldilocks story of Chinese growth saving the world is no longer believable, and that the outlook for world growth is bearish. Just like Goldilocks, the only way we can navigate these unfamiliar markets is if we discard the 'too hot' and the 'too cold' stories, and focus on the ones that are 'just right'.

At a glance

As at 31 May 2010

Unit Prices ($)

NZ Growth Fund	2.8603
Australian Growth Fund	2.0495
International Growth Fund	1.1943
Fledgling Fund	1.0342
KiwiSaver Growth	1.0506
Infrastructure Fund	1.2314

Performance (May 2010)

NZ Growth Fund	-4.6%
Australian Growth Fund	-4.2%
International Growth Fund	0.5%
Fledgling Fund	-4.7%
KiwiSaver Growth	-2.4%
Infrastructure Fund	-3.0%
NZ50 Gross index	-6.8%
S&P/ASX 300 ($NZ)	-9.6%
MSCI Global Small Cap Index	-3.4%

Our Portfolios

What has been going on since we last spoke?

Global markets rose and fell in sharp, jerky movements during May and finished the month around 10% lower than they started. Ten percent is a lot to lose in one month, and fortunately none of our portfolios fell anywhere near that much, but it is important to remember that investors are still in a stronger position than they were this time last year.

The volatility is made worse by the explanations that accompany it. Every morning we tune in to the business programmes and hear commentators try to explain why markets moved the day before. Because nobody likes to admit that they don't have a clue, one commentator after another will cobble together an explanation based on things that have happened the day before that may or may not explain investor behaviour. Some days you can hear two commentators, armed with exactly the same information, give entirely different explanations for market movements. The most dangerous reporting happens when commentators confuse coincidence with cause – they create the impression that because an event occurred on the same day as the market moved, it must have caused it.

A good example of this was around the global share market declines in April/May. The declines have been broadly blamed on concerns about Eurozone debt and the Greek bailout plan. But the problems in Europe were well known to investors well before the markets fell. Each new day in May brought new news from Europe, and markets lifted 1% and then fell 1% the next day, but these movements were not necessarily all about Europe. One day the market's fall was attributed to unsubstantiated comments out of China that it was re-evaluating the Euro, but when China denied the story the next day, the market rallied. Honestly, it really does pay to ignore the news sometimes.

> "A lie can run around the world six times while the truth is still trying to put on its pants."
>
> Mark Twain

At the risk of joining the very commentators we criticise, we have a view about the markets' movements of recent months. Our view is less about economies and more about investor attitudes. Since markets began rallying in March last year, there have been calls for a pullback, a correction, a pause, a double dip…anything to reflect the fact that the global economic recovery is slow and gradual and therefore a V-shaped bounce in markets was too much, too soon. The cauldron of news in recent months was enough of a trigger for the correction or pullback to happen all at once. Does that mean we can look forward to another three months of 10% pullbacks? We don't think so. But, neither do we think we can look forward to three months of 10% rallies. We think that markets will continue to trade in a broad sideways fashion for a good few months yet, and maybe even years. There will be opportunities to make money,

Your Portfolios (cont.)

but we will need to look for them – the market will not provide the same buoyancy we enjoyed before the slowdown.

Does that mean investors should give up on share market investing? After all, if shares aren't going to provide a decent return, why stick with them? The simple answer is that you're not going to get a decent return elsewhere. While exiting the market might remove some anxiety, it could also remove something else – your ability to grow your portfolio to a position where you can reach your goals. As the last month has shown, we do know how to pick the eyes out of markets. We'll be doing our best to find the opportunities that will make money, irrespective of how long the sideways shuffle lasts.

New Zealand

May was an active month for the New Zealand portfolio with a number of company profit results being released, together with economic data and the well-received, but generally unsurprising, May Budget. Overall, the portfolio outperformed the broad New Zealand market with relatively strong performances from Ryman Healthcare, Michael Hill, Opus and Mainfreight. The profit reporting round was sound with few major surprises. We were particularly pleased with the profit results from Ryman and Mainfreight.

Australia

It was a whollop from every direction driving prices lower in May. The troubles of Europe are well documented and just to add to the pressures on the Australian market we had the double whammy of a projected slowdown in the Chinese economy and the imposition of the Resources Super Profits Tax (RSPT) sending international investors scurrying for the exits.

In what was a challenging period our Australian portfolio significantly outperformed the market, falling 4.1% for the month. The biggest positive contribution to performance was the currency hedge we had in place. This contributed more than 1% to performance as the Kiwi rallied against the Aussie dollar. McMillan Shakespeare (+25.8%) rallied hard with the release of the Henry report showing no impact on the business. And finally we got some performance from Bravura Solutions (+10.5%) as the market welcomed the purchase of MFT. Negative contributors included DWS (-16.3%), on no real news, although IT services are perceived as cyclical and tend to suffer when the market gets economic growth jitters. Last but not least small portfolio position (thankfully) Vision Group slipped (–35.4%) on three doctors not renewing their contracts.

International

While international markets fell during May, our portfolio remained flat in absolute terms resulting in an outperformance for the month. We have, during the last month, begun to increase our allocation to China and Asia again and anticipate this will continue in the months ahead. While the headlines regarding a slowdown are likely to persist in the short term this is creating one of the best long term buying opportunities since the market lows in 2009.

We added **Actelion** to the fund. Actelion is a Swiss biopharmaceutical company with multiple drugs already on the market. Their flagship drug, Tracleer, is approved for PAH (pulmonary arterial hypertension) and has sales of over CHF1billion (NZ$1.3billion) annually. Importantly, Actelion has several drugs in its pipeline which could prove to have significant sales potential as well as a strong balance sheet enabling them to in-license or acquire new drugs. We have known the company for many years and used the 40% pullback in the stock price over the last 6 months as an opportunity to buy shares.

Midas Holdings' 32.5% owned Joint Venture company Nanjing SR Puzhen Rail Transport Co. and consortium partners were awarded a contract worth RMB1.14billion (NZ$250million). This is the second major contract in as many months providing a backlog of business for at least the next 2 years.

Infrastructure

Another star performance…this fund has outperformed its benchmark since the recovery commenced in March 2009. Infrastructure investments were not as severely impacted by the global financial crisis as equity investments, and their lower risk nature is making them increasingly appealing to investors.

The major changes to the fund during the month were significantly increased exposure to Union Pacific, an east coast US railroad, and an investment in Transpower inflation indexed bonds. As the portfolio currently stands, freight transport is the largest investment sector, followed by passenger transport and by geography, European investments are the largest, followed by US investments.

Your questions

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

Q: Why do you no longer bother coming to the provincial towns anymore? We used to enjoy attending Fisher Funds investment meetings but you now seem to focus just on the main centres.

A: Thank you for your email. We did make a decision in 2008 to limit our annual roadshow to the main centres as it was becoming cost prohibitive and time-consuming to have so many of our team travelling all around the country. We have received feedback from investors in various centres including Hamilton, Whangarei, Palmerston North, Nelson and Invercargill, criticising us for bypassing them. We recognise the importance of meeting as many investors as possible in our roadshows and this year we plan to extend the roadshow schedule to include Hamilton, Tauranga, Palmerston North and Whangarei. I hope that we will get an opportunity to meet you. If you are unable to attend, you may be interested in receiving a DVD of the roadshow presentation, and we are also considering presenting webinars for those investors who can't make it. A webinar allows participants to watch a presentation online, hear the speaker, and submit questions (by phone or online) to be answered during the webinar. One way or another, we hope to get in front of as many investors as possible at our roadshows!

A bird's eye view

Frank talks about our currency strategy and how we aim to smooth out the volatility associated with investing offshore…

Although our primary focus is on making you money, sometimes it is just as important to avoid losses as it is to make gains. Managing your currency exposure when we invest overseas on your behalf is one those areas that smart decision making can you save you a lot of money.

A recent example of this is the move in the value of the New Zealand dollar against the Australian dollar. On the 6th of April the Kiwi bottomed against the Aussie at 0.7573. Since then it has been one way traffic, with the Kiwi recently peaking at over 82 cents to the Australian dollar. For investors owning Australian shares a rising Kiwi is bad news, reducing the value of your investment back here in New Zealand.

This is where we have been able to add value. We monitor the level of the currency on a regular basis and form a view on whether we think it is over or undervalued. As the Kiwi fell towards 0.76 we felt it was becoming increasingly undervalued and hence it posed a risk to our investors.

To manage this risk we hedge your currency exposure. Without getting into the mechanics of how we do this we can essentially lock in the current exchange rate meaning that currency fluctuations from that point do not affect the New Zealand dollar value of your investment.

Typically we do this on a progressive basis. As the New Zealand dollar falls and becomes undervalued we begin to hedge. The more it falls the more we hedge. We tend to look at the currency a little like a rubber band. The more stretched it becomes away from fair value the more hedged we will be.

By the 6th of April the rubber band was pretty taut and we were more than 60% hedged. This meant that your portfolio was significantly less exposed to currency movements than usual.

As it turns out, this was the right move and it helped protect the Australian Growth Fund from a sharp rise in the New Zealand dollar. To put some numbers on this, having 60% of the portfolio hedged from currency movements saved the Fund from falling an extra 5% from the currency trough in April up to the 82 cent level it hit in May. In total, currency hedging saved millions of dollars over the past few months for clients of Fisher Funds.

Sometimes a dollar saved is just as valuable as a dollar earned and these risk management approaches are an important tool we use to help protect and ultimately grow your wealth.

Q: I missed your radio interview when you gave your opinion on a possible sale of KiwiBank. Would you mind sharing your view?

A: Sorry you missed the radio interview – for future reference, all our radio interviews and newspaper columns are posted on our website within a few days. With regards to the privatisation of KiwiBank, it has certainly sparked a lot of debate, and I think that this debate is a good thing for the country to ascertain just how we feel about the privatisation of state owned assets. New Zealand is something of an exception in developed countries as so few of our state owned businesses have been privatised.

The benefits of privatisation have been well established in history – overwhelmingly, research shows that state assets that are sold almost always become more efficient, more profitable, financially healthier and increase their capital investment spending. The biggest fear that people seem to have with privatisation (and particularly for KiwiBank) is around the level of foreign control of New Zealand. But the government can control this – for example, it can retain majority ownership, it can insist on a spread of ownership, it can retain a Kiwi share, it can limit voting rights and it can ultimately refuse takeover offers from foreigners (as it did with Auckland Airport, though I am not a fan of this approach). Introducing foreign ownership is not always a bad thing. In a small, remote country like New Zealand, it can be good for us to tap into best practice technologies and know-how from overseas, without necessarily giving up control. Overall, I welcome the debate, and would love the opportunity to consider becoming a shareholder in KiwiBank if it became a listed entity.

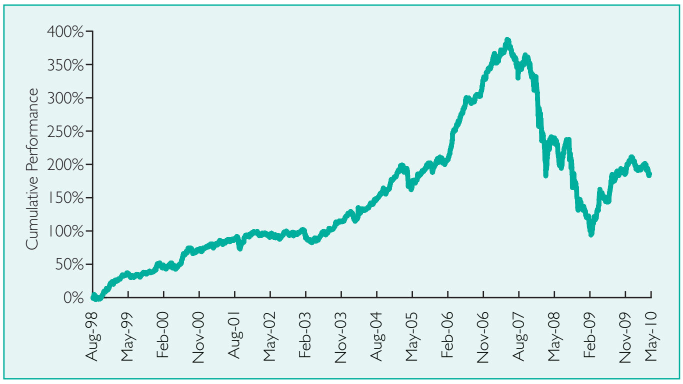
Fund facts

Fund Performance

Fund Net Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	12.3%	-7.8%	-16.1%	0.7%	9.3%
Australian Growth Fund	34.3%	3.1%	-7.1%	na	6.5%
International Growth Fund	18.5%	7.6%	na	na	7.2%
Infrastructure Fund	17.8%	na	na	na	17.9%
KiwiSaver Growth Fund	22.3%	6.3%	na	na	1.9%
NB… annualised returns, after tax and fees.					
Fund Pre-tax Returns					
NZ Growth Fund	13.5%	-6.8%	-15.9%	3.6%	12.0%
Australian Growth Fund	34.5%	3.4%	-7.1%	na	7.5%
International Growth Fund	18.5%	7.6%	na	na	7.2%
Infrastructure Fund	17.8%	na	na	na	17.9%
KiwiSaver Growth Fund	22.3%	6.3%	na	na	1.9%
NB… annualised returns before tax and after fees. They differ from actual returns experienced during these periods.					
Market Indices					
NZ50G	10.7%	-8.1%	-10.7%	0.2%	
90day bank bill	2.8%	4.7%	6.1%	6.7%	
S&P/ASX300 (Calculated in $NZ)	19.8%	-6.7%	-4.1%	9.2%	
MSCI Global Small Cap Index (in $NZ)	20.7%	-0.9%	-7.4%	2.6%	

May Biggest Movers	
New Zealand	
Delegats	-7%
Fisher & Paykel Healthcare	-8%
Pumpkin Patch	-8%
NZX	-8%
Australia	
McMillan Shakespeare	26%
DWS Solutions	-16%
Oakton	-23%
Vision Group	-35%
International	
Home Inns	17%
Hyflux Limited	-14%
Telvent	-14%
China Automation	-15%

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.

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, China Zaino, City Telecom, Conceptus, Equinix, F5 Networks, Gameloft, Hanger Orthopedic, Hansens Natural, Home Inns, Hsu Fu Chi International, Hyflux Limited, Icon PLC, Interactive Intelligence, Jumbo, Midas, Nokian Renkaat, O2 Micro, Okano Valve Manufacturing, Ports Design, Qiagen, Raffles Education, Sarin Technologies, Shinko Plantech, Stratec Biomed, Telvent, Wasion Holdings, Wellstream, Wirecard, Zhuzhou CSR Times Electric.

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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