fisher funds

FROM THE
undergrowth

MARCH2011

How quickly our lives can be turned upside down, and our perspective changed. Mother Nature made her presence felt again last month, this time tragically for the people of Christchurch and for the wider New Zealand community. The earthquake has been a jolt for New Zealand, physically and emotionally. Investment markets have been sidelined and while some investors have tried to quantify the impact of the earthquake on companies and on the country overall, it is far too early to think about such things. Our hearts go out to all those who have suffered loss in this tragedy.

At a glance

As at 28 February 2011

Unit Prices ($)

NZ Growth Fund	3.1232
Australian Growth Fund	2.5438
International Growth Fund	1.2690
Fledgling Fund	1.1244
KiwiSaver Growth	1.1782
KiwiSaver Conservative	1.0545
Infrastructure Fund	1.3017
Trans Tasman Fund	1.4806

Performance (February 2011)

NZ Growth Fund	-0.9%
Australian Growth Fund	3.5%
International Growth Fund	3.1%
Fledgling Fund	-0.9%
KiwiSaver Growth	1.9%
KiwiSaver Conservative	1.6%
Infrastructure Fund	2.1%
NZ50 Gross index	1.0%
S&P/ASX 300 ($NZ)	7.3%
MSCI Global Small Cap Index	6.8%

Our Portfolios

What has been going on since we last spoke?

In last month's newsletter we said that one of the keys to successful investing is having the wisdom of knowing what we don't know. We suggested that investors should prepare for whatever 2011 might deliver, not thinking for a moment that the year would start with a devastating earthquake, an uprising in Egypt and Libya, and soaring oil and food prices. Some of these events will be more short-lived than others but each of them will impact economies and companies in some way, and therefore need to be factored into investment decisions.

News is so instant and widespread these days that markets respond immediately to any new development. While price action in February is usually influenced by profit reporting season more than anything else, this year share prices have reflected a diverse range of influences. Those businesses with offshore earnings or expenses saw their share prices whipsawed as the New Zealand dollar fluctuated after the earthquake. Retailers were sold down as investors contemplated reduced sales resulting from damaged stores and the likely reluctance of consumers to spend for a while. Building and construction businesses saw their share prices perform strongly on expectations of significant rebuilding work in the months and years ahead. Insurance companies also performed poorly on expectations of significant upcoming insurance claims, and the entire New Zealand share market lagged international markets for the month as investor confidence waned at the prospect of slower economic growth as reserves earmarked for growth projects instead being used to repair and rebuild the city of Christchurch. Similar influences were seen in Australia as Australian investors contemplated the long term effect of their own natural disasters.

Putting these external influences to one side (if only that was easy to do in practice) the February reporting season was as good as had been expected, with few major blow-ups in either New Zealand or Australia. A relatively small proportion of companies exceeded profit expectations, but a similarly small proportion released negative surprises. Disappointingly, few company profit results were accompanied by positive commentaries. Clearly the economic outlook remains uncertain, albeit more positive than at this time last year.

> "One touch of Nature makes the whole world kin."
>
> William Shakespeare

As investors we can react to natural disasters (and man-made ones too for that matter) in one of two ways. We can be angry and fearful as to what they mean for the future. Or we can look to the future, offering compassion and putting our energies into

Your Portfolios (cont.)

making things better. It is this latter approach that has defined the last month for both New Zealand and Australia. In both instances, assistance has come from all around the world, and there is a genuine will to sort things out. In a way, the repair and rebuild efforts that are underway in Queensland and Christchurch are akin to the support offered by European nations last year to their troubled kinsmen in Greece and Ireland. And they are not too different from the stimulus policies implemented in the US and Australia – all designed to keep countries, businesses and individuals afloat through the bad times, in the hope that future growth and profitability will more than compensate for the current cost.

The glass half-full view of these repair and rebuild programmes is that share markets should perform well in the future and share market investments should significantly outperform fixed interest investments given that a low interest rate environment looks likely to prevail for some time.

New Zealand

The gross portfolio return of -0.8% for February was well behind the NZ50G Index (+1.0%) return but slightly better than the NZSE Mid Cap Gross (-1.2%) return. Fletcher Building (14% weighting in NZ50G, but not owned in our Growth Fund) was up 13% in February, accounting for most of the difference between the NZ Growth Fund return and the market. All stocks with an exposure to the construction sector (Methven, Fletcher Building, Opus, Steel & Tube) outperformed, while the retail sector underperformed. Our view is that some of the price reactions (both negative and positive) to the second Christchurch earthquake are overdone and will "normalise" in the future. Highlights from the reporting season include strong results from **Mainfreight** and **Opus Consulting**, and better than expected results from **Delegat's**, **Freightways** and **Michael Hill**. **Pumpkin Patch** was the biggest disappointment, however its result was well flagged to the market, and as we have reduced our holding over the past twelve months, its impact on the portfolio return was not significant.

Australia

The Australian Growth Fund portfolio lifted 3.5% during February which was a positive performance but below benchmark performance largely due to our currency hedging.

As well as the bi-annual reporting season, February was highlighted by a generally healthy market performance aided by, as a consequence of the disastrous Canterbury Earthquake, a weakening New Zealand dollar that boosts returns in NZ terms. The reporting season as always was a time for us to gauge the operating performance of the portfolio companies. Generally speaking we were satisfied with the results presented. Overall the portfolio companies averaged around 11% earnings growth although this headline figure hides a lot of divergence at the individual company level with the stars being **McMillan Shakespeare** (earnings up 75% over last year) and the resurgent **Credit Corp** (earnings up 50%). The main drag to profit growth for the half was **Centrebet** whose short term earnings have been impacted by a major marketing spend looking to grow market share; a strategy with long term benefits that we are totally comfortable with.

International

The International Growth Fund continued its strong start to the year with a +3.2% gain for the month. The portfolio continues to be in a transitional phase. Over the last 3–6 months we have been selling winners that have rallied into the upper end of our valuation range. This also enables us to deploy cash into undiscovered and undervalued high quality growth companies. We are in the final stages of completing due diligence on a handful of companies so watch this space.

In portfolio news, **Hyflux** announced it won three water projects in Chongqing, China. Ken visited Chongqing last year and was amazed at how quickly the biggest city in western China (population of approximately 33 million people) has been urbanising.

We recently hired a new analyst in San Francisco (Scott Huan, who will work with Scott Brown) and Ken now has an analyst working with him full time in Takapuna. The International team has busy travel schedules – Ken was in the US for a week during February, will travel to Europe in March, China in April and a pan-Asia conference in Singapore in May. As a reminder we meet with our chief executives at least once a year (in addition to quarterly conference calls) and meet with more than 500 different companies every year. We find more great opportunities than we have time to research so a bigger analytical team will add even more depth to our process.

Infrastructure

The Fisher Morrison Infrastructure Fund returned +2.1% during February. The weakness in global markets reduced the security returns of the portfolio late in the month but this was partially offset by currency gains on our foreign equity holdings. **Asciano** rose 9.0% during the month on the back of senior management changes and we reduced our exposure ahead of what proved to be an operationally weak set of results. We also topped up a position in **Fedex** on weakness late in the month but were generally happy to hold excess cash while the market retreated. **Norfolk & Southern** was another strong performer +7.9% during the month as it caught up from an oversold level post results in January. **Zurich Airport** was weaker falling 4.7% during the period.

A bird's eye view

This month we share some excerpts from Warren Buffett's Berkshire Hathaway 2011 shareholder letter. Note the italicised words are ours.

"Money will always flow toward opportunity, and there is an abundance of that in America. Now, as in 1776, 1861, 1932 and 1941, America's best days lie ahead."

"Commentators today often talk of 'great uncertainty'. Think back to December 6, 1941, October 18, 1987 and September 10, 2001. No matter how serene today may be, tomorrow is always uncertain. Don't let that reality spook you. The prophets of doom have overlooked the all-important factor that is certain – human potential is far from exhausted and the American system (*and the New Zealand system too*) for unleashing that potential remains alive and effective."

"Home ownership makes sense for most Americans, particularly at today's lower prices and bargain interest rates. All things considered, the third best investment I ever made was the purchase of my home, though I would have made far more money had I instead rented and used the purchase money to buy stocks. (The two best investments were wedding rings.) For the $31,500 I paid for our house, my family and I gained 52 years of terrific memories with more to come."

"Our final advantage is the hard-to-duplicate culture that permeates Berkshire. And in businesses, culture counts (*we firmly share this view at Fisher Funds*). To start with, the directors who represent you think and act like owners (*your Fisher Funds investment team are owners*). If they mess up with your money, they will lose their money as well. Our directors monitor Berkshire's actions and results with keen interest and an owner's eye. You and I are lucky to have them as stewards.

This same owner-orientation prevails among our managers. In many cases, these are people who have sought out Berkshire as an acquirer for a business that they and their families have long owned. They came to us with an owner's mind-set, and we provide an environment that encourages them to retain it. At Berkshire, managers can focus on running their businesses: They are not subjected to meetings at headquarters nor financing worries nor Wall Street harassment. They simply get a letter from me every two years and call me when they wish (*we talk to our managers a little more frequently, but we don't bug them or distract them from managing their businesses*). Our trust is in people rather than process. A "hire well, manage little" code suits both them and me.

Berkshire's CEOs come in many forms. Some have MBAs; others never finished college. Some use budgets and are by-the-book types; others operate by the seat of their pants. Our team resembles a baseball squad composed of all-stars having vastly different batting styles. Changes in our line-up are seldom required."

Your questions

We share our response to one of the questions asked by investors during the month:

Q: I understand that Fisher Funds needs to offer quite diversified funds to investors, but what sort of stocks do your individual portfolio managers own in their own names?

A: Our portfolio managers actually own the same stocks as you do. We have a Securities Trading Policy that is part of our employment agreements for all team members, not just the investment team. This policy begins with the statement that all team members must place the interests of clients first and before their personal or corporate interests. If there is any concern that a transaction might create a conflict with client interests, no trading may be undertaken. For our team to purchase shares in any security they must first obtain clearance to trade from the General Manager or Managing Director of Fisher Funds prior to trading. Fisher Funds maintains a Restricted List of stocks that include all the securities that we are actively trading or are considering for investment. Nobody can trade in securities that are included in this restricted list.

The rules are slightly easier when it comes to Fisher Funds' own funds. Team members are encouraged to invest in any Fisher Funds unit trust or KiwiSaver, and authorisation is not required for this investment. It should be comforting for investors to know that each of the investment team has an investment in Fisher Funds' own funds – we eat our own cooking – and all Fisher Funds team members belong to the Fisher Funds KiwiSaver scheme, and are happy to do so!

No personal or principal trading may be undertaken in a security where an Employee or Non-executive person is aware of likely portfolio trading, respectively, in that security Non-compliance with this policy is considered serious misconduct and will be immediately reported to the Managing Director.

Fund facts Fund Performance

Fund Net Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	7.1%	24.1%	-2.4%	0.0%	9.5%
Australian Growth Fund	27.2%	47.4%	9.8%	6.8%	9.7%
International Growth Fund	7.7%	21.2%	9.2%	na	7.5%
Infrastructure Fund	13.7%	18.5%	na	na	16.2%
KiwiSaver Growth Fund	13.3%	28.8%	9.9%	na	4.9%
KiwiSaver Conservative Fund	5.0%	na	na	na	3.1%
Trans Tasman Fund	13.3%	27.5%	8.2%	7.1%	7.2%

NB… annualised returns, after tax and fees.

Fund Pre-tax Returns					
NZ Growth Fund	8.2%	25.5%	-1.2%	0.3%	12.1%
Australian Growth Fund	27.3%	47.8%	10.0%	6.8%	11.4%
International Growth Fund	7.7%	21.2%	9.2%	na	7.5%
Infrastructure Fund	13.7%	18.5%	na	na	16.2%
KiwiSaver Growth Fund	13.3%	28.8%	9.9%	na	4.9%
KiwiSaver Conservative Fund	5.0%	na	na	na	3.1%
Trans Tasman Fund	13.3%	27.5%	8.2%	7.1%	7.2%

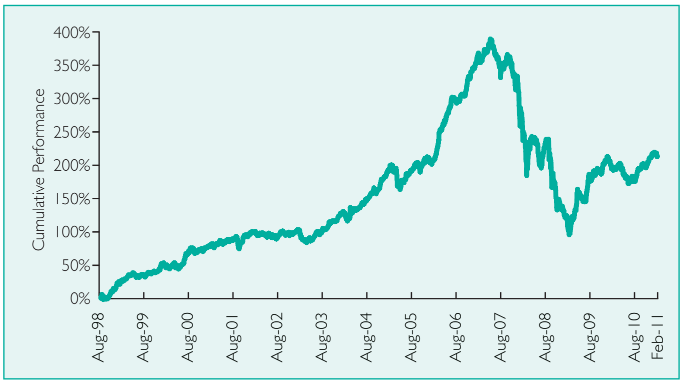
NB… annualised returns before tax and after fees. They differ from actual returns experienced during these periods.

Market Indices				
NZ50G	6.8%	15.6%	-2.0%	-0.2%
90day bank bill	3.1%	3.0%	4.7%	6.1%
S&P/ASX300 (Calculated in $NZ)	15.0%	29.5%	4.8%	8.0%
MSCI Global Small Cap Index (in $NZ)	23.2%	23.9%	8.3%	0.3%

February's Biggest Movers

New Zealand	
Delegats	-8%
Opus International	7%
Abano Healthcare	-6%
Fisher & Paykel Healthcare	-5%
Australia	
Nanosonics	21%
Credit Corp	21%
Vision Group	-20%
Austbrokers	13%
International	
Hanger Orthopedic	35%
O2 Micro	27%
Okano Valve	20%
Hsu Fu Chi	16%

New Zealand Growth Fund



Fund Inception August 1998

Portfolio Holdings – Abano Healthcare, Delegats, 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, RP Data, Toxfree, Treasury Group, Universal Biosensors, Vision Group, WHK Group.

International Growth Fund

Fund Inception October 2007

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

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, Fedex.

FISHER FUNDS MANAGEMENT LIMITED | PO Box 33 549 | Takapuna | Auckland | Telephone 09 445 3377
Freephone 0508 FISHER (347 437) | Fax 09 489 7139 | Email enquiries@fisherfunds.co.nz | www.fisherfunds.co.nz