fisher funds

FROM THE
undergrowth

MAY 10

On the basis of media headlines during April, you could be forgiven for thinking that we had a really bad month. We didn't, and we're pleased to have come through what was an action-packed month, in pretty good shape. In April, we watched European tempers flare as Greece held out its hand for help. We heard about criminals at Goldman Sachs, and watched the horrific BP oil spill. We watched Gordon Brown lose his seat and we had to feel sorry for Aussie miners. A big month indeed.

At a glance
As at 30 April 2010

Unit Prices ($)	
NZ Growth Fund	2.9971
Australian Growth Fund	2.1401
International Growth Fund	1.1888
Fledgling Fund	1.0849
KiwiSaver Growth	1.0765
Infrastructure Fund	1.2695

Performance (April 2010)	
NZ Growth Fund	1.1%
Australian Growth Fund	0.2%
International Growth Fund	-1.3%
Fledgling Fund	1.1%
KiwiSaver Growth	0.1%
Infrastructure Fund	1.2%
NZ50 Gross index	0.6%
S&P/ASX 300 ($NZ)	-2.8%
MSCI Global Small Cap Index	1.5%

Our Portfolios

What has been going on since we last spoke?

Volatility was back last month, though in spite of big daily movements, and some significant intra-day movements, overall, markets finished April reasonably close to where they started the month. In a welcome change, the focus wasn't on economic statistics (which incidentally were very encouraging), but rather, on much bigger macro issues. The Greek tragedy was certainly the biggest story of the month, and while it will have wider ramifications, we do not buy into the doomsday predictions that the Greek Debt Crisis will be even bigger than the Global Financial Crisis.

There are some similarities between Greece and the subprime mortgages that started the GFC. Greece has borrowed more money than it can ever afford to repay; it has lied about its true state of affairs; there is no evidence that lessons have been learned; and if Greece was allowed to fail, it would take others with it in a domino effect.

But, the main factor that separates the Greek Debt Crisis from the US subprime crisis is that the danger of a "contagion" spreading if Greece goes bankrupt is a lot smaller. The other countries that have been tarred with the Greek brush in recent weeks – Spain, Portugal, Ireland and Italy – are not in as bad a shape as Greece, and are not in desperate need of a bailout.

"Let's respect the panic for the harm it can do, but not grace it with a substance that it lacks."

The Huffington Post

The reason that world markets have been so het up about Greece, is that in this interconnected world in which we now live, everyone is affected. Greece has lived beyond its means and needs a bailout. They are not unique – the US and the UK have at times needed bailing out. But their bailout came from their own government's resources. The Greece bailout is going to cost not only their European partners, but also the UK and the US, because the money is coming from the International Monetary Fund. As if these other countries didn't have enough to worry about on their own account. The Greek problem also becomes China's problem because Europe is the largest single destination for China's exports.

Despite the headlines, the economic condition of Europe has not deteriorated markedly during the last month. There has been a lot of posturing, rhetoric and rumour and that, combined with the extreme passion of the Europeans, has been enough to send investors to the sidelines. Investors are hyper-sensitive to anything that might go wrong.

Have you joined KiwiSaver yet?*

Your Portfolios (cont.)

The other attention-grabbing stories were the unfolding political situation in Britain and the less-than-stimulating economic measures in Australia. The UK election results will be known by the time you receive this newsletter, but it has been fascinating to watch Gordon Brown lose his lead, resulting in the end of the two-party political regime in Britain. As for Australia, the Reserve Bank has lifted interest rates again noting that the risk of economic contraction has "passed some time ago" – what a nice situation to be in. Australia has moved on from the stimulus phase where they encouraged consumers to spend and the country as a whole to trade their way through the economic downturn. These measures were so successful that tax changes have been implemented that may dampen the growth in some sectors (notably miners) but are in the interests of maintaining a sustainable level of economic growth and encouraging people to save.

There was relatively less going on in New Zealand during April, though some of the moves in financial sector legislation were positive. The introduction of a 'super-regulator' and further progress on adviser legislation bode well for financial markets as they will assist in restoring investor confidence. We have spoken often and at length about the need for investor confidence to drive share markets higher.

New Zealand

Our New Zealand portfolio was relatively quiet during April, but it put in a solid performance nevertheless. The unit price finished 1.1% higher for the month, outperforming the broad share market, with **Mainfreight** and **Ryman Healthcare** being the main contributors. The most notable news from our portfolio companies was the announcement of a new brand concept for **Pumpkin Patch.** The company will shortly launch a new stand alone childrenswear brand aimed at the playwear end of the market. This part of the market accounts for over 70% of the $3 billion pa Australasian childrenswear industry.

Australia

The Australian share market slipped backwards in April falling 1.4% as measured by the S&P/ASX 300 Accumulation Index. The Aussie market is now marginally down for the year to date and is hovering around levels last seen in October 2009 – it has become the "lost six months". The portfolio was flat over the month which was a pleasing relative performance, particularly in light of the adverse impact of the strong NZ dollar. In terms of attribution, leading the portfolio was **Pharmaxis** (+8.5%) ahead of its release of pivotal Phase III US Cystic Fibrosis trial results. After a couple of tough months **Aevum** began to rebound as we suspected it would, advancing 8.0% for the month. Rounding out the top contributors was **Arrow Energy** (+2.8%) as the market became more comfortable with the valuation of offshoot Dart Energy. Negative contributors included **Toxfree Solutions** (-8.3%), probably reacting to rumours, subsequently confirmed after month end of a new tax on resources projects. **Bravura Solutions** (-17.2%) continues to be a thorn in our side slipping on no real news, although the stronger Aussie dollar is undoubtedly an issue for short term profitability.

International

Global equities were flat during April as gains from strong corporate earnings were overshadowed by numerous macro worries. Currency chipped away at returns for New Zealand investors as the RBNZ signaled an increase of interest rates is nearing. Ken and Scott spent most of April traveling and completed final due diligence on four new investments which have been introduced to the portfolio.

Okano Valve is the leading Japanese manufacturer of high pressure valves for nuclear power plants with over 70% market share in the Japanese market. **Interactive Intelligence** is a US based provider of software applications used primarily in contact centers. **Bawang** is the leading Chinese herbal shampoo brand. **Hsu Fu Chi** is a leading branded confectionary company in China with three key product lines; chocolate and candy, cakes and cookies, and Sachima (a sweet Chinese pastry reminiscent of rice bubble biscuits Mum used to make).

Infrastructure

What a star! The Infrastructure fund lifted 1.2% during April, once again outperforming its benchmark indices. This was in spite of a challenging month that featured the European volcanic ash eruption that brought airlines and airports to a standstill. The ash caused three days of closure for portfolio holding Zurich Airport and inconvenience for passengers. The positive aspect is that passengers spent more money in airports while waiting for flights to be reinstated, and the closure gave an opportunity for maintenance to be carried out! There was no long term share price impact.

Your questions

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

Q: Why is it that your listed companies have performed so badly compared to your managed funds? When you buy shares for the managed funds, do you give them the best deals rather than the listed companies?

A: The quick answer to your question regarding the difference in returns between our managed funds and our three listed companies is that the underlying investment performance has been broadly similar in both managed funds and listed companies, but the share prices of the listed companies have lagged the underlying performance. All our listed companies are invested in broadly the same stocks and proportions to our managed funds, though there are some differences at the margin (for example, Kingfish cannot buy stocks with a market cap of more than $450m so it doesn't own Infratil, whereas the NZ Growth Fund does). Other differences in the performance arise from the timing of cashflows in and out of our managed funds, which mean that we have to buy and sell securities in our fund portfolios more often and at different times than we do for our listed company portfolios.

A bird's eye view

Ken talks about **O2 Micro** and what is so good about the company to justify its position as our largest investment in the International fund.

02 Micro is a global leader in designing lighting and power management semiconductor solutions. Simply put, O2's semiconductors are used in products like LCD TV's and laptops, with a customer list that includes all the major consumer electronic companies such as Apple, Sony and HP.

These end markets have a tailwind behind them with growing Chinese demand for LCD TV's and a PC upgrade cycle buoyed by the Microsoft Windows 7 release. But this is not the reason we own the company. We like the business because it has created a technology platform where it designs and produces best in class semiconductors for use in a variety of different products. CEO Sterling Du confirmed that the company spends 90% of its research and development budget on future innovations that might represent a small proportion of sales today, but represent enormous opportunity in the future. There are two new major market opportunities that excite us:

1. LED – The company was early in developing an LED offering and during the last year has gained some important design wins. At the consumer electronics show in Las Vegas in January, LED was highlighted as a significant area of growth in 2010. As the leading supplier of LED backlighting solutions, O2 Micro is poised to post significant sales growth from this market in 2010. In addition, the size of the market is multiple times larger than its current business, which means strong profit growth for years to come.
2. Battery power – this has been an R&D project for O2 Micro for more than 5 years and is now paying off as they are generating sales from products such as power tools (for example Black and Decker drills) and electronic bikes (see photo below). The new big market opportunity comes from some recent contract wins with auto manufacturers. Continued contract announcements should lead to a re-rating of O2 shares higher.

The global financial crisis provided a unique opportunity to buy O2 Micro shares below the value of cash the company held in the bank. This is a great example of how irrational the environment was and why there is a clear difference between value and price. We had the discipline to buy shares at these absurdly low levels because we understand the business and have known the company for many years. While the stock has more than tripled from the lows, our fundamental and valuation work suggests a significantly higher share price ahead.

Your questions (cont.)

As an example, the Kingfish net asset value (adjusted for dividends paid) increased 26% from December 2008 to December 2009. The NZ Growth Fund unit price increased 32% over the same period. So both funds had broadly similar performance. However, the Kingfish share price lifted only 10% during the year, so the shares traded at a discount to net asset value and shareholders did not achieve the same performance as fund investors. We have limited control over the share prices of our listed companies, and while the boards of these companies have attempted to close the discount between the share prices and net asset values through share buybacks, distribution policies, investor relations programmes etc. the discounts have remained. This is the nature of listed investment companies, and the only positive thing about this is that sometimes it can work in investors' interests when shareprices trade at a premium to net asset value (though the current environment is not conducive to this!). Over time, if we continue to achieve good performance, the discounts should close and the share price should track the underlying performance, just as they do with our managed funds.

When making investment decisions, we treat all our investors equally and do not give preference to managed fund investors, listed company shareholders or KiwiSaver members. All portfolios represent our best investment ideas, and each portfolio has exposure to our favoured stocks in the same proportions. When we purchase or sell stocks, we allocate each parcel across all portfolios so that all clients have a similar entry cost and exit price.

Fund facts

Fund Performance

Fund Net Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	26.4%	-6.2%	-13.9%	2.3%	9.8%
Australian Growth Fund	47.7%	9.6%	-4.1%	na	7.6%
International Growth Fund	22.3%	8.3%	na	na	7.2%
Infrastructure Fund	26.5%	na	na	na	21.7%
KiwiSaver Growth Fund	31.2%	9.30%	na	na	2.9%

NB… annualised returns, after tax and fees.

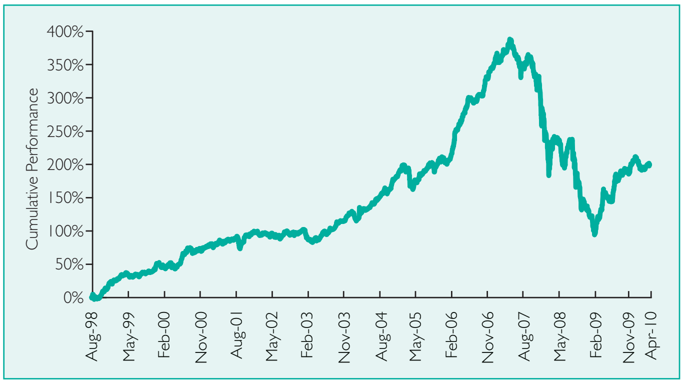
Fund Pre-tax Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	27.6%	-5.2%	-13.7%	5.5%	12.5%
Australian Growth Fund	48.3%	9.9%	-4.3%	na	8.6%
International Growth Fund	22.3%	8.3%	na	na	7.2%
Infrastructure Fund	26.5%	na	na	na	21.7%
KiwiSaver Growth Fund	31.2%	9.3%	na	na	2.9%

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	Since Fund Inception
NZ50G	19.9%	-4.8%	-7.8%	2.0%	
90day bank bill	2.8%	5.0%	6.3%	6.8%	
S&P/ASX300 (Calculated in $NZ)	31.1%	-0.5%	0.2%	12.2%	
MSCI Global Small Cap Index (in $NZ)	18.3%	0.9%	-5.5%	4.6%	

April Biggest Movers	
New Zealand	
Opus International	8%
Fisher & Paykel Healthcare	8%
Delegat's	-7%
Metlifecare	-6%
Australia	
Bravura	-14%
Pharmaxis	12%
Aevum	8%
Toxfree Solutions	-8%
International	
Jumbo	-30%
Autodesk	13%
China Zaino	12%
Biotest	-11%

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, Neptune Marine, Nick Scali, Oakton, Pharmaxis, Pipe Networks, Reckon, Toxfree, Treasury Group, Vision Group, WHK Group.

International Growth Fund

Fund Inception October 2007

Portfolio Holdings – 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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