

FROM THE
undergrowth

MAY 2011



I've been told that it is important to get out of New Zealand periodically (and not just to Australia or Fiji!) to get fresh perspectives and understand that a lot happens outside the small, comfortable confines of Aotearoa. Having spent a week in the US attending Warren Buffett's annual meeting, I have indeed returned with a fresh perspective. I am reminded that this is a great place to live and work, our people are wonderfully understated, and Fisher Funds can hold its own as an investor anywhere in the world.

Our Portfolios

What has been going on since we last spoke?

At a glance

As at 30 April 2011

Unit Prices (\$)

NZ Growth Fund	3.3374
Australian Growth Fund	2.5392
International Growth Fund	1.2476
Fledgling Fund	1.1991
KiwiSaver Growth	1.1870
KiwiSaver Conservative	1.0614
Infrastructure Fund	1.2992
Trans Tasman Fund	1.4915

Performance (April 2011)

NZ Growth Fund	3.1%
Australian Growth Fund	-0.6%
International Growth Fund	-1.0%
Fledgling Fund	2.9%
KiwiSaver Growth	0.1%
KiwiSaver Conservative	0.2%
Infrastructure Fund	0.6%
NZ50 Gross index	2.3%
S&P/ASX 300 (\$NZ)	-0.4%
MSCI Global Small Cap Index	-2.4%

April turned out to be quite a volatile month for New Zealand investors with currency fluctuations adding to the myriad of factors to be digested each day. The Royal Wedding was a pleasant distraction (didn't Kate and Pippa look stunning?), the Act leadership coup was an interesting diversion, but it was commodity prices and their relationship with the US dollar that have provided the most interesting spectator sport over the past six weeks or so. In these past few years we have experienced what some describe as the greatest commodities boom of all time. Traditionally, commodity prices have been driven by demand and supply. In the years prior to the global financial crisis, commodity prices rose because of very strong global growth (demand) and limited supplies. However, since the credit crisis, commodity prices have continued unabated, even though global growth prospects are clearly nothing like what they were before 2008.

Commodity prices are now being driven by a combination of macroeconomic factors which make for far more volatility than we've seen in the past. On one day last week, the oil price plunged 8% on weak economic data out of the US and Europe, and other commodities followed suit. If commodity prices were based on demand and supply, there is no way the copper price could be up 400% over the past two years, as there no shortage of the stuff. The same applies to zinc, nickel, wheat and aluminium. As for silver, its share price has doubled in the past

six months as speculators have chased the cheaper metal as an alternative to gold. However, silver is far more abundant than gold, and its share price rally has reflected far more of the demand side of the equation than any limit of supply. Consequently when the New York Mercantile Exchange (which is where silver futures contracts are traded) lifted the minimum deposit required by speculators to trade, the silver price immediately tumbled 12%.

"Money is the worst currency that ever grew among mankind."

Sophocles

Another driver of commodity prices has been their appeal as an alternative to fiat currencies, or paper money. The US dollar especially has diminished in value and is no longer seen as the world's reserve currency because, again coming back to demand and supply, the Federal Reserve can't keep printing billions of dollars and expect it to hold its value. QE2 is coming to an end next month so the printing presses may be switched off, though a QE3 package could be launched if needed.

Ordinarily, swings in commodity prices would be of passing interest, however the increasing correlation between commodity prices, currency and equity

Have you joined KiwiSaver yet?*

Your Portfolios (cont.)

markets means that they can no longer be ignored. The Australians are especially concerned because their economic welfare is closely linked to commodity prices. As we know, Australia largely sailed through the global financial crisis because they are such a big producer of commodities and it benefited as commodity prices went from strength to strength. However, rising commodity prices lead to rising inflation and it will be interesting to see how the Australian government uses its Budget to manage inflation without significantly hiking interest rates and potentially choking growth in the non-commodity-related parts of their economy. Because of our sibling relationship with Australia, their concerns become ours too.

As you will read below, currency swings (influenced by commodity prices) had a negative impact on our performance in the past month, particularly in our International and Infrastructure funds. As the world has become more interconnected, macroeconomic factors now play a much larger role in our investment management. Goodness knows what next month's markets will throw at us, but whatever the influence, we'll manage through it.

New Zealand

Global equity markets were generally strong in April as was the NZ equity market. The NZ50G Index was up 2.3% for the month, with the year-to-date return of +6.4% being slightly ahead of the MSCI World Index.

The gross portfolio return of 3.2% for April was ahead of the market for a second month. Although the Telecom NZ was up 8.2%, the share prices of most other market leaders were subdued in what was a relatively quiet month. **Ryman**, **NZX** and **Mainfreight** were again the mainstays of our NZ portfolio performance. **F&P Healthcare** continued to be impacted by the NZ\$/US\$ headwind, whilst **Pumpkin Patch** remains 'friendless'. A highlight of the month was an update provided by **Kathmandu** where it suggested that Australia is a major opportunity if it can optimize its store format, product range, brand etc in that marketplace. We have been pleasantly surprised by Kathmandu's trading performance in a tough Australasian retail environment since its listing in late 2009. Its aspiration is clearly to do better in Australia, notwithstanding that it has achieved robust sales and profit growth in that marketplace to date – an attitude we like!

Australia

It was a challenging month for our Australian Fund with stock prices and currency being very volatile. When the dust settled we limped to a 0.6% loss for the month, beating the S&P/ASX Small Industrials index by 0.5%. Although we think of Australia being the lucky country, it is almost guilty of being too lucky, feeling the effect of a strong currency and higher than expected inflation data during the month.

In terms of specific attribution it was the biggest portfolio position in **Pharmaxis** (+12.0%) that made the largest positive impact on performance. There was no major news flow driving this although the market is positioning for an announcement expected in May on European approval for Bronchitol. **Universal Biosensors** (+12.0%) lifted a similar amount as Lifescan continued the European roll out of OneTouch Verio® for which UBI provides the strip technology.

Our two IT companies made the biggest negative impact on our portfolio with **CSG** falling 21.7% as the company raised money to bolster its balance sheet, and **Bravura Solutions** continued last month's negative performance falling 10.8% on news that the expected takeover of the

company will not proceed. Interestingly significant shareholder Ironbridge has used its creep provisions to bolster its stake in the firm.

International

A relatively robust month for equity markets was more than offset by currency as the NZ Dollar rallied 6% and closed just shy of 0.81, close to all time highs. We are un-hedged as the probabilities suggest the New Zealand, versus the US Dollar, is likely to be lower in a year's time. The NZ dollar is 35% above its long term average of 0.60 and since floating in the mid 1980's has spent more than 85% of the time below 0.70. This has historically been a good time to move money offshore, and a lower NZ dollar will be positive for returns.

We sold our remaining shares in **Interactive Intelligence**. The stock has more than doubled in the last 6 months and is trading above our long term fair value. We bought shares in **UFP Technologies**, a U.S. based custom converter of foams and plastics. They design and manufacture engineered packaging utilizing molded and fabricated foam plastic products and vacuum formed plastics serving end markets such as medical, electronics and consumer. This is a classic example of an industry leading business that is undiscovered by most investors. We have identified numerous catalysts that could lead to discovery and a re-rating of shares higher.

Infrastructure

The Fisher Morrison Infrastructure Fund returned +0.56% during April. Our railroad positions performed strongly during the month, particularly **Norfolk & Southern** after reporting first quarter earnings 10% ahead of consensus expectations. **Zurich Airport** reported Q1 passengers were up +4.5% year on year. The S&P raised its rating on Zurich Airport to A- from BBB+, with a stable outlook. Underperformers in our portfolio were **Vienna Airport** and **Asciano**. Currency also had an adverse impact on the Fund during April however the portfolio maintained its currency hedge at 66%.



A bird's eye view

This month Carmel shares some insights from Warren Buffett's Berkshire Hathaway AGM in Omaha, Nebraska.

The Berkshire Hathaway AGM has been referred to as a pilgrimage and a Woodstock for Capitalists. Thousands of shareholders (40,000 this year) flock to Nebraska to hear Warren Buffett and his offsider, Charlie Munger, answer questions on a variety of topics for six or seven hours. The anticipation ahead of the meeting was even greater this year following revelations that a top lieutenant, David Sokol, bought \$10 million of Lubrizol shares personally while orchestrating an acquisition of the company by Berkshire Hathaway. Sokol is now being investigated for 'front-running'. Buffett was criticized for issuing a press release, after learning of Sokol's trading, essentially saying that Sokol had done nothing wrong. From a man whose mantra has been "Lose money for the firm and I will be understanding; lose a shred of reputation for the firm, and I will be ruthless", Buffett's willingness to overlook Sokol's breach of policy was perplexing. There was also much media comment ahead of the meeting as to who would be Buffett's successor – not least because Sokol was now out of the picture, but also because Buffett and Munger are not getting any younger – Buffett is 80 and Munger is 87, and according to Buffett's introduction, "I can see and Charlie can hear, so we're a great team!" (Charlie wears milk-bottle glasses and resembles comedian George Burns. Having watched Munger munch his way through a 15-pound box of peanut brittle and sip Cherry Cola through the meeting, I had to wonder about his longevity!).

As it happened, the meeting was a very relaxed, good-natured affair with Buffett and Munger quickly batting away any concerns about succession (the Berkshire board knows who the anointed ones are, and anyway, Buffett and Munger will be around for a while yet) and the Sokol affair ("his actions were inexplicable and inexcusable and with hindsight, the press release was not the cleverest in the history of the world"). Buffett put the incident in perspective by citing his 40-year track record (of achieving annual returns of 24%) as the ultimate benchmark against which he will be judged. Munger said that although some shareholders might have been looking for some sort of outrage or act of ruthlessness from Buffett towards Sokol it was not clever or warranted because "you don't want to make decisions in anger ... you can always tell a man to go to hell tomorrow".

Other topics covered in the discussion included the dollar, commodities and nuclear power. Among Buffett's and Munger's insights were the following:

- "There is always something negative going on. There have been fifteen recessions since this country started. But the power of capitalism is incredible."
- "In the next 100 years, you'll have 15-20 bad ones, but you'll be so far ahead it will be unrecognizable."
- "How to invest for inflation? Any business that commands more in dollar terms as prices go up, that does not need additional capital to finance growth, is a great business."
- "There are three major categories of investments and you should think hard about which category you want. 1. Anything denominated in currency is a bet on how government will behave. Almost all currencies have declined over time. As a class, unless we're paid extremely well while holding, these investments do not make sense. 2. Items that do not produce anything, but you hope someone will pay you more for in the future. Gold is in this category. With gold, you are betting that people will be scared of paper money in the years ahead and you'll be able to sell to them at a higher price. That's a big bet. There is something irrational about buying an asset that will only do well if the world goes to hell. 3. Something you can value based on what it will produce, like a farm or a business. That's what appeals to us. If you can reasonably predict what an investment will produce, you can value it, and it shouldn't matter if you get a quote for it tomorrow or the next day, you can just wait and enjoy what it produces off its productive assets."
- "We have never prepared a growth projection. Projections lead to false precision and do more harm than good. I have never seen a projection that doesn't just go up. You never ask a barber if you need a haircut. We do projections in our head by asking what it might look like over a period of years, and how far off can we be for it still to be a good investment."
- And for the students ... "Don't be in a hurry to study economics – even the experts can't agree. Find a passion, and while you're waiting, add value to yourself by reading and becoming a good communicator. The only diploma on my wall is from Dale Carnegie for communications, and it is more useful to me than my economics degree from Wharton."

Fund facts Fund Performance

Fund Net Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	11.4%	18.6%	-0.7%	-1.5%	9.9%
Australian Growth Fund	18.6%	32.4%	12.6%	4.6%	9.4%
International Growth Fund	4.9%	13.3%	7.2%	na	6.6%
Infrastructure Fund	7.5%	16.6%	na	na	15.6%
KiwiSaver Growth Fund	10.3%	20.3%	9.6%	na	4.9%
KiwiSaver Conservative Fund	5.2%	na	na	na	3.2%
Trans Tasman Fund	9.6%	21.6%	5.1%	5.6%	7.1%

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

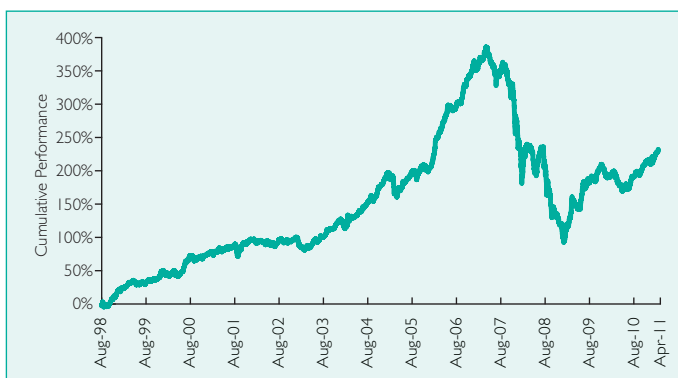
Fund Pre-tax Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	12.5%	19.8%	0.4%	-1.6%	12.5%
Australian Growth Fund	18.7%	32.7%	12.8%	4.6%	11.0%
International Growth Fund	4.9%	13.3%	7.2%	na	6.6%
Infrastructure Fund	7.5%	16.6%	na	na	15.6%
KiwiSaver Growth Fund	10.3%	20.3%	9.6%	na	4.9%
KiwiSaver Conservative Fund	5.2%	na	na	na	3.2%
Trans Tasman Fund	9.6%	21.6%	5.1%	5.6%	7.1%

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	7.1%	13.3%	-1.0%	-1.5%
90day bank bill	3.1%	3.0%	4.4%	5.9%
S&P/ASX300 (Calculated in \$NZ)	11.7%	21.0%	3.4%	5.3%
MSCI Global Small Cap Index (in \$NZ)	11.7%	15.8%	5.6%	-2.2%

April's Biggest Movers	
New Zealand	
NZX	11%
Kathmandu	10%
Ryman	7%
Freightways	6%
Australia	
CSG	-22%
Bravura	-20%
Universal Biosensors	12%
Pharmaxis	12%
International	
Nokian Renkaat	18%
Sarin Technologies	18%
Raffles Education	-17%
Okano Valve	-17%

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.

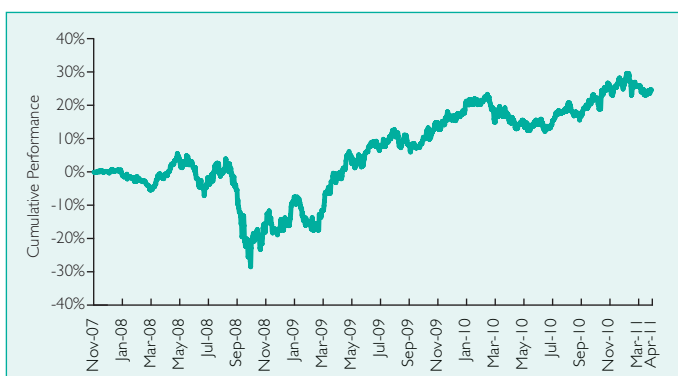
Australian Growth Fund



Fund Inception June 2005

Portfolio Holdings – Austbrokers, Bravura, Centrebet, Credit Corp, CSG, Dart Energy, DWVS 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, 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, UFP Technologies, Wasion Holdings, 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.

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