

FROM THE undergrowth

NOVEMBER 10



You have to wonder about the US. It is amazing that three years after the recession hit, almost a year and a half after it supposedly ended, after printing more than \$1.5 trillion last year and cutting interest rates to zero, and after everything else the Fed did to keep the economy together, they still felt compelled to plow another \$600 billion in to support the economy. Just shows how big the problem was to start with.

Our Portfolios

What has been going on since we last spoke?

At a glance

As at 31 October 2010

Unit Prices (\$)

NZ Growth Fund	3.0043
Australian Growth Fund	2.3918
International Growth Fund	1.1838
Fledgling Fund	1.0818
KiwiSaver Growth	1.1088
KiwiSaver Conservative	1.0263
Infrastructure Fund	1.2609

Performance (October 2010)

NZ Growth Fund	3.2%
Australian Growth Fund	2.2%
International Growth Fund	-0.2%
Fledgling Fund	3.1%
KiwiSaver Growth	1.4%
KiwiSaver Conservative	0.0%
Infrastructure Fund	0.5%
NZ50 Gross index	4.0%
S&P/ASX 300 (\$NZ)	-0.7%
MSCI Global Small Cap Index	-0.4%

Sometimes it feels like all the action happens outside New Zealand and that we're a bit like the kid staring in the window at a great party that everyone else has been invited to. But being a bit different and non-mainstream is not always a bad thing. New Zealand escaped the worst of the global financial crisis because we never participated in the worst excesses. We may not have enjoyed the resilience and performance that Australia has over the past three years, but we are holding our own, and we are inching our way forward economically.

The New Zealand share market was one of the best performing share markets in October, despite the fact that it was Australia that the Singapore Stock Exchange chose to do a deal with, hoping to create the fourth largest stock exchange in the world, and despite the fact that our Reserve Bank didn't promise to print as much cash as was needed to get the economy going, as the Federal Reserve did.

October was a positive month for world share markets because investors bought shares in anticipation of the Federal Reserve's quantitative easing announcement, dubbed QE2. It has been clear since the Fed signaled in August its intention to do more quantitative easing, that their plan was to flood markets with cheap cash in order to inflate asset prices and hopefully create a wealth effect encouraging consumers to spend, thereby growing the economy. Because the plan was so transparent, investors positioned themselves accordingly, buying

stocks and commodities then waiting for the fun to begin. As if that wasn't enough of a positive influence on markets, the US had their mid-term elections which were widely expected to see the power base of Obama and the Democrats diminish – the people sent a message that Obama hasn't done enough to get Americans working. Sure enough, that was the outcome and the Democrats will now need to work closely with the Republicans, which means policy gridlock, which is good for share markets because companies can plan and operate their businesses with certainty about the future.

“Oh, my friend, it's not what they take away from you that counts. It's what you do with what you have left.”

Hubert Humphrey

If the global market rally of the past three months was just about the US going on, we would likely be taking some profits and moving to the sidelines to wait for the market correction before getting back in. However, markets have had other reasons to rally, and for that reason, we remain well invested and have watched the US with interest rather than getting too excited. Merger and acquisition activity has continued to be a feature of markets around the world and our portfolios have continued to benefit

Have you joined KiwiSaver yet?*

Your Portfolios (cont.)

from this activity. Profit results and commentaries from shareholder meetings have generally been positive, and the absence of horrible profit surprises has underpinned markets of late. And last but not least, anticipation of the long-awaited global economic recovery is also helping markets bubble along. While the recovery is taking longer to eventuate than hoped, there have been enough sporadic signs for investors to believe that it is still coming.

New Zealand

The gross portfolio return of 3.4% for October was behind both the NZ50G and Mid-Cap gross index (NZSEMCG) returns of 4.0%. No real sector themes were evident during the month – in fact within the retail sector Michael Hill International was the top performing NZ50 Index stock, and **Kathmandu** was the worst. The share price performance of **Kathmandu** has been particularly volatile over recent months, reflecting big changes in ownership from institutional shareholders. The **F&P Healthcare** share price performance was strong during the month despite the strength of the NZ\$/US\$ cross. October saw a number of ASM's with many companies endorsing analysts' consensus earnings forecasts for the year ahead – Auckland Airport, Skycity Entertainment and Skellerup were in this category. These forecasts are for solid earnings increases in the current year. October also saw the emergence of some M&A activity from **Tower** and Delegat's. During the month, Tower made a \$118m unsolicited bid for Fidelity Life Assurance – a complementary company to Tower in the areas of life insurance, personal protection, business insurance, and savings and investment products in New Zealand. Fidelity's major shareholders have rebuffed the offer and Tower has now let the offer lapse whilst it 'decides upon any future course of action'. **Delegat's** has made a bid for the balance of Oyster Bay Marlborough Vineyards (OBV) that it does not already own (45% of company). OBV is a wine grower only, and has been hurt by the significant decline in grape prices (industry average grape prices have fallen from \$2,151/tonne in 2008 to \$1,293 this year). OBV needs to raise new equity, and the takeover offer is a way to circumvent this.

Australia

Performance for the month was pleasing in both an absolute and relative sense with the portfolio up 2.3%, comfortably beating the S&P/ASX300 index by 3.0%.

Resources were the only game in town over October as commodity prices continued to be strong and money was allocated to resources worldwide in the run-up to the US quantitative easing. This rampant rise in resources companies led to a positive gain for the Australian market for the month with the S&P/ASX 300 index rising 1.8% in Australian dollar terms (although this gain for us kiwis was more than offset by a rising New Zealand dollar which took the return in NZD terms to a loss of 0.8% for October). Corporate activity continued to pick up over the month with a demerger announcement from Tabcorp, M&A activity involving ASX, Perpetual and ING Industrial Fund (a key stock in the S&P/ASX Small Industrials Index) and the acquisition of a stake in Ten Network Holdings by Consolidated Press Holdings.

In our portfolio, leading the way on the positive side was **Pharmaxis** (+30.0%) which was the top performing stock in the S&P/ASX Small Industrial index on the back of its Aridol approval, release of further trial data and potential news flow this quarter. Also contributing strongly to returns was **Nanosonics** (+13.9%) whose positive momentum continued

from last month's GE deal and **Toxfree Solutions** (+5.9%) with another contract win. This month the currency hedge added value as the NZD rallied strongly against the A\$. On the negative side of the ledger **Centrebet** (-4.0%), **McMillan Shakespeare** (-4.7%) and **Reckon** (-3.8%) all slipped after recent strong gains.

International

It was groundhog day for our International fund in October – strong performance from our portfolio companies, outperformance of our benchmark, but returns held back because of a strong New Zealand dollar. The International portfolio structure continues to change with our weight to Asia and China increasing as we are finding high quality companies at compelling valuations. During the month China reported Q310 GDP of 9.6% and we remain bullish on the long term prospects.

We added **Orthofix** to the fund. Orthofix is a US based medical device company which offers a broad line of surgical and non-surgical products for the spine, orthopedic, and sports medicine market. They have a strong leadership position in several specialised markets given superior product and distribution capabilities. They are expanding their leadership position with new product introductions which should propel earnings growth for years to come. Short term industry woes have enabled us to buy the stock at bargain basement prices.

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Midas Holdings announced its largest international contract for \$203 million from Bombardier. This will have a positive impact on earnings but more importantly validates Midas as a global leader in its industry. We recently bought more stock on the Hong Kong dual listing (prime listing has been the Singapore exchange).

Actelion has been subject to takeover rumours. While we are not ruling out the possibility of a takeover we have used this recent strength to take profits as the risk/reward is not as compelling. Scott is scheduled to meet with the company in mid November.

Infrastructure

The Fisher Morrison Infrastructure fund was led upwards by the US Railway positions in the portfolio with **Union Pacific** (7.7%) and **Norfolk & Southern** (3.3%) both extending gains. Both companies reported Q3 earnings increases of 51% and 47% respectively relative to the same period last year. Our airport investments continued to report strong traffic growth and all posted gains over the period but reversed some of last month's strength relative to their regional markets. The courier sector did not have a material impact on the portfolio in October and our investment in **Asciano** performed poorly late in the month when the company advised caution over its full year guidance due to external weather and infrastructure factors.

A bird's eye view

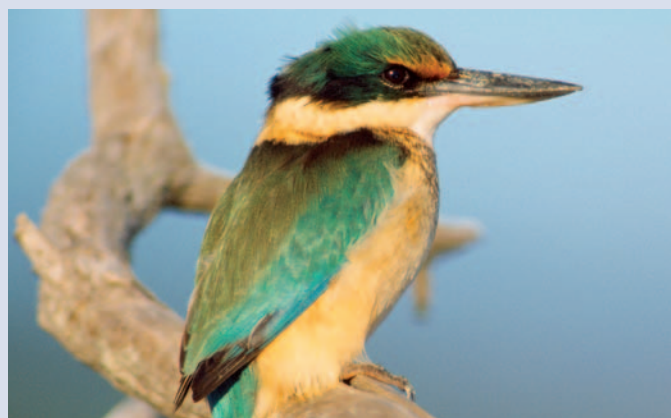
We discuss Fisher Funds' purchase of the retail equity funds business from First NZ Capital.

In October, Fisher Funds purchased the investment management rights for the First NZ Capital Investment Management (FNZC) Abacus equity funds. FNZC had decided to exit the retail equity funds management business, so we purchased their range of four equity funds. Three of these funds are very small and will be closed down, however we are retaining the FNZC Abacus Alpha Fund and have renamed it the Fisher Funds Trans Tasman Fund. FNZC are also exiting KiwiSaver and have applied to the Government Actuary to have their scheme transferred to the Fisher Funds KiwiSaver scheme.

Fisher Funds is committed to funds management and KiwiSaver and this purchase allows us to offer our services to FNZC clients. We believe that with lower fees, more regular communication and better performance, FNZC clients will be pleased that their funds are now being managed by Fisher Funds.

We are excited about the Fisher Funds Trans Tasman Fund as it gives us an opportunity to harness our expertise and experience in the management of New Zealand and Australian portfolios and bring together our best investment picks into one combined portfolio.

The Trans Tasman Fund is a more mainstream fund than our New Zealand and Australian funds, and while it will still feature the stock-picking style for which Fisher Funds is renowned, it will feature larger and smaller companies and will actively use cash to protect and enhance returns. If you would like to know more about the Fisher Funds Trans Tasman fund, please call our client service team on 0508 FISHER (0508 347 437).



Your questions

This month we've had several questions from investors along similar lines:

Q: What is your view of what NZX should do in light of the proposed ASX/Singapore merger?

A: We are disappointed that the immediate response from commentators and market participants to the ASX/Singapore deal was to 'get the boot in' to NZX and its CEO Mark Weldon. The ASX/Singapore deal is a huge one, if indeed it gets consummated, and while it makes sense given Australia's standing in the broad Australasian markets and Singapore's desire to compete with Hong Kong, it is nevertheless a deal that is all about scale and the big getting bigger. New Zealand was never going to be an important part of a transaction of this nature, because New Zealand is a sub-scale and somewhat irrelevant stock exchange in the broader Australasian context. To try and squeeze NZX into the deal to avoid New Zealand becoming irrelevant is, to our mind, a case of too little, too late. That is not to say that NZX is doomed or should just close up shop. Mark Weldon has pursued a clever strategy for NZX in diversifying its business away from share market trading, to encompass data and information services as well as the recently launched whole milk powder futures trading platform. By specialising in agricultural trading such as grain and milk powder NZX can position itself as a niche player and differentiate the NZX around its competitive advantage,

despite not having size on its side. Our view is that NZX has been well run and has growth potential, which is why it is a portfolio stock in our New Zealand funds. We acknowledge that NZX needs more companies to list, and needs to attract more investors to invest so that the daily turnover and liquidity can be strengthened. The NZX and its listed companies have struggled to capture the attention of investors in New Zealand and overseas, partly because of the lack of savings culture in New Zealand and the lack of political will to build New Zealand's capital markets. If the companies listed on the NZX have struggled to gain attention in the past, they will find it an even bigger struggle to be noticed if they become part of the mega exchange created by the ASX/Singapore merger. Our view on what NZX should do? Keep doing what it's doing in developing its niche position internationally and hope that the Government's work on building New Zealand's capital markets and savings culture will start to pay dividends at home.

Fund facts Fund Performance

Fund Net Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	4.3%	5.3%	-13.3%	0.4%	9.4%
Australian Growth Fund	17.1%	42.9%	-4.9%	8.6%	9.1%
International Growth Fund	9.1%	21.8%	na	na	5.8%
Infrastructure Fund	12.6%	na	na	na	16.5%
KiwiSaver Growth Fund	10.4%	24.89%	3.1%	na	3.4%
KiwiSaver Conservative Fund	2.65%	na	na	na	1.9%

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	5.4%	6.4%	-12.4%	3.0%	12.1%
Australian Growth Fund	17.2%	43.3%	-4.7%	na	10.8%
International Growth Fund	9.1%	21.8%	na	na	5.8%
Infrastructure Fund	12.6%	na	na	na	16.5%
KiwiSaver Growth Fund	10.4%	24.9%	3.1%	na	3.4%
KiwiSaver Conservative Fund	2.65%	na	na	na	1.9%

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	2.8%	8.2%	-7.7%	0.1%	
90day bank bill	2.9%	3.5%	5.3%	6.4%	
S&P/ASX300 (Calculated in \$NZ)	7.2%	19.8%	-5.7%	9.3%	
MSCI Global Small Cap Index (in \$NZ)	14.9%	10.4%	-5.4%	1.1%	

October's Biggest Movers

New Zealand

Michael Hill	21%
Fisher & Paykel Healthcare	9%
Opus International	6%
Kathmandu	-10%

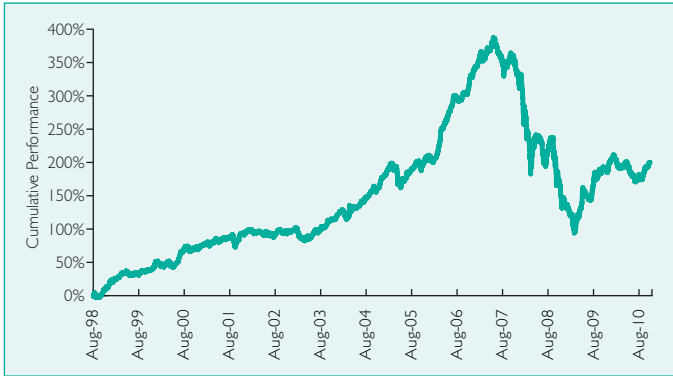
Australia

Pharmaxis	30%
Nanosonics	14%
Oakton	11%
McMillan Shakespeare	-5%

International

Interactive Intelligence	35%
Hanger Orthopedic	24%
Gameloft	22%
Sarin	-21%

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, Dart Energy, DWS Solutions, McMillan Shakespeare, Nanosonics, Nick Scali, Oakton, Pharmaxis, Reckon, Toxfree, Treasury Group, Universal Biosensors, Vision Group, WHK Group.

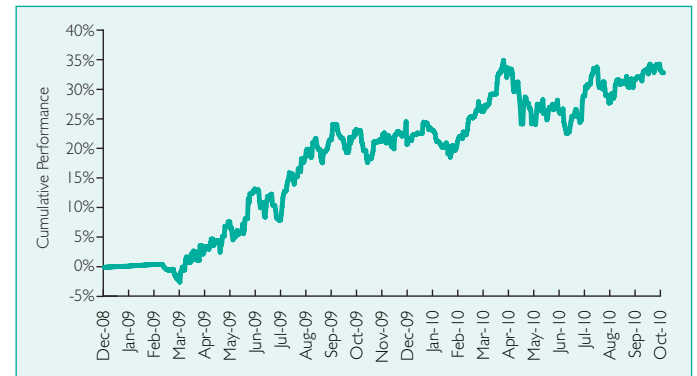
International Growth Fund



Fund Inception October 2007

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