

FROM THE
undergrowth

JUNE 09



May proved to me the wisdom of all those clichés I’ve heard since childhood about perseverance, hard work, and marathons rather than sprints. All our funds performed well, for the third month in a row, and all of us who watched the value of our investments plummet last year have enjoyed a healthy rebound. We still have a way to go, but double-digit gains in a matter of weeks make it easier to envisage a full recovery and more.

At a glance
As at 31 May 2009

Unit Prices (\$)

NZ Growth Fund	2.5471
Australian Growth Fund	1.5255
International Growth Fund	1.0078
Fledgling Fund	0.9370
KiwiSaver	0.8588
Infrastructure Fund	1.0842

Fund Sizes (\$m)

NZ Growth Fund	73.6
Australian Growth Fund	67.7
International Growth Fund	6.1
Fledgling Fund	2.5
KiwiSaver	68.8

Performance (May 2009)

NZ Growth Fund	7.4%
Australian Growth Fund	5.3%
Intl Growth Fund	3.7%
Fledgling Fund	6.1%
KiwiSaver	4.7%
Infrastructure Fund	4.2%
NZ50 Gross index	0.9%
S&P/ASX 300 (\$NZ)	-1.1%
MSCI Global Small Cap Index	-4.2%

Your Portfolios

What has been going on since we last spoke?

The weather can be changeable in May, as can our demeanour as we adjust to colder mornings and raincoats. There is a theory that market dynamics change with the weather also, giving rise to the “Sell in May then go away” axiom that emerged from the US many years ago. Basically the theory refers to the seasonal tendency of the US stock market to perform better during the November-through-April period (the so-called winter months) than in the other six months of the year (the summer months). On average, over many decades, the stock market has produced almost all of its gains during the winter months; whereas the market on average has been nearly flat during the summer months. This trading theory would have proved successful last year as anyone who sold on 30 April 2008 when the Dow Jones was at 12,820 would have avoided the 27% fall over the six months to November 2008.

Of course there are dangers with such generalizations, and never more so than in the current environment where historical trends and theories have been turned on their head. Financial and economic information has come thick and fast in recent months making it difficult to make sense of where the world is at. It would be relatively easy to pick a trading strategy if all the information was pointing to the same conclusion. But some days information seems to confirm that a take-no-prisoners recession is here to stay for years, then other days we get information suggesting that

the worst is behind us and there are glimpses of light at the end of a not-overly-long tunnel.

As you know, we are not market timers and expend little energy on picking what the market is going to do next month. We use information and contact with our portfolio companies to guide us in our investment

“Apprehension, uncertainty, waiting, expectation, fear of surprise, do a patient more harm than any exertion.”

Florence Nightingale

strategy. What was pleasing in May was that our portfolio performance reflected more about the information flow and performance of our companies than about a market that was generally rising. That is, our outperformance was achieved because of our selection and combination of portfolio holdings, rather than just because the market was feeling positive. We believe that this will continue to be the case because, knowing that information signals are mixed and the future is not easily predicted, investors will re-enter the market cautiously, and they will be selective about what they buy. Quality businesses with sound balance sheets, good management and an all-weather business strategy will be increasingly sought-after, and that's what you own.

Have you joined KiwiSaver yet?

Your Portfolios (cont.)

New Zealand

In our New Zealand portfolio, NZ Exchange and Ryman Healthcare had the biggest impact on performance, with their share prices lifting 22% and 18% respectively for the month. These are huge performances in a four-week period. Ryman announced a 5% increase in realised net profit for the year to March 2009, continuing its outstanding record since listing. Ryman has achieved a compound growth rate of 21% per annum in the ten years it has been listed. It raised \$25 million in June 1999, has paid dividends of \$132 million in that time and now has a market capitalization of \$800 million.

Mainfreight was a disappointing performer during the month. The company announced its full year result which was essentially flat on the previous period, largely due to the company not paying bonuses to staff for the first time in 32 years. In our opinion, Mainfreight is doing all the right things in a recession – cutting back on capital expenditure, managing debtors, cutting capacity to match demand and leasing spare warehousing space.

We were delighted to have added a new company, Tower Limited, to the portfolio in late April. The company announced a better than expected interim profit result in May and its share price lifted 23% during the month. The stock has certainly made a good impression during these early days of our relationship!

Australia

Our Australian fund had another outstanding month, outperforming the Small Industrials index by 6%, and rounding off a 30% gain for the last three months. The Australian share market has been a relative outperformer and news at the time of writing that Australia has averted a technical recession lends support to the popular labels, 'the lucky country' and the more recently coined 'wonder from downunder'. The key contributors to our performance during May were large positions in Arrow Energy, which rose on the back of higher oil prices and a more buoyant global growth outlook; Pharmaxis with stunning Phase III trial results for its Cystic Fibrosis drug Bronchitol; and Pipe Networks as it rolls out its undersea cable PPC-1. With a volatile NZD/AUD cross, we increased our currency hedge to 25%, taking advantage of an attractive entry point. This decision paid off as the New Zealand dollar rallied strongly late in the month.

International

Just as individual stock performance has become quite varied in recent months, with clear winners and losers, global stock market performance has not been evenly spread. Stocks in Asia rallied strongly in May and significantly outperformed the US. This year the Hang Seng Index in Hong Kong is up 21% versus the 1.8% rise in the S&P500 (in US Dollars). Our International Fund is up more than 22% (and that's with the NZ Dollar being up more than 10% against the US Dollar) versus the MSCI Global Small Cap Index up only 1.6%.

May featured a number of first-quarter earnings results and in the case of Asian and European companies, full year 2008 announcements. Overall the results were extremely encouraging with our portfolio companies growing earnings by an average 22% in 2008. That's not bad in one of the worst environments we have ever seen!

The NZ Dollar continued to rally in concert with global equity markets, and at the same time the US Dollar sold off relative to other currencies. While we have a long term bearish view on the US Dollar, we are surprised at how quickly the currency has fallen out of bed. As a reminder, our FX hedging policy is to hedge medium to long term moves in currency as a risk management tool. We look to hedge the currency at extreme levels or when we believe the NZ Dollar will appreciate on a medium to long term basis. Neither of these is currently present.

Infrastructure

Our Infrastructure fund had another solid month, lifting more than 4% to contribute to a total return since its December launch of 8%. The Morrison & Co team added a new infrastructure stock to the portfolio during the month, CSX Corporation, a US-based international transportation company offering a variety of rail, container-shipping, intermodal, trucking and contract logistics. The company's rail network covers 21,000 miles over 23 American states and two Canadian provinces. The Fund has now invested in three infrastructure bonds to enable the fund to achieve its yield objective.

Your questions

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

Q: I noticed that you have been selling shares in **Ryman Healthcare** recently, even though you've always spoken glowingly about it. Why did you sell, and what impact do you think your selling has on the share price?

A: We are often asked about our buying and selling decisions, and these questions are usually prompted by the release of substantial security holder notices. The Securities Act 1988 came into force after the 1987 sharemarket crash, and was designed to promote full disclosure and to deter insider trading. It basically says that any shareholder with more than 5% of a company must disclose their position, and must make additional disclosures every time they increase or decrease their shareholding by 1% or more.

In the case of Ryman Healthcare, we released a substantial security holder notice to the stock exchange during May, which confirmed that our funds now own 4.96% of Ryman Healthcare, which is less than our

previous holding of 5.43%. This means we are no longer a substantial security holder under the terms of the Act, although at nearly 5%, we still consider our holding to be substantial!

Before going any further, we are pleased to confirm that we are not a seller of Ryman Healthcare, we hold the company in high regard and it is the largest holding in our New Zealand Growth Fund.

Generally when we sell out of a stock, or reduce its portfolio weighting significantly, it is because the company's attractiveness, relative to other portfolio companies, has reduced. This might be due to the company failing to meet our expectations; or there being a significant change in its

A bird's eye view

Providing a different perspective

We believe there is value in scratching beneath the surface of news stories, to find the hidden gems. Ken tells us about one such hidden gem.

We are continually searching the markets looking for undiscovered gems. Ultimately we want the rest of the market to find these great companies. Therefore an important part of our research process is determining potential catalysts for other investors to discover our view. Midas Holdings is a great example of a company that has recently been 'discovered'.

Midas Holdings is the market leader in producing aluminium train bodies in China. You've heard me talk endlessly about the exciting train infrastructure spending theme and how Midas will be a prime beneficiary.

In November last year the Chinese government announced a stimulus package of which nearly half was earmarked to upgrade the railway network. This put the "train sector" on investor radar screens. In typical fashion, fund managers rushed to buy the large diversified companies. We prefer to buy smaller companies because they can offer stronger growth prospects at a discounted valuation given they are under-researched by analysts.

The latest catalyst for Midas was in April when China Zhongwang, a company with a division that produces aluminium train bodies in China, listed on the Hong Kong exchange. This brought a lot of attention to an otherwise unknown Midas Holdings. As investors realized what



a great business Midas is they scooped up shares propelling the stock higher by 40% in the month of May alone. Of course this is great news for us as it was one of our largest holdings prior to the rally.

The good news doesn't stop there; we believe the market has not yet appreciated a 33% investment that Midas has in a company called Nanjing Puzhen Rail Transport (NPRT). This is one of only four companies with certification to manufacture metro train cars in China. Over 30 cities in China are planning to construct city rail systems with an estimated investment of over RMB800m (approximately NZ\$200m). The catalyst to recognize value in this business is a separate listing of NPRT which we believe could happen as early as 2010. Our research indicates that Midas's stake is worth 0.25-.30 per share or nearly half of their current market value.

Dare I say it...all aboard.

Your questions (cont.)

business that reduces its investment appeal; or it may be that the stock has become overpriced such that better alternatives exist.

Sometimes we need to sell or reduce holdings in companies for reasons that have nothing to do with the companies themselves. This selling is related to funds flows or a stock's weighting relative to its target weighting. In the case of Ryman Healthcare, the stock has been a very good performer (it is one of the ten top performing stocks in New Zealand year to date). We have targeted to hold 15% of our portfolio in Ryman, but because of its relatively strong performance, it had become 20% of our portfolio. We therefore took advantage of price strength in recent months to reduce our holding back to our targeted weighting. By the way, the reverse is true also – if a stock falls to below our target weighting because its price is weak, we will look to buy more shares to increase our holding. This buying and selling activity is nothing to do with our fundamental view of the company, and more about the day to day management of our portfolios.

Ryman Healthcare is a company we hold in high regard and it is the largest holding in our New Zealand Growth Fund.

As for the impact of our selling (and buying) on share prices, we do not believe that our transaction activity has any lasting impact on the market, nor do we believe that the market behaves any differently when it finds out that we have been buying or selling. We are not large enough to influence share prices, and even though we know that our investment decisions are monitored by a lot of investors, and sometimes copied, we know that market prices find their levels based on day to day demand and supply.

Fund facts

Fund Performance

Fund Net Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	-24.3%	-27.5%	-12.0%	1.8%	9.0%
Australian Growth Fund	-20.9%	-22.7%	-7.9%	na	0.5%
International Growth Fund	-2.3%	na	na	na	0.5%
Fledgling Fund	-21.0%	-23.2%	-10.4%	-1.2%	-0.2%
KiwiSaver	-7.6%	na	na	na	-8.7%

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

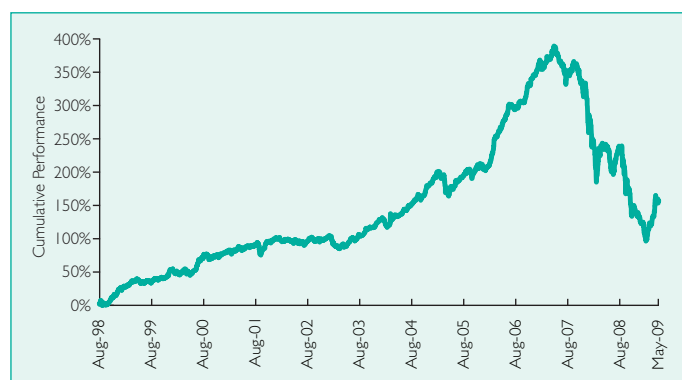
Fund Pre-tax Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	-23.5%	-27.7%	-13.0%	5.1%	11.9%
Australian Growth Fund	-20.5%	-23.2%	-5.6%	na	1.6%
International Growth Fund	-2.3%	na	na	na	0.5%
Fledgling Fund	-20.2%	-23.8%	-9.5%	0.6%	0.1%
KiwiSaver	-7.6%	na	na	na	-8.7%

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	-23.7%	-19.8%	-8.5%	1.3%
90day bank bill	6.7%	7.8%	7.8%	7.5%
S&P/ASX300 (Calculated in \$NZ)	-27.3%	-14.2%	-2.7%	8.7%
MSCI Global Small Cap Index	-20.1%	-18.5%	-12.0%	-0.4%

May's Biggest Movers	
New Zealand	
Tower	24%
NZX	22%
Ryman	18%
Michael Hill	16%
Australia	
Oakton	23%
Credit Corp	20%
DWS	19%
Aevum	19%
International	
Sarin Technologies	88%
Hongguo	83%
Midas	51%
Shinko Plantech	38%

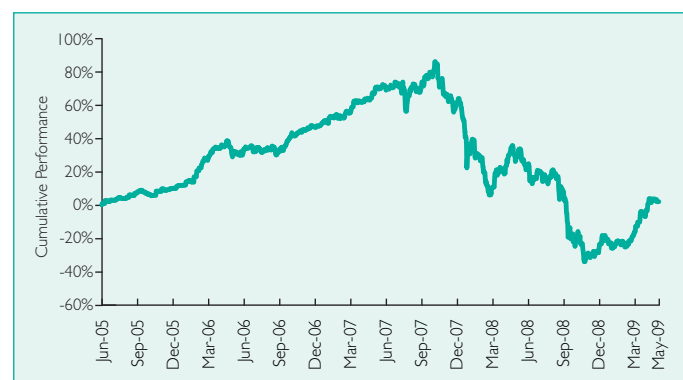
New Zealand Growth Fund



Fund Inception August 1998

Portfolio Holdings – Abano Healthcare, Comvita, Delegats, Freightways, Infratil, Mainfreight, Metlifecare, Michael Hill, NZX, Opus International, Pumpkin Patch, Rakon, Ryman Healthcare, Tower Limited, Wakefield Health.

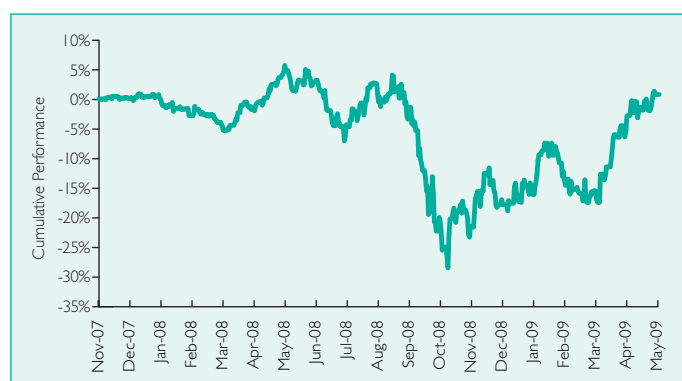
Australian Growth Fund



Fund Inception June 2005

Portfolio Holdings – Aevum, Arrow Energy, Austbrokers, Bravura, Centrebet, Credit Corp, DWS Solutions, McMillan Shakespeare, Nick Scali, Oakton, Pharmaxis, Pipe Networks, Reckon, Toxfree, Treasury Group, Vision Group, WHK Group.

International Growth Fund



Fund Inception October 2007

Portfolio Holdings – Advent Software, Brembo, Celera, China Automation, City Telecom, Conceptus, EBIX Inc, Equinix, F5 Networks, Gameloft, Hansens Natural, Home Inns, Hongguo, Hyflux Limited, Icon PLC, Jumbo, Midas, Nokian Renkaat, O2 Micro, OSI Pharma, Ports Design, Qiagen, Raffles Education, Sarin Technologies, Shinko Plantech, Stratec Biomed, Times Electric, Ultimate Software, Wasion Holdings, Wellstream, Wirecard.

Fledgling Fund



Fund Inception December 1999

Portfolio Holdings – Abano Healthcare, Delegats, Freightways, Infratil, Mainfreight, Metlifecare, Michael Hill, NZX, Opus International, Pumpkin Patch, Rakon, Ryman Healthcare, Wakefield Health.

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