

FROM THE
undergrowth

SEPTEMBER 09



Often the best time at a party is towards the end when the music is quiet, the remaining guests are relaxed, and you can settle down to interesting conversations in a mellow atmosphere. That's sort of how the market feels at the moment – share prices are rising and the rowdy element has gone home, leaving the serious investors to make money in a much calmer environment than we've had of late.



Your Portfolios

What has been going on since we last spoke?

At a glance

As at 31 August 2009

Unit Prices (\$)

NZ Growth Fund	2.7959
Australian Growth Fund	1.8180
International Growth Fund	1.0846
Fledgling Fund	1.0174
KiwiSaver Growth	0.9581
Infrastructure Fund	1.1760

Performance (August 2009)

NZ Growth Fund	5.2%
Australian Growth Fund	9.6%
International Growth Fund	-0.3%
Fledgling Fund	2.5%
KiwiSaver Growth	3.8%
Infrastructure Fund	3.0%
NZ50 Gross index	0.0%
S&P/ASX 300 (\$NZ)	8.2%
MSCI Global Small Cap Index	5.4%

The information flow during August was substantial and analysts and commentators went into overdrive trying to interpret each new piece of data. Increasingly positive economic tidbits have emerged around the world in the last couple of months which point to the global recession coming to an end. Investors have grabbed on to any piece of news that supports their hope for a better future – whether it's a lift in retail sales, or fewer houses being put on the market, or unemployment numbers being smaller than expected.

Share markets achieved another positive month in August despite talk of an overdue correction with markets having run hard for six months. The resilience is largely because there hasn't been any news bad enough to support a major selloff. At the end of the month the Chinese share market had a rocky patch and some worried it would trigger a chain reaction in other markets, but it didn't happen, at least at the time of writing.

We do have reason to be enthusiastic because we are definitely through the worst. The profit results season largely confirmed how bad things have been and how companies have done whatever has been required to keep their heads above water, and in some cases, to benefit from the weakness of their competitors. There has been something missing though. We haven't heard the word 'growth' used very often. As John Mauldin says, this recovery is missing some essential bits, and they largely relate

to the consumer. Policy makers have done their bit, central banks have conscientiously worked towards creating a stable financial environment, and businesses have reduced costs to ensure that their products and services can be supplied at a reasonable price. But demand is still missing. Consumers are not in a hurry to spend money, and probably won't be until they are comfortable that they will keep their jobs and their houses and that their future is assured.

"This economic recovery is like a female impersonator. He is just like a real woman in every way, except for the essential bits."

John Mauldin, US money manager and author

But is the precise timing and extent of the economic recovery critical in any of our investment decision making? No. The recovery will come, and its magnitude will impact the rate of company profit growth. If we can invest in companies that are profitable now, and are likely to grow those profits over time, the economic recovery becomes an added bonus rather than a critical success factor. Well-known US fund manager and author, Peter Lynch once said "if you spend more than 13 minutes analyzing economic and market forecasts, you've wasted 10 minutes". We agree with this

Have you joined KiwiSaver yet? *

Your Portfolios (cont.)

proposition and spend probably less time than you'd expect on forecasting economic growth, interest rates, exchange rates and other macro factors.

We prefer to invest based upon what is known at the time of making the investment, rather than upon forecast or conjecture about the future. The fewer assumptions about the future (inherently an imponderable) made in the analytical process the more robust the analysis.

Typically, top-down investing (which is the opposite of our 'bottom up approach') involves forecasting economic variables, followed by a forecast of company earnings and usually culminating in a valuation and a share price target. Given the variable record of economists at getting the first of these steps correct on a recurring basis, especially around turning points or recessions, what hope is there that we can achieve any great degree of accuracy in the steps that follow?

That doesn't mean that we can avoid all consideration of the uncertainties and unknowns, and neither can we ignore macro issues completely. Rather, we focus our evaluation of an individual company on the here and now, and what is known, and what we can learn of its history. We then attempt to understand the impact of external factors upon the company's viability and value, in order to gauge its resilience in the face of what might "go wrong". With the future being inherently unknowable, we expend little energy forecasting it, but rather preparing for it.

We spent August focusing on our company profit results and the accompanying management commentaries, rather than on the plethora of economic and statistical data released during the month. Fortunately, in all portfolios, we found our companies very well prepared for the future. When the missing bits of the recovery do fall into place, we'll be ready.

New Zealand

During August we continued to increase our holding in **Abano**, and trimmed our position in **Ryman Healthcare** as it was above our target weighting. We were happy with the profit results and AGM commentaries during the month. Most companies were guarded in their comments about the short term outlook, understandably, and

none of the results gave us cause to change any of our target weightings. Rather, we were impressed with the efforts of our management teams in containing expenses and hunkering down for the difficult conditions, while still maintaining their focus on long term growth.

Australia

The Australian portfolio continued its strong run in August, which was pleasing as performance was driven by better than expected results in the full year reporting season. We feel our companies well and truly got pass marks for what was one of the most demanding examinations of their business models that they will ever face. One of the key highlights of reporting season was a number of our companies paying higher than expected dividends as the strong cash flow they have generated was paid out to shareholders – this is a great indication of the profitability of our companies and the confidence in the future of their Boards. The leading contributors to performance for the month were **Aevum** (+43%), **Pipe Networks** (+23%) and **Centrebet** (+26%).

International

As mentioned last month, we have increased our cash holding in the international fund, to lock in some of the strong price rallies we have enjoyed over the past six months. We continued to rotate from higher priced "winners" into stocks that we believe have a more compelling risk/reward ratio. We added **Bare Escentuals** to the portfolio, a US based innovator and global market leader in the mineral based cosmetic market. We sold out of our holding in **Celera**. While still a good company we believe it will take a long time for them to get back on a growth track and we see much more compelling opportunities in which to invest. Celera has always been one of the smaller weights in the fund.

Infrastructure

The Infrastructure fund continued its strong performance during August, lifting 3% resulting in a total return since its December 2008 launch of close to 20%. The Morrison & Co team exited one of the fund's stocks, **CSX** during August which had performed so well as to have breached its target valuation. The cash proceeds were used to top up other stock holdings. The infrastructure fund is now 67% hedged in order to reduce volatility.

Your questions

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

Q: I've read all the positive things about Asia and the huge growth in China, but the Chinese share market is all over the place. Doesn't your investment in China add unnecessary risk to our returns?

A: China has proven that it is leading the world in economic growth as the shift of wealth and economic power from the West to the East continues. But, we need to keep the Chinese share market in perspective. There are different ways to access Chinese companies. A nice rule of thumb to remember is "buy Chinese companies, not Chinese stocks".

You have the two Chinese stock exchanges in Shanghai and Shenzhen where the trading of Chinese A and B shares is dominated by local investors. These markets tend to be volatile and can be impacted by many non-fundamental factors. A lot of these companies have complicated

ownership structures, their listing rules are non-existent and accounts are not audited and independently checked as they are in more developed markets. This is why we insist on thoroughly researching our companies ourselves, and travelling frequently to Asia so that we can meet the chief executives of our companies in person.

When you hear that the Chinese market fell 20% in August, this refers to the performance of these local markets that reflect the speculative behaviour of the Chinese investors – which drove the market up 50% in the last six months – rather than to anything fundamental.

A bird's eye view

What's new from Fisher Funds?

Online Account Access is here!

We are pleased to announce the launch of our online registry system for investors.

Investor Online Registry, as it is known, allows you to check balances and transactions and update personal details of all of the Fisher Funds investments you have a relationship to (whether it is in your own name, as a trustee of a family trust, company director, KiwiSaver account etc).

To access the Investor Online Register, you simply need to go to www.fisherfunds.co.nz. The register and login prompts are located within the online access menu on the right hand side of the screen.

Steps to follow to register:

- You will need to self register in the first instance by providing your first name, surname, IRD number and email address. These details will be verified against the information we hold in our system for those criteria. If any of this information does not match, you will not be able to login. **Handy hint:** If you're commonly known as Jim but legally your first name is James, you would enter James.
- If your registration is successful, an email will be sent direct to your email address. This email will provide you with your login details, being a User ID and temporary password. You will need to retain the User ID as it is required every time you wish to login.
- You will be prompted to change your password when you first login. If you have any difficulty with self registering, please contact us on 0508 FISHER (0508 347 437) and we can help. Once you have registered you will access the site via the login button.

Please note, the unit price data will always be a day older than currently published.

We hope that you find the Investor Online Registry a useful tool to keep track of your Fisher Funds investments. We do intend to keep developing the site and add more functionality over time so will keep you abreast of developments. And as always, we welcome any feedback that you have.

And speaking of feedback, we are pleased to advise that we will be bringing the **Fisher Funds 2009 Roadshow** to you in October. The roadshow provides an opportunity for you to meet the Fisher Funds team, give us feedback, ask us questions, and for us to share our investment thoughts with you. We have enjoyed meeting many of you at the roadshows over the years, and look forward to meeting more of you ... and your friends. We believe that we have a great story to impart, so this year we encourage you to invite a friend who you think would benefit from having Fisher Funds as a partner in their journey towards long-term wealth.

The roadshow is a popular event and seats are limited, so we do encourage you to respond early. We will be starting in Napier on 12 October, then presenting in Auckland on 14 October before visiting Wellington, Christchurch and Dunedin between 19-21 October.

And last, but certainly not least, many of you will know our General Manager, Glenn Ashwell, who has been a senior member of the Fisher Funds team for more than six years. We congratulate Glenn and Cate on the birth of their first son, Thomas, who we warmly welcome as the newest member of the Fisher Funds family.

Your questions (cont.)

There is also a Hong Kong share market which has more than 1,100 companies listed, often at a lower price than the same companies trade at on the Chinese market. The Hong Kong stock exchange has been around since 1891 and is regarded as the gateway to Asia given its strong links to both the west and east. It has deep, liquid and transparent capital markets with strict regulations and enforcement. Buying a company based in China but listed in Hong Kong gives you the best of both worlds – you can tap into the Chinese economic growth engine while ensuring that the stock is of the highest quality.

A wide range of Chinese companies are also listed on the more developed and protected Singapore and US stock exchanges.

At Fisher Funds, we only buy companies listed on the developed exchanges such as Hong Kong, Singapore and the US, because we find that the quality is higher and the prices or valuations tend to be lower.

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For the record, although the Shanghai market fell 20% in August, the Hang Seng in Hong Kong was down just 4% and Singapore was down 3%. Interestingly, of the 14 Asian companies that we own, the average share price was up 5% during August, again illustrating how important picking the right stocks is.

Fund facts

Fund Performance

Fund Net Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	-15.4%	-21.3%	-10.8%	2.1%	9.7%
Australian Growth Fund	0.9%	-15.6%	-3.0%	na	4.7%
International Growth Fund	7.6%	na	na	na	4.6%
Fledgling Fund	-14.2%	-18.3%	-9.3%	-0.4%	0.4%
KiwiSaver Growth	5.4%	na	na	na	-2.2%

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	-14.4%	-20.7%	-11.5%	5.1%	12.5%
Australian Growth Fund	1.5%	-15.4%	-0.8%	na	5.8%
International Growth Fund	7.6%	na	na	na	4.6%
Fledgling Fund	-11.5%	-16.8%	-8.1%	2.0%	0.9%
KiwiSaver Growth	5.4%	na	na	na	-2.2%

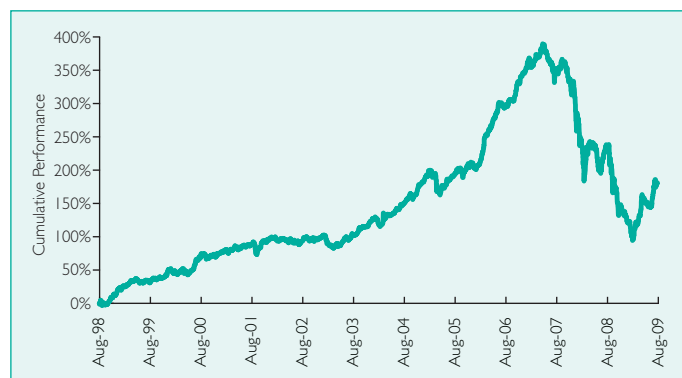
NB... annualised returns before tax and after fees. They differ from actual returns experienced during these periods.

Market Indices	1 Year	2 Years	3 Years	5 Years
NZ50G	-10.1%	-14.4%	-4.9%	1.9%
90day bank bill	5.2%	7.1%	7.4%	7.4%
S&P/ASX300 (Calculated in \$NZ)	-3.7%	-7.0%	3.3%	13.3%
MSCI Global Small Cap Index	-11.0%	-12.7%	-7.0%	2.9%

August's Biggest Movers

New Zealand	
Opus International	19%
Pumpkin Patch	16%
Abano Healthcare	14%
Mainfreight	12%
Australia	
Nick Scali	53%
Aevum	43%
Neptune Marine	34%
Credit Corp	29%
International	
Home Inns	50%
EBIX Inc	19%
Shinko Plantech	16%
Raffles Education	-18%

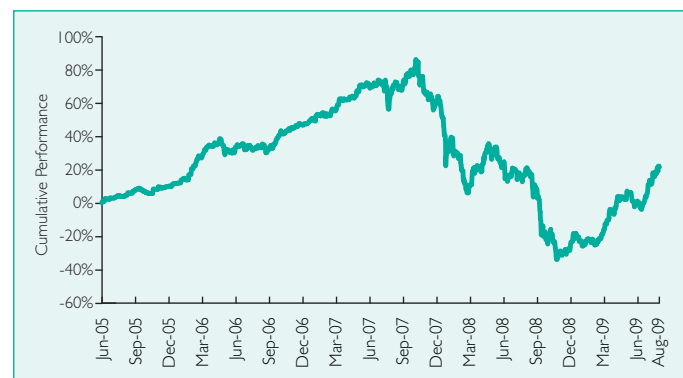
New Zealand Growth Fund



Fund Inception August 1998

Portfolio Holdings – Abano Healthcare, 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, Bare Escentuals, Biotest, Brembo, China Automation, China Zaino, 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, Tower Limited, Wakefield Health.

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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).