fisher funds

FROM THE undergrowth

DECEMBER09

We're in the final sprint towards the end of 2009. After nine pretty decent months, share market investors face another couple of weeks before we can declare victory. Of course we all want 2009 to end placidly and profitably – we've had more than our fair share of excitement for the year, haven't we? However the year ends, the one thing it has taught us is to expect the unexpected! We are well equipped and ready for whatever happens from here, so please, relax and focus on your Santa list and holiday plans. All the best for a wonderful Christmas.

At a glance

As at 30 November 2009

Unit Prices ($)

NZ Growth Fund	2.8912
Australian Growth Fund	2.0258
International Growth Fund	1.1004
Fledgling Fund	1.0492
KiwiSaver Growth	1.0101
Infrastructure Fund	1.1758

Performance (November 2009)

NZ Growth Fund	0.4%
Australian Growth Fund	-0.8%
International Growth Fund	1.4%
Fledgling Fund	0.4%
KiwiSaver Growth	0.6%
Infrastructure Fund	1.5%
NZ50 Gross index	-2.8%
S&P/ASX 300 ($NZ)	3.9%
MSCI Global Small Cap Index	2.5%

Our Portfolios

What has been going on since we last spoke?

November was a reasonably busy month for the investment team, yet our portfolios didn't move significantly. It is often the way – we put in a lot of man (and woman) hours monitoring our companies and finding new ones to invest in, and then we can ease off a little, and wait for the rest of the market to discover what we've learned. Rather than going through all the news and updates from each of our companies in the last month, we thought we'd devote this part of the newsletter to the highlights of 2009.

It has been such a topsy turvy, action-packed year that it is easy to forget some of the neat things that have happened. Overall, the year has finished positively for all of us invested in the Fisher Funds. All funds are ahead of where they were this time last year, and the year-on-year returns have been excellent. Regular investors and KiwiSaver members have done especially well as they have had the opportunity to buy units at knock-down prices, and then enjoyed a significant price recovery on these cheap units. Fisher Funds overall is in good heart and very thankful and humbled by your support. Over the past two years, despite the turbulence, our client base has been stable and in fact grown, as investors have taken advantage of market weakness. Our belief in the long-term investment principles that have allowed us success historically has been validated this year. Quality companies have seen their share prices recover some of what was lost during the worst of the global crisis, and our focus on value rather than price has enabled us to take advantage of other investors' fears.

> "If you hear a voice within you say "you cannot paint," then by all means paint, and that voice will be silenced".
>
> Vincent Van Gogh

There have been some negatives, largely around investor behavior (selling shares for the wrong reasons), but there has been far more good news than bad this year. The whole financial services sector has taken a knock and there is no doubt that financial businesses need to regain the confidence and trust of investors. Investors themselves are also re-thinking their attitudes towards risk and return and who they can trust and what questions they need to ask before parting with their first dollar.

So what are the highlights of 2009?

1. We survived the year.
2. The Fisher Funds Australian Growth Fund looks set to finish the year with an annual return of close to 80%!
3. All Fisher Funds – NZ Growth, Australian Growth, Internaitonal Growth, KiwiSaver, and Infrastructure – have beaten their respective benchmarks for the year.

Your Portfolios (cont.)

4. According to independent research house Morningstar, four of the top ten performing NZ retail funds for the year to November 2009 are managed by Fisher Funds. If the International Growth Fund was old enough, it would also have made it into the top ten.
5. We launched the Fisher Morrison Infrastructure Fund just before Christmas last year. It has achieved a 20% return for the calendar year to date, comprising capital growth and quarterly dividends.
6. Our KiwiSaver Growth fund began the year as the second worst performing KiwiSaver scheme. It is now the top performing KiwiSaver fund for 2009 by a significant margin, with a 40% return year to date.
7. Our largest Australian portfolio holding, Arrow Energy, has lifted 50% year to date on a continuing series of positive announcements. Other significant Australian holdings have been outstanding performers with Pipe Networks up 94% for the year and Pharmaxis up 100%.
8. Our largest New Zealand portfolio holding, Ryman Healthcare, has lifted 50% for the year. In June the company announced a 5% profit lift, extending its ten year record of compound profit growth of 21%pa. When the company listed in June 1999, it raised $25 million. It has since paid dividends of $132 million and now has a market capitalisation of $800 million. Ryman Healthcare has for a long time been our favourite stock and we have made sure that our portfolios have had a decent exposure to this outstanding company.
9. In the June profit reporting season, our international portfolio companies showed earnings growth of 22% for the year, this despite the worst global recession seen for decades. Quality companies with strong moats really can withstand the vagaries of the world economy.
10. Ken picked the China infrastructure theme early enough to benefit from the significant rally that has occurred this year. He bought Chinese train maker Midas Holdings early in the year and has enjoyed its 77% price uplift year to date.
11. New Zealand Exchange, one of the larger holdings in our New Zealand portfolios has enjoyed a strong performance this year, its share price lifting 59% as the company has reaped the benefits of clever strategic decisions made over the past two years.
12. Credit Corp, a high profile problem stock for us in 2007/8 redeemed itself this year, its share price lifting 400% as it sorted out its problems and delivered on its promises. It just shows the danger of focusing on short term results and extrapolating current issues out into the future.

We don't want to be too self-congratulatory because we know that our portfolios have a way to go to return to previous highs. But we do have to be self-confident, as Van Gogh suggests. And anyway, it is coming up to Christmas, the time for good cheer and goodwill, and we figured that if we don't highlight the good stuff, nobody else will!

Now back to points of interest in the portfolios for the month of November.

New Zealand

The New Zealand share market had its second negative month for the calendar year, falling 2.8% during November. A number of our companies released interim results, along with a couple of annual shareholder meetings. Our portfolio outperformed the market with our two largest holdings, **Ryman Healthcare** and **Mainfreight,** making the largest contributions.

Australia

After recent strong rises November was a lacklustre month for the Australian share market. Investor malaise was evident in low trading volumes and the fiasco in Dubai near month end did little to support the mood. The standout news was a bid for **Pipe Networks** by second tier telco SP Telemedia. Pipe has been a very successful investment for the Australian Growth Fund doubling in the three years we have owned it.

International

Developed markets such as the US outperformed emerging markets during November, resulting in a small underperformance for the month. We purchased a new company this month, **Autodesk**, based in San Francisco. It develops computer-aided design (CAD) and simulation software solutions for customers in the manufacturing, building and infrastructure markets and digital video tools for the media market. We cut back our holding in **City Telecom** after the stock has quadrupled this year.

Infrastructure

There was a bit of portfolio activity in the Infrastructure fund during November where the Morrison team reduced exposure to US utilities, added **Asciano Group**, an Australian port/rail operator, and increased the fund's exposure to NZ bonds.

Your questions

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

Q: I find currencies hard to understand, and it's not helped by all the terminology that surrounds it. Can you explain how hedging helps or hinders our Fund, and what is meant by carry trade?

A: You are not alone. Movements in share prices can be difficult to understand, but mostly there is an understandable reason behind significant movements. With currency, there can be a lot of key drivers at play, at the same time, and they are not always understandable. Fortunately we don't have to concern ourselves too much with the intricacies of currency management. We rely on our company management teams to manage their own currency exposure, as each company has its own unique foreign currency exposure, and the timing and extent of that exposure will determine their currency strategy.

Over longer periods, studies have consistently shown that currency fluctuations don't have a major impact on overall portfolio performance. While our returns suffer in the short term if the New Zealand dollar strengthens against foreign currencies, impacting the value of our

A bird's eye view

Ken shares some insights from his recent research trip to Europe

We have long spoken about China, and have shared our thoughts on the US, now it's Europe's turn.

Scott and I recently spent a week in Europe. We attended a 2 day conference in Frankfurt, and visited companies throughout Germany and Greece, including four portfolio companies.

The best word to describe Europe is stable, or at least more stable than the US. Europe as a region has similar structural issues to the US but the reality is that Europe is made up of dozens of countries with markedly different situations. The stronger economies such as France and Germany are faring better while the PIIGS (Portugal, Ireland, Italy, Greece, Spain) continue to languish.

The headline macro economic data in Germany has been weak but the story is different when you speak to local businesses. The German economy is dependent upon exports but the government has done a good job in smoothing the real local economy. One of the more successful initiatives is called "Kurzabeit", literally translated to mean 'short work', a programme which encourages employment. Instead of terminating an employee a company has the option to cut back the number of hours they work. The company will then only pay for the time the employee actually works with the government compensating workers for the balance of their income. Clearly this provides for an economic bridge during tough times but now there is talk of tax cuts which has a more permanent impact on consumer and business behaviour. It is very clear to see Germany is focused on growth.

The story in Greece is the polar opposite with the view from the ground at least as challenging as the headlines suggest. They continue to run large deficits and debt to GDP is near 100%. There was recently a new government elected but any hopes of positive change have been dashed with recent decisions. Corporate tax rates have been increased from 25% to 35%. On top of this the government announced it is planning to make this retroactive for the previous year. In other words, companies will have to make a one-time payment for the higher tax bracket for the previous year as well!

Despite these economic shifts our visits to our portfolio companies reinforced our positive investment stance. A comment by George Vakakis, the CEO of Jumbo, sums up what we look for in a business; "Spending too much time focusing on the overall economy is intellectual. We are intensely focused on running our business. We maintain this focus 365 days a year". Jumbo is Greece's largest retailer operating in the toys, baby apparel and seasonal home products market. Jumbo's competitors have all seen sales decrease during the last year yet Jumbo has managed to continue growing sales and profits.

Christmas Hours

We will be closing our office on Thursday 24th December 2009 and re-opening on Monday 11th January 2010. We will be collecting mail during that period, but please don't be offended if our team is not available to answer your calls or emails. We will be back with renewed vigour and enthusiasm in early January, prepared to make 2010 a prosperous year for you all. We hope you have a Merry Christmas and a Happy New Year.

Your questions (cont.)

international share holdings, the reverse is true when the New Zealand dollar weakens. At a broad level we look at the currency impact on our funds, but generally only use currency hedging when we feel that currencies have moved to an extreme level and are in danger of jeopardising returns.

A currency carry trade is where an investor sells a certain currency with a relatively low interest rate, and uses the funds to purchase assets in a different currency yielding a higher interest rate. An example of a "yen carry trade" is if a trader borrows 1,000 Japanese yen from a Japanese bank, converts it into US dollars and buys a bond. Let's assume the bond pays 4.5% and the Japanese interest rate is 0%. The trader could make a profit of 4.5% as long as the exchange rate between the countries does not change. Some traders use leverage as well. If a trader borrowed at a rate of 10:1, then they could stand to make a profit of 45%.

At the moment there is a bit of concern around the US dollar. If it strengthens rapidly, it could unwind the current carry trade where investors have been taking advantage of low US interest rates to borrow and then buy risky assets in both the US and overseas.

> Over longer periods, studies have consistently shown that currency fluctuations don't have a major impact on overall portfolio performance.

Fund facts

Fund Performance

Fund Net Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	17.0%	-18.3%	-12.4%	1.3%	9.8%
Australian Growth Fund	92.0%	-9.8%	-2.2%	na	7.0%
International Growth Fund	30.4%	4.8%	na	na	4.7%
Infrastructure Fund	na	na	na	na	20.6%
KiwiSaver Growth Fund	44.9%	1.22%	na	na	0.5%

NB… annualised returns, after tax and fees.

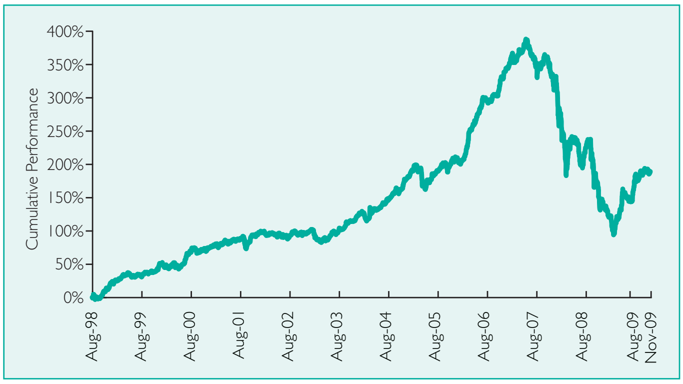
Fund Pre-tax Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	18.5%	-17.4%	-12.8%	4.0%	12.6%
Australian Growth Fund	93.0%	-9.5%	-1.3%	na	8.1%
International Growth Fund	30.4%	6.4%	na	na	4.7%
Infrastructure Fund	na	na	na	na	20.6%
KiwiSaver Growth Fund	44.9%	1.2%	na	na	0.5%

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	15.3%	-12.3%	-6.8%	0.9%
90day bank bill	3.7%	6.3%	7.0%	7.2%
S&P/ASX300 (Calculated in $NZ)	42.3%	-6.5%	2.7%	11.8%
MSCI Global Small Cap Index	10.1%	-9.9%	-9.2%	1.1%

November's Biggest Movers	
New Zealand	
Tower	12%
Wakefield	-11%
Michael Hill	-8%
Pumpkin Patch	-6%
Australia	
Credit Corp	10%
Nick Scali	9%
DWS Advanced	-16%
Bravura Solutions	-13%
International	
City Telecom	42%
Home Inns	33%
Nokian Renkaat	18%
Biotest	-17%

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, Rakon, Ryman Healthcare, Tower Limited, Wakefield Health.

Australian Growth Fund

Fund Inception June 2005

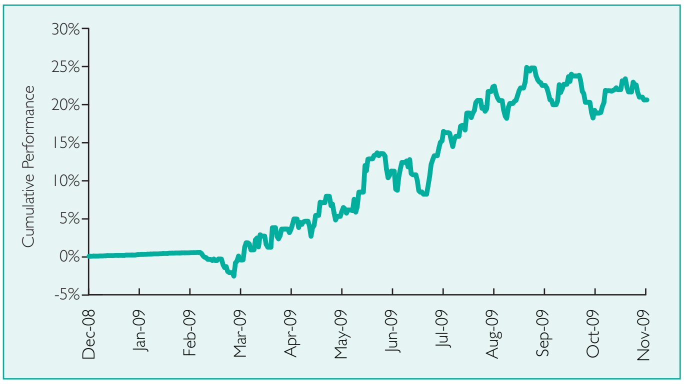
Portfolio Holdings – Aevum, Arrow Energy, Austbrokers, Bravura, Centrebet, Credit Corp, DWS Solutions, McMillan Shakespeare, Neptune Marine, Nick Scali, Oakton, Pharmaxis, Pipe Networks, Reckon, Toxfree, Treasury Group, Vision Group, WHK Group.

International Growth Fund

Fund Inception October 2007

Portfolio Holdings – Advent Software, 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, Telvent Times Electric, Ultimate Software, Wasion Holdings, Wellstream, Wirecard.

Infrastructure Fund



Fund Inception December 2008

Portfolio Holdings – CSX Corp, Flughafen Wien AG, Fraport AG, Norfolk Southern Corp, Northeast Utilities, Flughafen Zuerich AG, Contact Bonds, Genesis Bonds, NZ Post Bonds, Vector Bonds

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