

FROM THE  
**undergrowth**

OCTOBER 09



My husband Hugh is responsible for all things technical at Fisher Funds. I don't think he'll mind me saying that, for the most part, the chief remedy for computer problems is to turn the power off and on again. The power reset. To some extent, that's what the credit crisis was for financial markets... a power reset... and it has started getting things working again.

## Your Portfolios

What has been going on since we last spoke?

### At a glance

As at 30 September 2009

#### Unit Prices (\$)

NZ Growth Fund	2.8444
Australian Growth Fund	1.9123
International Growth Fund	1.1091
Fledgling Fund	1.0340
KiwiSaver Growth	0.9876
Infrastructure Fund	1.1759

#### Performance (September 2009)

NZ Growth Fund	1.7%
Australian Growth Fund	5.2%
International Growth Fund	2.3%
Fledgling Fund	1.6%
KiwiSaver Growth	3.1%
Infrastructure Fund	1.1%
NZ50 Gross index	2.0%
S&P/ASX 300 (\$NZ)	5.4%
MSCI Global Small Cap Index	0.3%

We began last month knowing that September is typically a horrible month for share markets, averaging a 1% monthly fall since 1950 compared to an average gain of 0.8% in the other 11 months. It was therefore satisfying to end the month in positive territory in all our portfolios.

Markets have felt reasonably quiet and the share market bulls seem to have slowed their charge. Nobody expected a seamless recovery, but the string of lacklustre economic data has come at a time when investors have little else to go on. Upcoming profit results, which are the biggest driver of the share market, will start trickling in over the next few weeks. Profit results will be analysed closely as investors want to get a sense of whether companies are actually increasing revenue to increase profits or whether they still have to resort to cost-cutting to boost profits as they did in the April-June period. The market needs to see revenue growth because cost-cutting can only be taken so far – if you take too much cost out, your company could be left under-resourced for when demand picks up.

The profit results will provide direction not only for individual company share prices, but for the market as a whole. This year's share market rally has lifted major markets more than 50% from their lows in March and has given investors reason to believe that things will get better. Now though, questions are being asked about how much more of a rally

can be justified from here. As with the last results season, most analysts have very low expectations about profitability, and if companies can meet these low expectations there is no reason that share prices should fall. If companies can beat expectations and point to a genuine improvement in business through increased sales, share prices should push higher.

“What has once happened will invariably happen again when the same circumstances are again combined in the same way.”

Abraham Lincoln

What is nice about the current market environment is that everyone is just that little bit more cautious than they used to be. Prior to the credit crisis, attitudes towards risk were more relaxed and little energy was devoted to “what if” analysis. Value was in the eye of the beholder and because we had enjoyed a relatively long period of prosperity, most investors were prepared to forecast a continuation of good times. Now that the reset button has been pressed, investors have gone back to basics. How is a company making its money? What is a company worth? How much can it earn if conditions stay as they are today? How much can it earn if conditions improve? How much of this potential is built in to the current share price? How good is the company

Have you joined KiwiSaver yet?\*

## Your Portfolios (cont.)

at managing its costs and resources? How much of a safety margin shall I build into this investment? – if I think it could be worth \$3.00 maybe I'll buy at \$2.50, just in case. This is Investment 101 and is the perfect backdrop for stock pickers like us. You see, determining value is a subjective thing and requires an analyst to make assumptions about the future. As humans, we have a 'status quo bias' where when faced with an array of choices, we assume that conditions will remain the same as they are today. This bias (and the strong market rally that we have experienced for eight months) will likely lead to analysts being more conservative than usual, and even when presented with earnings growth, they will be reluctant to assume that growth will continue into the future.

Because we adhered to our investment disciplines, we have benefited disproportionately over the past six months as investors have gone back to basics, using fundamental investment analysis to identify quality businesses. We expect that whatever comes of the results season, our portfolios remain very well placed.

In our "Is Now the Time?" piece that we circulated to investors in June, we suggested that although share markets would likely remain volatile, and prices might continue to fall, there were compelling signs to suggest that it was time to invest. Those investors who heeded our advice have been rewarded. We continue to believe that those of you who take advantage of the more-cautious-than-usual market environment that exists today, will enjoy the benefits in the years ahead. "Is Now the Time" can still be read on the homepage of our website.

### New Zealand

During September news flow and portfolio activity was reasonably light. **Pumpkin Patch** reporting their earnings for the July year. Having expanded into the US and the UK at the worst possible time (with the benefit of hindsight), and with its debt and inventory reaching uncomfortable levels, management have done an excellent job in turning its operations around in a very difficult climate. **Rakon** announced a \$65m underwritten capital raising during the month, to fund a new plant in China, retire all debt and increase working capital. We took up a small allocation in the placement, though Rakon remains a relatively small portfolio holding.

### Australia

The Australian fund continued its strong run, with contributions from some unlikely sources. Both **Bravura** and **Credit Corp** have inflicted pain on the portfolio in the past, not because of their business models, but because of management or external issues. We have reduced both holdings over the past year to reflect their diminished attractiveness, but have not exited either stock completely because their share prices fell to levels that significantly understated the inherent value of the businesses. Credit Corp, while a small portfolio holding, has been our best performing Australian stock over the past twelve months lifting 220% for the year.

### International

Ken and Scott spent several weeks travelling in Asia, Europe and the US and will report their findings in next month's newsletter. The International fund outperformed global markets with strong performances from **Gameloft**, **City Telecom** and new portfolio company **Bare Escentuals**. We enjoy finding stocks before other investors, and a 20% price lift in the month after purchase has made for a good start to our relationship with Bare Escentuals!

### Infrastructure

Morrison & Co has maintained a risk averse policy, with a high level of foreign exchange cover, as well as a high level of cash and infrastructure bonds. Since its inception in December 2008, the fund has outperformed equity indices and infrastructure equity indices, despite being only partially weighted in equities. Eight stocks have been introduced to the portfolio – three of the stocks have produced returns above 30%, two in the mid 20% range, and three in the 10–15% range. For investors wanting a fund with growth potential but a slightly lower risk profile, the infrastructure fund would be worth considering.

## Your questions

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

**Q:** I came across an interesting article recently which said "85% of investment returns are a result of asset class allocations and only 15% come from actually picking investment within the asset class." This has serious implications for your main message – i.e. buy only one asset class (shares); don't worry about timing; and hold them for the long term. It also flags the importance of selecting the right sector at the right time.

**A:** The comment about asset allocation determining the majority of investment returns and risk is absolutely correct, and indeed I have written about this concept before. It is important however not to confuse the concept of asset allocation with that of portfolio management. Asset allocation deals with the relationship between a number of asset classes. Contrary to your suggestion, my main message is not that investors should buy only one asset class. I firmly believe that investors should have

exposure to several asset classes to achieve diversification and reduce investment risk.

Your comment that "if shares are the best asset class, it means that all the effort associated with picking individual shares will only give you 15% of your total returns" is incorrect. However, you are correct in saying that even if you are brilliant at stock picking, your efforts can be undone

# A bird's eye view

## What's new from Fisher Funds?

Thank you to all of those of you who will be attending our roadshow – we look forward to catching up with you. And sincere apologies to those of you living in regions that are not included in the roadshow schedule. It would be wonderful to bring the investment team to every town in New Zealand, and we would almost have to do that to reach the 40,000 investors in the Fisher Funds family, but it is just not practical. If you are unable to attend the roadshow, you might enjoy watching the DVD in the comfort of your living room – please contact the client services team and we will send you a copy.

Speaking of the Fisher Funds family, you may have noticed that we have recently embarked on an advertising campaign featuring members of our family. Our advertisements in the Sunday Star Times have featured actual investors explaining why they chose Fisher Funds and the returns they have achieved to date. We have also just launched a television advertising campaign focused on KiwiSaver and the fact that it really is relevant for almost every family's circumstances.

We believe that Fisher Funds has a lot to offer in these challenging times. Investors have told us that they enjoy our approachability (our team is always willing and available to talk –even when you ask hard questions!), our transparency (we do what we say we will) and our common sense approach. Admittedly these days we don't get as many compliments about our performance, though we have had plenty of them over the years and know that we will again. In fact, some of you have remarked on the huge improvement this year over last year, and we think that this is important. All our portfolios have outperformed the rising market, in some cases by a significant margin. The Fisher Funds KiwiSaver Growth Fund is the best performing KiwiSaver fund for the twelve months to September 30, 2009 with a 20% return for



the year. This time last year, our KiwiSaver Growth Fund was second worst of 23 KiwiSaver growth funds at the time with a –18% annual performance, so our turnaround really has been quite staggering. Even though the current unit price of our KiwiSaver Growth Fund is around 96 cents (having started in October 2007 at \$1.00) virtually all our 14,500 members have had a positive experience through buying units at low prices over the past year which have subsequently improved in value.

We have found our KiwiSaver members to be quite pleased at the discipline that KiwiSaver brings. Left to make the choice themselves, a lot of members would have stopped their monthly contributions last year when markets became scary. Instead, their contributions continued through the worst (read cheapest) period in the market cycle, allowing them to reap the benefits now and in the future.

We understand that sometimes it is hard talking to friends and family about financial matters, but if you know someone who you think would benefit from learning about KiwiSaver, please tell them about Fisher Funds, or give us a call and we'll talk to them. We are increasingly finding that people just aren't aware of the merits of KiwiSaver, but once they learn, they soon become very enthusiastic.

## Your questions (cont.)

by having the wrong asset allocation (picking a handful of great stocks will be of limited help if the entire share market underperforms as an asset class).

Most of our investors have portfolios featuring a number of different asset classes, so their investment with Fisher Funds is just part of a diversified portfolio. We focus on making sure that we get the best returns we can from the one asset class that we look after.

By the way, asset allocation refers to different asset classes, not just variations of one asset class. Having five different finance company investments did not provide diversification benefits, and splitting investments between New Zealand shares, Australian shares and International shares is not asset allocation.

I firmly believe that investors should have exposure to several asset classes to achieve diversification and reduce investment risk.

I also believe that the article was focused on entire asset classes rather than on individual sectors. There is no evidence to suggest that the 'right' sector allocation leads to outperformance. Sector rotation is a legitimate investment approach, but so is bottom-up stock picking (which pays little heed to sector exposure), and both have been successful in various market climates.

# Fund facts

## Fund Performance

Fund Net Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	-3.5%	-20.5%	-11.1%	1.8%	9.8%
Australian Growth Fund	24.4%	-14.2%	-1.7%	na	5.9%
International Growth Fund	21.0%	na	na	na	5.6%
Infrastructure Fund	na	na	na	na	20.6%
KiwiSaver Growth Fund	20.3%	na	na	na	-0.6%

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

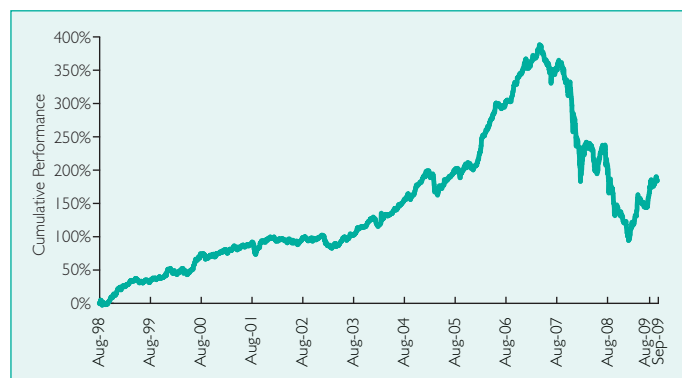
Fund Pre-tax Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	-2.3%	-19.6%	-12.1%	4.7%	12.6%
Australian Growth Fund	25.1%	-14.0%	0.3%	na	7.0%
International Growth Fund	21.0%	na	na	na	5.6%
Infrastructure Fund	na	na	na	na	20.6%
KiwiSaver Growth Fund	20.3%	na	na	na	-0.6%

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	2.3%	-13.9%	-4.1%	2.2%
90day bank bill	4.7%	6.8%	7.3%	7.3%
S&P/ASX300 (Calculated in \$NZ)	12.1%	-9.2%	3.9%	12.8%
MSCI Global Small Cap Index	-4.3%	-11.4%	-8.1%	2.3%

September's Biggest Movers	
<b>New Zealand</b>	
NZX	7%
Abano Healthcare	5%
Mainfreight	4%
Rakon	-9%
<b>Australia</b>	
Bravura Solutions	49%
Oakton	26%
Credit Corp	19%
Tox Free Solutions	17%
<b>International</b>	
Gameloft	28%
City Telecom	24%
Bare Escentuals	21%
Home Inns	17%

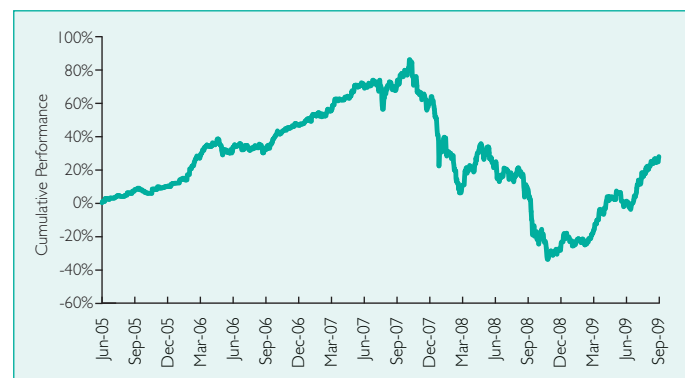
## New Zealand Growth Fund



**Fund Inception** August 1998

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

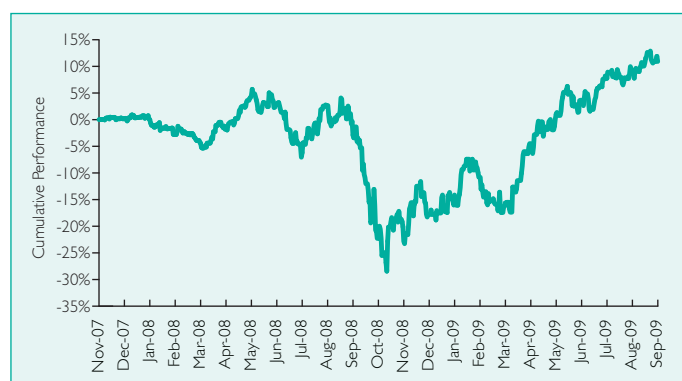
## Australian Growth Fund



**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.

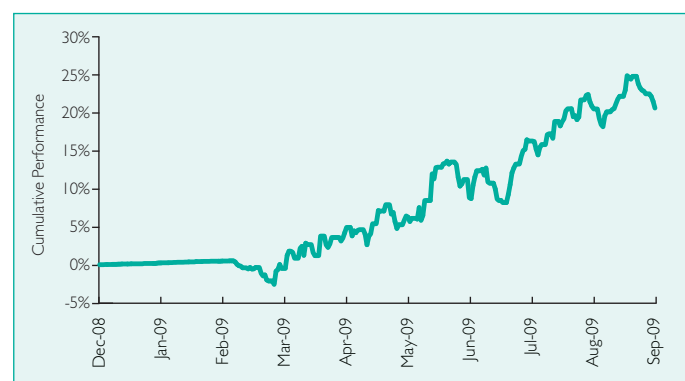
## International Growth Fund



**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, 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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\* For an investment statement on any of our funds, please go to our website or call us on 0508 FISHER (0508 347437).