



# from the Undergrowth

December 2011

## At a Glance as at 30 November 2011

### Unit Prices (\$)

NZ Growth Fund	3.2806
Australian Growth Fund	2.1237
International Growth Fund	1.0455
Fledgling Fund	1.1757
KiwiSaver Growth	1.0553
KiwiSaver Conservative	1.0706
Infrastructure Fund	1.1833
Trans Tasman Fund	1.3081
High Income Fund	0.9975

### Performance (November 2011)

NZ Growth Fund	0.6%
Australian Growth Fund	-4.7%
International Growth Fund	1.0%
Fledgling Fund	0.6%
KiwiSaver Growth	-0.9%
KiwiSaver Conservative	0.4%
Infrastructure Fund	0.1%
Trans Tasman Fund	-3.55%
High Income Fund	0.06%
NZ50 Gross index	-1.9%
S&P/ASX 300 (\$NZ)	-2.6%
MSCI Global Small Cap Index (\$NZ)	0.8%

I reckon that the worst of market volatility is behind us and we can look forward to a more positive 2012. We had glimpses of improving investor sentiment in November and as we know, optimism is the last missing ingredient for a market turnaround. Companies are in good shape and well-priced, economies are improving and even the politicians are starting to behave. Enjoy your Christmas break, because it just gets better from here!

*Samuel*

## Our Portfolios

### What has been going on since we last spoke?

"I have heard there are troubles of more than one kind. Some come from ahead and some come from behind."

*Dr. Seuss*

If it weren't for the alert investors among you who would notice and think we're lazy, we could almost have reproduced last December's newsletter commentary, because surprisingly little has changed in the past twelve months. It feels like it's been a full-on year and markets have traversed a vast and ever changing territory, but really 2011 was very similar to 2010, only slightly bumpier. Dr Seuss was right - some troubles came from behind, like the lingering effects of the GFC in the form of massive indebtedness for Greece and Italy, and some were new troubles altogether in 2011, like the Christchurch earthquakes and other natural disasters.

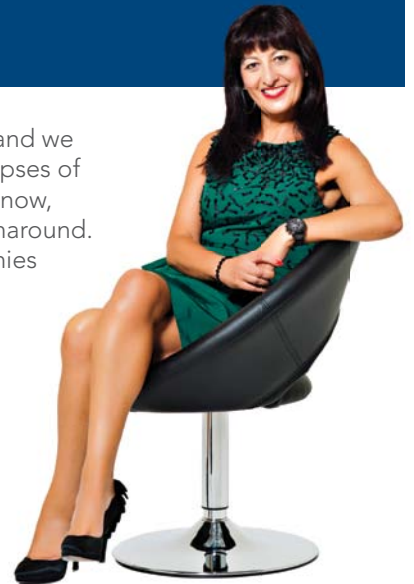
We said in December 2010 that "Companies have reduced debt and cash reserves have been allowed to grow, to the extent that many companies are sitting on war chests which will give them flexibility as they look for future growth. There have been some encouraging snippets in economic data releases, which point to improving rather than deteriorating

economic conditions. All these positive highlights are coming together nicely ... we just need the human element, confidence to improve and we'll be away laughing."

All the positive elements did continue to come together during 2011 but investors' nerves were just not strong enough to cope with Europe's woes, which were played out on a daily basis, like an amateurish and depressing reality TV show.

The 2011 year has featured more than a smattering of positive highlights including better-than-expected profit results, merger and acquisition activity at premium prices, improving unemployment and economic growth numbers, low inflation, and coordinated actions by central banks and governments in finding ways to reduce debt and kick-start growth. Unfortunately, despite the good news, world share markets with the exception of the US and New Zealand, look set to close the year in negative territory.

Finishing yet another year in negative territory will test the resolve of every investor, and we share your frustration. It is frustrating to own shares in good quality companies that have remained



profitable throughout the past four years, yet their share prices respond more to news from abroad than to their own achievements. It is frustrating that the New Zealand dollar has become something of a plaything on foreign exchange markets, rising and falling to reflect investors' risk appetite on any given day rather than reflecting its fundamental value relative to other currencies. The currency impact has been significant this year, not only for New Zealand companies with offshore businesses, but for your investments in the Australian, International and Infrastructure funds which have been particularly volatile. To have your hard-fought share price gains knocked around by short-term currency manoeuvres is a pain. And it is frustrating that all assets have become so highly correlated in the short term that we start to doubt the stability and risk-reduction benefits that diversification provides.

Still, dwelling on our frustrations is not a productive way to end the year. We should celebrate some of the positives, because there are sure to be more of them in the year ahead.

**Kiwis can** – the New Zealand share market has been a global outperformer this year, falling less than other developed markets and offering investors an attractive dividend yield while remaining reasonably priced. Our New Zealand fund has performed even better than the broad market and has been the star of 2011. The re-election of John Key's government gives us stability and a plan for growth and debt reduction which is something other countries have yet to achieve.

**No thanks banks** – our High Income Fund has proven popular with investors seeking better returns than bank deposits and the flexibility to receive a regular income. The fund has been something of a safe haven for investors who have found this year's volatility in the Growth funds too much to handle. By parking a portion of their investment funds in the High Income Fund and the Fisher Morrison Infrastructure Fund, some investors have told us they are finding it easier to cope with the daily volatility and news flow.

**One plus one equals three** – we have enjoyed several takeover offers for companies in our Australian and International funds. While we never invest with a view to accepting the first takeover offer that comes along – we are long-term investors after all – all of the takeovers this year have been at a healthy premium to the prevailing share price, making it prudent to accept the offer, bank the profit, and move on to the next opportunity.

**And the award goes to** – A number of our companies have achieved positive performances despite the difficult year that has been. Among our best performers for the eleven months to November 30 are NZX (+59%), Kathmandu (+44%), Sarin (+42%), Mainfreight (+35%), Asahi (+34%) and Austrbrokers (+26%). Mainfreight also deserves a special mention for winning Company of the Year at the 2011 Deloitte/Management magazine Top 200 awards, for the second year running, and its chief executive Don Braid won Executive of the Year. Ryman Healthcare and Kathmandu also featured in the awards winning Best Growth Strategy and Most Improved Performance respectively. And our colleague and Fisher Funds shareholder Lloyd Morrison was honoured with the Visionary Leader award.

Roll on 2012 and let there be more takeover activity, let our companies continue to perform despite the conditions, let's hope New Zealand remains in front

and we look forward to enough positive highlights to bring investor confidence out of hiding.

*We're with Dr Seuss: I have heard there are troubles of more than one kind. Some come from ahead and some come from behind. But I've bought a big bat. I'm all ready you see. Now my troubles are going to have troubles with me!*

## New Zealand

The New Zealand market was down 1.9% in November, outperforming the MSCI World Index which fell 6.4% for the month. With the RWC over, the main focus shifted to the General Election during the month. The National party win was widely anticipated by the market and cements in place the partial sell-down of SOE's, which are expected to kick off in the second half of 2012. The Trade Me IPO had a reported \$1billion of investment demand chasing \$360m of stock at the top end of the pricing band, indicating that demand is certainly there for quality offerings.

The NZ Growth Fund gross performance of +0.7% for November was ahead of both the broader market (NZ50G -1.9%) and mid-cap segment (NZSEMCG -1.4%). The **Mainfreight** share price responded to its stronger than expected interim result, whilst the **F&P Healthcare** share price responded to the lower NZ\$/US\$ cross. **Pumpkin Patch** continues to be under real earnings pressure, but its small weighting in the portfolio has minimised the impact from recent share price weakness.

## Australia

It was a disappointing month for relative performance given the portfolio is positioned for the type of challenging markets we are currently experiencing. It must be noted, however, that the lack of liquidity is amplifying adverse movements and meaning an even bigger gap than normal between fundamentals and prices.

In terms of key attributors to returns on the positive side it was it was Credit Corp (+1.3%) leading the way post a profit upgrade following its AGM. Even this performance was pretty tepid given Credit Corp's very healthy outlook. Also outperforming were **Treasury Group** (1.3%) and **Nanosonics** (+0.9%) on little news. The biggest negative for the month was **Dart Energy** (-23.4%) which more than reversed last month's 18.1% gain in these "risk off" markets. **CSG** (-12.3%) slipped as investors got impatient waiting for more news of the potential takeover offer. We expect resolution on this in December. Last but not least the currency hedge denuded returns, slipping 1.1% for the month.

## International

Companies are finally starting to admit they are seeing a slowdown. This reinforces our belief, as discussed in the middle of the year, that while companies will continue to executive toward their long term plans they will likely take a cautious approach to business planning for 2012. A recent example was portfolio company Qiagen who announced they would cut 8-10% of their workforce in an effort to improve efficiency. Shares rallied on the announcement.

Ken travelled through Asia during November where there was a unanimously negative tone from fund managers, analysts and macro-economic speakers. The feedback from

company management meetings highlighted a slowdown that had spread to domestic spending in China. We would anticipate this slowdown to continue in the short term and, coupled with slowing inflation, believe it will give the Chinese government plenty of room to implement policy easing in the coming quarters. We discussed last month how undervalued small cap companies are in Asia. We have been using the weakness lately as an opportunity to add to selected holdings.

Global market volatility remains ridiculously high and this also holds true with currencies. During the month the decline in the NZ dollar boosted returns for the International fund.

## Infrastructure

The Fisher Morrison Infrastructure Fund had a flat performance in line with the broader infrastructure sector over November, outperforming the MSCI World index that fell 2.7%. We continue to see a bifurcation of valuations in our sector with very defensive stocks trading at historically high valuations and a significant number of higher risk/return stocks offering deep value opportunities at historical lows. We are maintaining a balance of these investment opportunities within the fund.

Positive contributions in November came from the US rail stocks and the smaller portfolio holdings in the water and gas transmission sectors. The largest negative contribution

for the month was **Vienna Airport** which underperformed when the new management team announced one-off asset impairment charges with their company results.

## Fixed Income

The High Income Fund distributed 0.35 cents per unit this month. The Fund has now paid 2.1% since inception which equates to 4.2% on an annualised basis.

Markets remain extremely volatile but November was undeniably one for the bears. Our informal global bond benchmark, the Barclays Capital Global Aggregate Corporate Index, fell 1.75% on the month while the ANZ NZ Government Bond Index posted an impressive 2.44% return. The High Income Fund returned 0.17%.

There was a fair bit of activity in the fund during November as we added NZ government bonds, GPG Finance PLC, US treasury bonds, UK gilts, Canadian government bonds, Lloyds Banking Group and Insurance Australia Group holdings to the portfolio. We reduced our holding in **Z Energy** following their continued outperformance relative to their offshore peers and reflecting a more prudent approach to the cyclical nature of their business model.



## A bird's eye view

*This month we discuss where we think investment returns might come from in the year ahead.*

When forecasting returns, it is tempting to make a subjective assessment of the state of the world and settle on a number that best reflects that view. If it looks like the world is undergoing recovery or growth, you might reasonably expect share market returns in the order of 15-20% for the year ahead. If recessionary conditions look set to continue, you might lower your return expectations to single digits, say 5-7%.

There is a slightly more scientific way of forecasting returns and while we can only know with the benefit of hindsight how accurate we are, it's worth applying a bit of science rather than just taking a stab.

First we need to break down the components of the total return achieved on share market investments - dividend yield, earnings growth and multiple expansion.

The dividend yield is the percentage of a company's share price that it pays out as dividends over the course of the year, and can be calculated by dividing the current share price by the dividends paid per share. In the New Zealand share market, the forecast dividend yield for the year ahead is around 5.5%.

Earnings growth is trickier to forecast, but a useful starting point is the rate of growth achieved historically.

New Zealand listed companies have achieved solid earnings growth in the last year (+13% on average), which is creditable given the tough economic backdrop. However the cautionary statements that have accompanied most profit results suggest that earnings growth might be muted in the 2012 year. Based on analyst forecasts, we should be able to expect earnings growth in the order of 5-6% for the year ahead.

Multiple expansion is when the price-earnings ratio (or P/E) that investors are prepared to pay for a stock, increases. Generally multiples expand in bull markets – in the 1980s, US P/E ratios doubled and then they doubled again in the 1990s – and they compress in bear markets as investors are less willing to pay high prices for stocks. The median New Zealand market P/E is below its long-run average but not significantly so. We don't expect there to be any multiple expansion in the next twelve months, but this could be the wildcard.

Without multiple expansion then, we are looking at a return of around 11% (forecast dividend yield plus forecast earnings growth) for the year ahead for New Zealand shares, which is quite respectable in this low interest rate environment. There are a lot of assumptions that go into deriving this forecast return, and let's hope that hindsight will show our assumptions to have been very conservative!

# Meet your investment team



**Carmel Fisher**  
Managing Director,  
New Zealand



**Mark Brighthouse**  
Chief Investment Officer



**Frank Jasper**  
Senior Portfolio  
Manager, Director, Australian



**Ken Applegate**  
Senior Portfolio  
Manager, International



**David McLeish**  
Senior Portfolio Manager,  
Fixed Interest



**Murray Brown**  
Senior Investment  
Analyst, New Zealand



**Terry Tolich**  
Senior Investment  
Analyst, Australian



**Scott Brown**  
Senior Analyst, International



**Scott Huan**  
Analyst



**Matt Logan**  
Portfolio/Research Associate

## Getting to know ...

### Carolyn Clark

Client Services Manager



*It's been a while since we introduced you to our team, so here's a quick profile of one of the people you might speak to if you call or pop into the office.*

Many of you will have met Carolyn in the four and half years she has been part of the Fisher Funds family. She is one of the friendly voices at the end of the phone, helping with questions about KiwiSaver and our managed funds, and she has enjoyed meeting a lot of you at our roadshows around the country (which we missed this year but look forward to resuming next year).

Prior to joining us, Carolyn worked in a variety of industries including insurance, medical supplies and pharmaceuticals, with the common thread being people contact which Carolyn thoroughly enjoys. Like a lot of our team, Carolyn is very active and enjoys the outdoors, particularly walking, biking, skiing and fishing. She was an enthusiastic participant in the Oxfam Trailwalker last year and the Otago Rail Trail this year. Carolyn is a born and bred Westie, a background she indulges by supporting partner Paul with his car rallying, though she also has a sophisticated side that enjoys going out for dinner and sharing a glass of wine with friends.

## Fisher Funds Management Limited

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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).



## Fund Performance

Fund Net Returns	1 Year	2 Years	3 Years	5 Years	7 Years	Since Fund Inception
NZ Growth Fund	10.5%	6.5%	9.9%	-5.3%	2.8%	9.3%
Australian Growth Fund	-10.4%	2.4%	26.3%	-0.4%	N/A	5.6%
International Growth Fund	-12.6%	-2.5%	7.4%	N/A	N/A	1.1%
Infrastructure Fund	-2.0%	5.3%	N/A	N/A	N/A	10.3%
Kiwisaver Growth Fund	-4.7%	2.2%	14.8%	N/A	N/A	1.3%
KiwiSaver Conservative Fund	4.3%	N/A	N/A	N/A	N/A	2.8%
Trans Tasman Fund	-0.8%	0.3%	11.0%	2.3%	N/A	4.3%

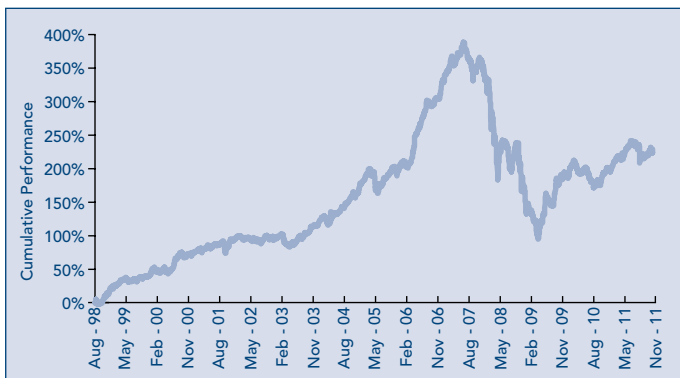
*NB... annualised returns, after tax and fees.*

Fund Pre-tax Returns	1 Year	2 Years	3 Years	5 Years	7 Years	Since Fund Inception
NZ Growth Fund	11.6%	7.5%	11.1%	-5.1%	5.0%	11.8%
Australian Growth Fund	-10.4%	2.4%	26.5%	-0.4%	N/A	7.0%
International Growth Fund	-12.6%	-2.5%	7.4%	N/A	N/A	1.1%
Infrastructure Fund	-2.0%	5.3%	N/A	N/A	N/A	10.3%
Kiwisaver Growth Fund	-4.7%	2.2%	14.8%	N/A	N/A	1.3%
KiwiSaver Conservative Fund	4.3%	N/A	N/A	N/A	N/A	2.8%
Trans Tasman Fund	-0.8%	0.3%	11.0%	2.3%	N/A	4.3%

*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	7 Years
NZ50G	0.2%	2.3%	6.5%	-3.3%	1.3%
90day bank bill	2.9%	2.9%	3.2%	5.3%	5.9%
S&P/ASX300 (Calculated in \$NZ)	-4.4%	-0.9%	11.8%	1.3%	8.0%
MSCI Global Small Cap Index (in \$NZ)	-4.6%	5.3%	7.5%	-3.7%	N/A

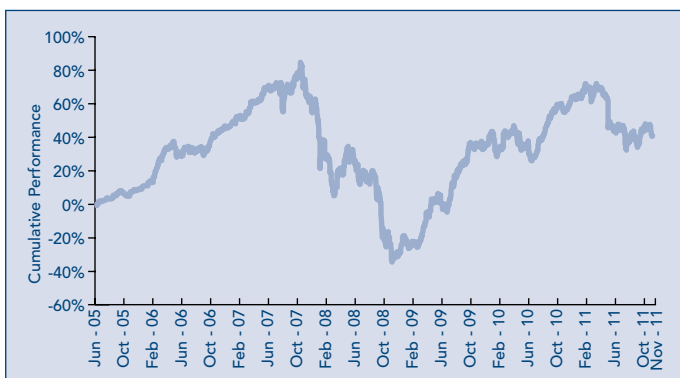
November's Biggest Movers	
<b>New Zealand</b>	
Pumpkin Patch	-16%
Tower	10%
Abano Healthcare	-10%
Mainfreight	7%
<b>Australia</b>	
Dart Energy	-24%
McPherson's	-17%
CSG	-12%
Universal Biosensors	-11%
<b>International</b>	
Gameloft	19%
Tom Tailor	18%
Dolby Laboratories	18%
China Automation	-17%



### New Zealand Growth Fund

Fund Inception August 1998

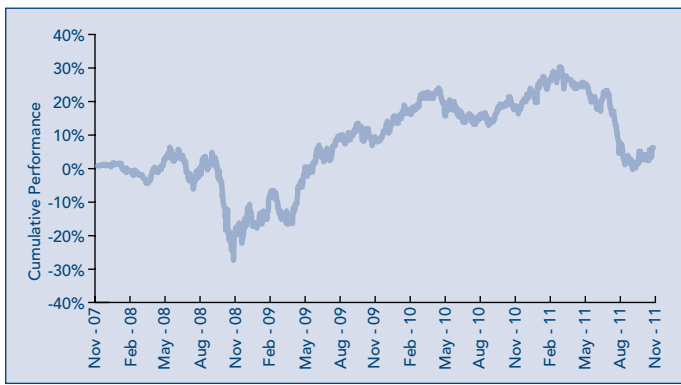
**Portfolio Holdings** - Abano Healthcare, Delegats, Fisher & Paykel Healthcare, Freightways, Infratil, Kathmandu, Mainfreight, Metlifecare, Michael Hill, NZX, Opus International, Pumpkin Patch, Ryman Healthcare, Wakefield Health, Tower Limited.



### Australian Growth Fund

Fund Inception June 2005

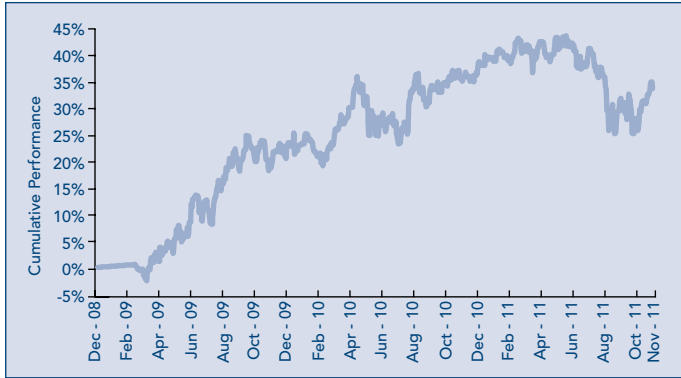
**Portfolio Holdings** - Austbrokers, Bravura, Credit Corp, CSG, Dart Energy, DWS, Solutions, McMillan Shakespeare, Nanosonics, Nick Scali, Pharmaxis, Reckon, Retail Food Group, The Reject Shop, Toxfree, Treasury Group, Universal Biosensors, Vision Group, WHK Group.



## International Growth Fund

Fund Inception October 2007

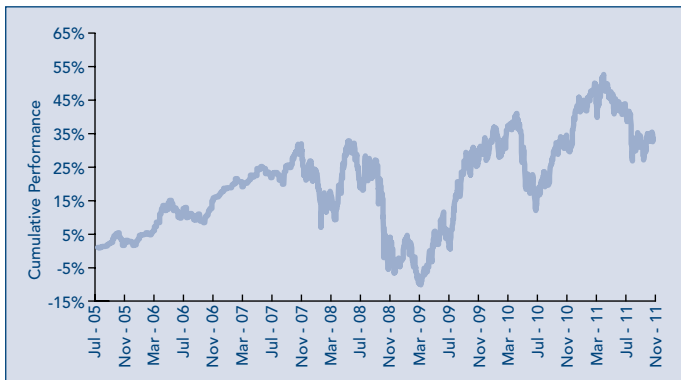
**Portfolio Holdings** - Actelion, Advent Software, Asahi Co Ltd, Autodesk, Biotest, Brembo, China Automation, City Telecom, Conceptus, Dolby, Equinix, Fook Woo Group, Gameloft, Hanger Orthopedic, Horiba, Hsu Fu Chi International, Hyflux Limited, Interactive Intelligence, Icon PLC, Midas, Nokian Renkaat, O2 Micro, Orthofix, Ports Design, Prestige International, PSI AG, Qiagen, Raffles Education, Sarin Technologies, Stratec Biomed, Telvent, Torishima Pump, TravelSky, Wasion Holdings, Wellstream, Wirecard, Valid.



## Infrastructure Fund

Fund Inception December 2008

**Portfolio Holdings** - Flughafen Wien AG, Fraport AG, Norfolk Southern Corp, 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, Fedex, Severn Trent, ITC Holdings, International Power.



## Trans Tasman Fund

Fund Inception July 2005

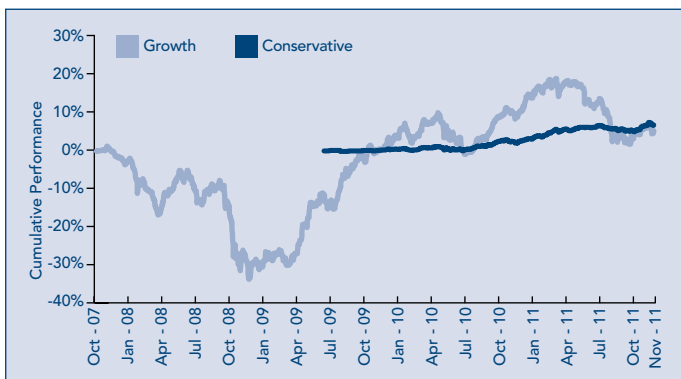
**Portfolio Holdings** - Fisher and Paykel Healthcare, Kathmandu, Mainfreight, Nuplex, Ryman, Sky TV, Tower, Adelaide Brighton, Amcor, Boart Longyear, Challenger Financial Services, Computershare, Emeco Holdings, Fairfax Media, Incitec Pivot, McPhersons, QBE Insurance, Rio Tinto, Suncorp-Metway, Tower Australia, Telstra, WorleyParsons, Works Finance (NZ).

## Returns

	1 Month	3 Months
High Income Fund	0.06%	0.78%

## Distribution Summary

Date (2011)	15/06	15/07	15/08	15/09	15/10	15/10
Distribution Amount (cents/unit)	0.0035	0.0035	0.0040	0.035	0.0030	0.0035



## High Income Fund

Fund Inception April 2011

**Portfolio Holdings** - Auckland City Council, Barclays Bank PLC, BBVA SM, China National Oil Offshore Corporation, Genesis Power Ltd, GPG Finance PLC, HBOS PLC, Lloyds Banking Group PLC, NZ Government, Pernod Ricard SA, Telefonica SA, Santos Limited, Reliance Industries Limited, Globo Comunicacoes, Rabo Bank Nederland, HSBC Bank, United Kingdom Gilts, Unitymedia NRW GmbH, United States of America Treasury.

## Fisher Funds KiwiSaver Scheme

Fund Inception October 2007

**Portfolio Holdings** - A current listing of companies in the KiwiSaver portfolio can be viewed under 'more about our scheme and your options' on the homepage of our website <http://kiwisaver.fisherfunds.co.nz>.

For a copy of any of our investment statements, visit our website [www.fisherfunds.co.nz](http://www.fisherfunds.co.nz) or phone 0508 FISHER (0508 347 437)

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