



# from the Undergrowth

July 2011



At a Glance as at 30 June 2011	
Unit Prices (\$)	
NZ Growth Fund	3.3414
Australian Growth Fund	2.1786
International Growth Fund	1.2149
Fledgling Fund	1.1993
KiwiSaver Growth	1.1307
KiwiSaver Conservative	1.0686
Infrastructure Fund	1.2548
Trans Tasman Fund	1.4387
Performance (June 2011)	
NZ Growth Fund	-1.3%
Australian Growth Fund	-2.5%
International Growth Fund	1.4%
Fledgling Fund	-1.3%
KiwiSaver Growth	-0.5%
KiwiSaver Conservative	0.4%
Infrastructure Fund	-1.5%
NZ50 Gross index	-2.8%
S&P/ASX 300 (\$NZ)	-2.2%
MSCI Global Small Cap Index	-2.8%

It's odd really, we all knew that Greece wasn't going to default and take the rest of Europe down with it, but still, nobody was confident enough to act ahead of the Greek parliamentary vote. Instead we had three and half weeks of falling share markets and then a few great days at the end of June which have carried on into July as investors heaved a sigh of relief at the Greek government displaying common sense.

*Samuel*

## Our Portfolios

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

"There are very few monsters who warrant the fear we have of them."  
*Andre Gide*

Without wanting to glorify commentators who make big pronouncements at the beginning of a year, implying they have a clue about what the future holds, this year's early predictions seem to be on the money. The majority of commentators began the year suggesting that the second half would be better than the first because hopefully by mid-year, the economic data would be improving. Last month, Ben Bernanke gave a speech to bankers saying there was good news and bad news. He said the bad news was that the US economic recovery was slower than he and others expected. The good news was that things were about to change and the second half will be better than the first. This doesn't seem to be a big ask. The first half of 2011 has been a real disappointment with GDP, unemployment and retail sales all behaving quite differently to what you'd expect in the early stages of a recovery. Of course the second half should be better if only because we won't have (or better not have) a repeat of the Japanese

earthquake, tornadoes and flooding which just made it that much more difficult for a recovery to get any traction.

For some investors, the second half doesn't just have to be a bit better than the first half of the year; it needs to significantly improve. But that's probably a bit of a challenge because there are so many things that have to be just right, the stars and moon need to be in alignment and not one thing can come from left field and derail any burgeoning recovery. We know there'll be stuff coming from left field and markets will react accordingly.

Markets have an odd way of dealing with impending news. We will likely continue to get volatility as investors anticipate, digest and then respond to news as it is released. Every time Ben Bernanke speaks, the markets will move. Every time China announces anything, the markets will move. At any whiff of information about European debt, markets will react. But we shouldn't confuse this short term volatility, which is in response to short term noise, with anything more meaningful. The big bogeys which have caused concern for



investors in the first half of the year are basically under control. It looks like the US is on track to return to GDP growth of 3-3.5% and this is enough to allow them to start reducing debt and for the housing market to gradually improve, thereby lifting employment and regaining some momentum. Meantime the Chinese government is doing its darnedest to get their economy growing at a Goldilocks pace, not too hot and not too cold. Europe has a bit of work to do but there is cohesion and there is an acknowledgement, albeit a somewhat grudging one, that all European countries need to work together to manage themselves out of their problems.

With the big bogeys sorted, investors can move their attention to individual investments, and this is where there is real reason to believe that the second half can be better than the first half. The recession has most definitely ended when it comes to corporate profits. The last three profit reporting seasons have produced good results, around the world, with businesses improving earnings in spite of the economic woes. If the upcoming results season continues this trend, and there is nothing to suggest it won't, and this news coincides with the long-awaited gradual economic recovery, we could be away and laughing.

## New Zealand

The broader NZ equity market fell 2.8% in June, slightly more than the MSCI World Index. On top of Greek concerns, New Zealand investors had plenty of distractions with further sizeable aftershocks in Christchurch continuing to delay the building recovery, although the Government did announce an earthquake compensation package for those most affected. During June we increased our holdings in **Infratil**, **F&P Healthcare** and **Opus Consulting** and trimmed slightly in **Ryman** and **Mainfreight**. The Mainfreight share price has been such a strong performer that our portfolio was starting to breach prudential limits, so we were forced to take some profits. The -1.2% gross return of the NZ portfolio was better than that of both the NZ50G and NZSEMCG which were down 2.8% and 2.5% respectively. Only two companies in the portfolio posted positive returns, but these were our largest holdings and led to our relative outperformance.

## Australia

The Aussie market was hit by the same concerns that dogged other markets – evidence of weaker global activity and the continuing euro debt crisis. To add to this negative mix, soft local data also undermined confidence and Australia's strong link to what is perceived as a weakening Chinese economy further hurt the market.

Other than the overriding macro drivers there was almost no stock specific news to move share prices in our portfolio companies over the month. With a dearth of news from the portfolio companies over the month there wasn't a lot in the way of specific drivers behind this month's performance. On the positive side of the equation was CSG (+11.1%) which rose from an arguably oversold position and Nick Scali (+12.6%) also helped performance although admittedly its share price rose on low volumes.

On the flip side, Pharmaxis (-26.3%) was once again the main negative contributor with year end tax-loss selling exacerbating its fall right on year end. Interestingly, and similar to the other key negative contributor for the month Dart Energy (-15.8%) the Pharmaxis share price has enjoyed a healthy post 30 June bounce.

## International

After a tough few months, the International fund increased 1.4%, well above the Global Small Cap Index return of -2.8% for the month. While global stock markets have been down in seven of the last nine weeks we have had a number of positive company announcements that have helped buffer the fund during this negative environment. Last month we highlighted that **Telvent** received a takeover offer at a 16% premium to the then market price and 50% to the price of Telvent shares at the beginning of 2011. This is a deal that we support and is scheduled to be completed by mid July.

For our largest holding in the fund **Biotest**, one of the significant catalysts that we had identified came to fruition in June with the announcement of a partnership with Abbott for BT-061, Biotest's most advanced biotherapeutic for rheumatoid arthritis and psoriasis. This deal is even better than we anticipated and the shares rallied 27% on the announcement.

## Infrastructure

The Fisher Morrison Infrastructure Fund returned -1.46% during June, whilst the global infrastructure and utility sector returned -0.42%. Our positions in Zurich Airport, Norfolk & Southern and Fedex performed strongly during the month. Underperformers in our portfolio were Vienna Airport and China Merchants Holdings.

We reduced the fund holdings in Fedex after the price rallied on a strong set of results and an optimistic outlook from management for FY12. We did not introduce any new positions into the portfolio during the month.

## Fixed Income

Our High Income Fund has been invested to reflect our view that, relative to our expectations for growth and inflation in the second half of this year and beyond, global government bond yields look expensive. We have chosen to hold above average levels of cash in the fund in the short-term. The broad-based interest rate market sell-off over the final two days of June has given us further conviction that we have made the right decision to be prudent in the initial investment phase of the Fund. As yields rise and become more attractive we will be allocating larger amounts of the Fund's capital to government bonds globally.

The High Income Fund paid its first distribution of 0.35 cents per unit on 15 June 2011.



# A bird's eye view

*This month we introduce you to a fellow member of the Fisher Funds family who recently needed help reviewing his portfolio.*

Don has been with Fisher Funds since 2007 when he invested \$100,000, hoping to generate around 15% growth each year which he could draw down and use as income. This didn't seem an unreasonable expectation because at that stage the Fisher Funds' Australian and New Zealand funds were boasting historical returns in the order of 15-20%pa. He put \$23,000 in the New Zealand Growth Fund, \$25,000 in the International Growth Fund and \$52,000 in the Australian Growth Fund. He expected to leave his investments alone for a number of years, letting the initial capital grow and withdrawing \$15,000 each year to supplement his other income.

He lived through the 2008 downturn, not enjoying the experience, but tolerating it in the knowledge that he had a few years before he was going to need any of his capital. He contacted us back in April 2011 and was pleased to see that the portfolio had nearly recovered to its \$100,000 starting point. He contemplated moving some of his funds into the Fisher Funds High Income Fund but wanted to wait until he had his \$100,000 investment restored. Unfortunately, the last couple of months have seen equity markets retrace a bit on Greek debt worries so his balance has fallen back to just under \$90,000 and he is six months away from needing that supplementary income.

We had a good discussion with Don and he was pretty pragmatic about the way investments can wax and wane. He had a similar experience in 1987 and

learned his lesson about having rainy day money in the bank. He acknowledged that he is a "bit of a punter" and would hate to cash up his investments this month only to find that markets find their feet again next month. He knows that getting back to \$100,000 is not necessarily a rational goal and that goals and circumstances change, and his investment strategy should adjust accordingly. Because he has some other money in the bank and has some flexibility about how he spends his income in the next few months, Don decided to leave 50% of his growth investments intact to give them a chance to resume the rally they were enjoying before April. It's early days, but this strategy has so far paid off. With the other 50% Don has decided to invest in the Fisher Morrison Infrastructure Fund because this fund targets a net yield of 5% and aims to achieve some capital growth as well (which appeals to Don's "punter" personality). He is going to use the quarterly distributions from the fund to top up his income and will withdraw capital from any or all of the funds as he needs it. Meantime the funds will be left to run their course, hopefully generating some capital growth over the next few years for Don. Having gone through this exercise, Don realized that his decision didn't need to be an 'all or nothing' one. He is happy with his investment portfolio and will continue to chat with us every few months as he gradually moves away from a growth focus to more of a balanced portfolio to suit his changing circumstances.

If you feel your investments need a review, please contact us on 0508 FISHER (0508 347 437) and we'd be happy to help.



fisher funds 

## Are your investments moving in the right direction?

If you are looking for an investment focused on capital preservation, low risk, stable returns and regular income then you need look no further.

The Fisher Funds High Income Fund gives you access to a diverse and high quality, hand-picked portfolio of fixed interest securities. Locally managed but globally focused, the Fund has the flexibility to search out the most competitive investment opportunities from around the world.

You'll benefit from the lower risk and lower volatility typically associated with fixed interest investments as well as enjoying a regular, competitive return which can be paid to you each month. You can also access your money at any time without penalty.

**For an Investment Statement and to find out more about how the Fisher Funds High Income Fund can help diversify your investment portfolio, call us, visit our website or talk to your investment advisor.**

[www.fisherfunds.co.nz](http://www.fisherfunds.co.nz) | 0508 FISHER (0508 347 437)



# Meet your investment team



**Carmel Fisher**  
Managing Director,  
New Zealand



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



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



**Terry Tolich**  
Senior Investment  
Analyst, Australian



**Ken Applegate**  
Senior Portfolio  
Manager, International



**Scott Brown**  
Senior Analyst, International



**Scott Huan**  
Analyst



**Matt Logan**  
Portfolio/Research Associate



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

## Getting to know ...

### Glenn Ashwell

General 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.*

Glenn is our General Manager and he has been part of the Fisher Funds family for over eight years. He used to work for our trustee and did such a brilliant job that Carmel approached him to join the company and assume responsibility for all the administration, compliance and well, general management jobs that cropped up. Glenn's role has grown as the company has grown and he now oversees the whole team (he's a great listener and motivator) and generally keeps the business on an even keel. We all benefit from the fact that Glenn is an early riser because he gets through a truckload of work in the first few hours of his day, which often begins at 6am!

Glenn is about to add "AFA" to the letters after his name. He will be one of the first in our team to get Authorised Financial Adviser status, though everyone is working hard to get there soon. If you have any tricky questions about tax or regulation or compliance or just about anything actually, Glenn is your man. He also keeps a lookout for complaints, though fortunately he can't remember the last time he had to deal with one of those!

Outside work, Glenn is a great Dad to Thomas and Eloise, and a practical man about the house and the holiday home that he and Cate have recently bought. He is a keen boatie and seems to know exactly where to catch fish in and around the Waitemata and Omaha harbours.

## 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	21.6%	16.7%	3.6%	-2.9%	4.7%	9.8%
Australian Growth Fund	13.0%	20.3%	5.3%	1.7%	N/A	6.4%
International Growth Fund	6.1%	8.8%	7.4%	N/A	N/A	5.5%
Infrastructure Fund	12.4%	12.0%	N/A	N/A	N/A	14.0%
Kiwisaver Growth Fund	13.1%	14.9%	8.2%	N/A	N/A	3.3%
KiwiSaver Conservative Fund	6.5%	N/A	N/A	N/A	N/A	3.3%
Trans Tasman Fund	26.1%	16.8%	5.9%	5.1%	N/A	6.3%

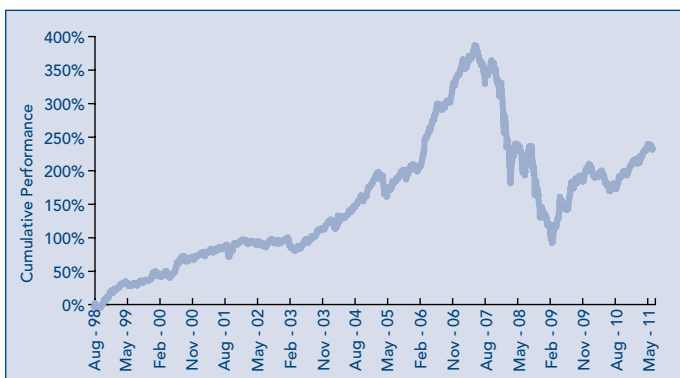
*NB... annualised returns, after tax and fees.*

Fund Pre-tax Returns	1 Year	2 Years	3 Years	5 Years	7 Years	Since Fund Inception
NZ Growth Fund	22.9%	18.0%	4.8%	-3.0%	7.4%	12.4%
Australian Growth Fund	13.0%	20.4%	5.5%	1.7%	N/A	7.9%
International Growth Fund	6.1%	8.8%	7.4%	N/A	N/A	5.5%
Infrastructure Fund	12.4%	12.0%	N/A	N/A	N/A	14.0%
Kiwisaver Growth Fund	13.1%	14.9%	8.2%	N/A	N/A	3.3%
KiwiSaver Conservative Fund	6.5%	N/A	N/A	N/A	N/A	3.3%
Trans Tasman Fund	26.1%	16.8%	5.9%	5.1%	N/A	6.3%

*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	16.0%	11.1%	2.6%	-0.8%	3.6%
90day bank bill	3.1%	2.9%	4.0%	5.8%	6.2%
S&P/ASX300 (Calculated in \$NZ)	17.9%	14.5%	1.2%	3.5%	10.9%
MSCI Global Small Cap Index (in \$NZ)	14.3%	14.2%	4.1%	-2.9%	N/A

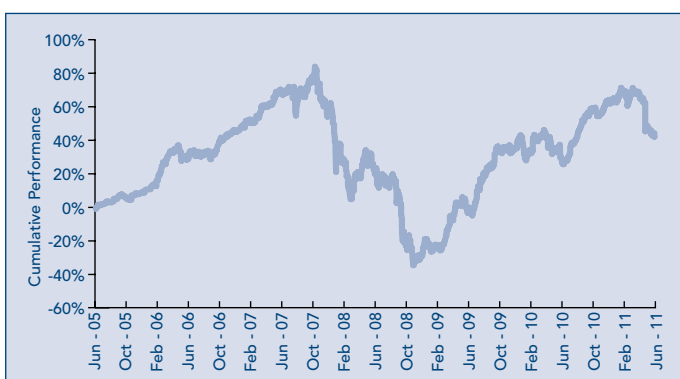
June's Biggest Movers	
<b>New Zealand</b>	
Delegats	-11%
Tower	-10%
Pumpkin Patch	-9%
NZX	-4%
<b>Australia</b>	
Vision Group	-39%
Dart Energy	-16%
Nick Scali	13%
CSG Ltd	11%
<b>International</b>	
Sarin Technologies	31%
UFP Technologies	18%
Raffles Education	-15%
Telvent	15%



### New Zealand Growth Fund

Fund Inception August 1998

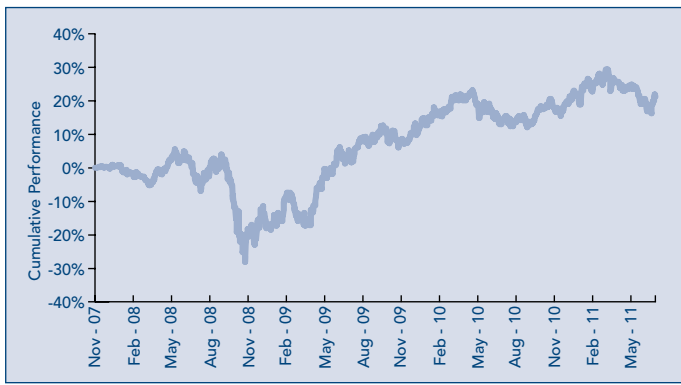
**Portfolio Holdings** - Abano Healthcare, Delegats, Fisher & Paykel Healthcare, Freightways, Infracore, Kathmandu, Mainfreight, Metlifecare, Michael Hill, NZX, Opus International, Pumpkin Patch, Ryman Healthcare, Wakefield Health, Tower Limited.



### Australian Growth Fund

Fund Inception June 2005

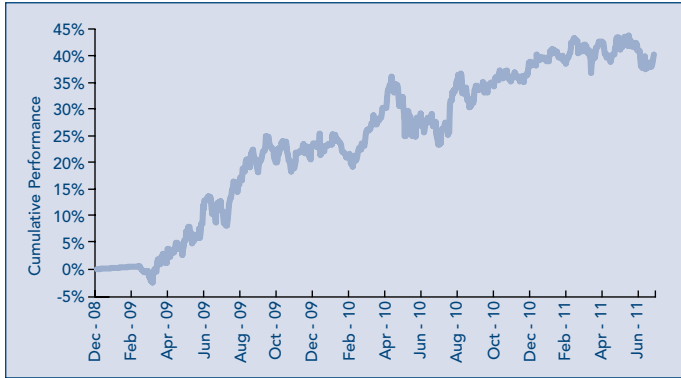
**Portfolio Holdings** - Austbrokers, Bravura, Centrebet, Credit Corp, Dart Energy, DWS, Solutions, McMillan Shakespeare, Nanosonics, Nick Scali, Oakton, Pharmaxis, Reckon, RP Data, Toxfree, Treasury Group, Universal Biosensors, Vision Group, WHK Group.



## International Growth Fund

### Fund Inception October 2007

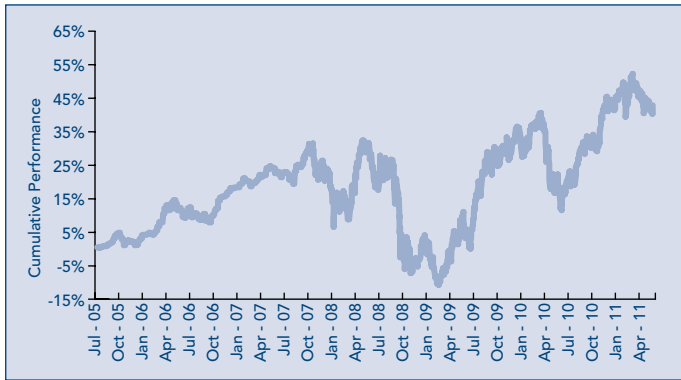
**Portfolio Holdings** - Actelion, Advent Software, Asahi Co Ltd, Autodesk, Biotest, Brembo, China Automation, City Telecom, Conceptus, Equinix, Fook Woo Group, Gameloft, Hanger Orthopedic, Hansens Natural, Horiba, Hsu Fu Chi International, Hyflux Limited, Interactive Intelligence, Icon PLC, Jumbo, Midas,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



## Infrastructure Fund

### Fund Inception December 2008

**Portfolio Holdings** - Flughafen Wien AG, Fraport AG, Norfolk Southern Corp, TNT N.V., 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.



## Trans Tasman Fund

### Fund Inception July 2005

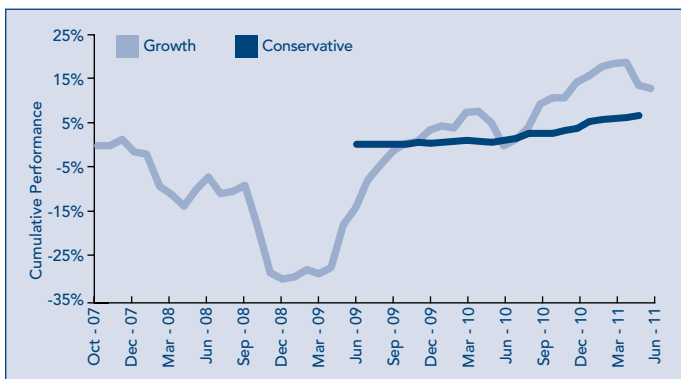
**Portfolio Holdings** - Fisher and Paykel Healthcare, Kathmandu, Mainfreight, Nuplex, Ryman, Sky TV, Tower, Adelaide Brighton, Amcor, Boart Longyear, Challenger Financial Services, Computershare, Emeco Holdings, Fairfax Media, Incitec Pivot, McPhersons, QBE Insurance, Rio Tinto, Suncorp-Metway, Tower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

## Returns

	1 Month (June 2011)
High Income Fund	0.259%
Benchmark (ANZ NZ Govt Bond Gross Return Index)	0.606%

## Distribution Summary

Date	Distribution Amount
15 June 2011	0.35 cents / unit



## 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, Glencore International PLC, GPG Finance PLC, HBOS PLC, Hutchison Whampoa International, Lloyds Banking Group PLC, NZ Government, Pernod Ricard SA, Telefonica SA.

## 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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