



# FROM THE undergrowth

DECEMBER 08



Are you one of those people who hates taking band-aids off, even after the wound has healed, because you know it's going to sting? Being a share market investor this year has caused similar feelings of apprehension, and yes, we have had enough stinging sensations to last us a lifetime! The good thing is that once we are brave enough to take the plaster off, we will realize that the wound wasn't that bad to start with, it won't leave any long-term scarring, and the whole world has learned to be more careful so we shouldn't get any more injuries like these in the future.

## Your Portfolios

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

#### At a glance As at 30th November 2008

Unit Prices (\$)	
NZ Growth Fund	2.4715
Australian Growth Fund	1.0550
International Growth Fund	0.8440
Fledgling Fund	0.9084
KiwiSaver	0.6971

Fund Sizes (\$m)	
NZ Growth Fund	79.3
Australian Growth Fund	54.7
International Growth Fund	5.0
Fledgling Fund	2.4
KiwiSaver	42.0

Performance (November 2008)	
NZ Growth Fund	-8.8%
Australian Growth Fund	-9.9%
Intl Growth Fund	5.8%
Fledgling Fund	-7.4%
KiwiSaver	-1.9%
NZ50 Gross index	-3.9%
S&P/ASX 300 (\$NZ)	-2.3%
MSCI Global Small Cap Index	-3.0%

This is our last newsletter for 2008 and we won't be offended if you choose to quickly skim over it or even file it, on the basis that you've had too much bad news this year and nothing we can say will make you feel better. If you are willing to persevere though, you may find it useful to know that we understand how you are feeling, you are not alone, and importantly we have some ideas as to how things can be healed from here. The first step in fixing something is to understand how badly it's broken. And knowing is always better than worrying about the unknown.

Two aspects of the current financial crisis have taken the hardest toll on all of us as investors. First, this downturn has been a long, drawn-out process of bad news followed by apparent solutions that turned out to be not quite enough to sort things. In turn, these 'solutions' brought on new problems, so there hasn't been an end to the cascade of horrible economic data and unintended consequences of every government intervention.

Even more painful for investors is how this bear market has brought so many stocks down with it. In other bear markets such as in 2001/2, 'defensive' stocks managed to find shelter from the big losses seen in 'new world' sectors such as technology. Basically because the bubble had only affected part of the economy, only that part of the economy came crashing down when the bubble burst. This time around though, it is hard to find any stock in any market that has managed to rise against the tide of panic selling.

So, it's done, we've lived through an awful year with few highlights. You won't want to hear yet another person tell you to stay calm and ride out the share

market storm, because you are looking at the value of your portfolio and you know that it needs to at least double to get back close to where it was last year. But this is not the time to be emotional, nor is it the time to give up on shares completely. Instead, we can rip off the band aid, get some sun on our skin, and move forward! A back to basics approach which, in spite of market performance, has served us well this year, is to revisit initial investment assumptions.

**"You make most of your money in a bear market, you just don't realise it at the time."**

*Shelby Davis, retired US fund manager*

Are your reasons for owning your share market investment still valid? There were arguments for buying into our Growth funds when you did. Back then, you looked at many years of solid performance, generated by growing, profitable companies in New Zealand, Australia and around the world. You knew that share prices ultimately track a company's profit performance, so all you needed to achieve long-term capital growth, was to invest in a diversified portfolio of growing, profitable businesses. Those reasons for investing remain valid. We have spent this year revisiting the investment case, or the reasons for investing in each of our companies. In this process, we considered the 'new world' that we have entered which will clearly favour those companies with little or no debt, and those companies that are a step or two removed from the consumer (since consumer confidence will likely be one of the last factors to recover). We have removed some stocks from our

## Your Portfolios continued

portfolios, reduced holdings in others, and introduced new companies to each of our portfolios. In this process we have added value, though of course that is impossible to see that when our unit prices have fallen so far. In the New Zealand portfolios for example, by changing our portfolio holdings during the course of the year, we have added 11.5% to the returns that we would have achieved had we left our portfolio unchanged from January 2008.

Are your holdings still in line with your overall plan? Some investors have a clearly articulated plan or asset allocation, others just know what they are trying to achieve and broadly how they intend to do that. For many, their plan involves having some money in shares to achieve capital growth over a three to five year period, while leaving other funds in income-earning assets that are 'safe' but will not grow over time. Similarly, our plan within your funds is to achieve capital growth over a three to five year period by investing in growth companies. We have never actively cashed up our portfolio and sat on the sidelines in cash as this is contrary to a) what we are paid to do and b) our investment philosophy. If we were sitting in cash and therefore missed the first 20% or 30% of the market rebound, you wouldn't thank us for it.

Does anything need to be repaired or will your investments heal themselves? This might be a once-in-a-lifetime economic crisis, but we still need to consider our investments to make sure that they will be the ones to recover first, and that they are well positioned just in case the economic crisis takes longer than expected. We have taken any remedial action that we have seen as necessary within your funds. As noted earlier, we have made sure that our companies are not too indebted, and that those with debt have sufficient cash flow and credit facilities to see them through a potentially difficult couple of years. We have studied the promises, undertakings and assurances of our

management teams to get a feel for how they are coping right now and will likely cope in the future. This part of the process has been somewhat easier by the fact that each of our companies is a strong player in its respective sector and thus their earnings are insulated to an extent by their competitive positioning and pricing power. Do your Fisher Funds investments need to be repaired? Some investors have taken the opportunity over the last twelve months to rebalance their investments between our New Zealand, Australian and International funds, and we would be happy to talk to you about this if you feel that a rebalance might be necessary.

Keep investing. Some investors have suggested that it is all very well us talking about shares offering great value now, but that really only applies to new investors since existing investors have seen their previously good investments plummet in value. This is true to a point, however, we are adding value to your portfolios by buying additional shares in quality companies as their prices fall, thereby lowering the average cost and altering portfolio weightings to reflect the relative attractiveness of each stock. You can achieve the same thing by investing additional funds at the currently low values. Obviously the gains that you will accrue in three to five years time will be that much greater if you are able to buy units at knocked down values.

As we sign off for the year, it is probably a good time to remind you that even in bad economic times, companies can continue to perform. Even after the recession is officially over we will still be reading news about unemployment and low house prices. But business fortunes can rebound before the economy does, and the share market traditionally rebounds months before the economy. So don't read too much into the gloomy Christmas headlines ... things will get better.

## Up Close & Personal

Carmel introduces the Fisher Morrison Infrastructure Fund that was officially launched on December 4th. Investment Statements are available through our website [www.fisherfunds.co.nz](http://www.fisherfunds.co.nz) or by calling our client service team on 0508 FISHER (0508 347 437)

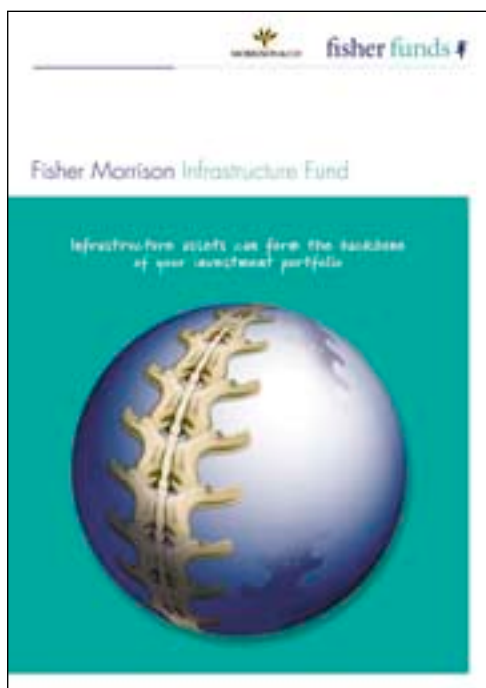
In last month's newsletter I mentioned that we had found a 'best of breed' investment team with expertise in managing assets that we think represents an ideal investment opportunity for virtually every investor in the current climate. You may have read media articles this month that detailed the strategic partnership between Fisher Funds and Morrison & Co. For some time we have thought that infrastructure assets are an excellent long term investment, and an investment that is very complementary to traditional share market investments such as those through our Growth funds. Infrastructure assets make an ideal investment for individual investors because they offer stable cash flows, predictability, a regular income yield and capital growth. We think that these characteristics are exactly what investors want in this current climate.

We chose to partner with Morrison & Co because they are New Zealand's most experienced infrastructure investors having managed infrastructure assets for over 20 years. Like Fisher Funds, Morrison & Co invests long

term – they are active managers, seeking to understand the management teams and the businesses they invest in better than anyone else. The Morrison

& Co team has deep specialist experience in infrastructure and particularly renewable energy, airports and property. They are well known for managing listed company Infratil Limited, a long-term outperformer and a company that we have owned in our New Zealand Growth Fund.

We refer to the Fisher Morrison Infrastructure Fund as the 'backbone' fund because infrastructure is the backbone of an economy and governments around the world recognize the need to invest in infrastructure in order to achieve economic and business growth. Similarly, infrastructure assets can become a backbone of your portfolio as they occupy an attractive position between cash and equities. The Fund's quarterly distribution may be an attractive alternative to your bank deposits, offering a consistent income while also seeking to achieve capital growth to protect your investment from inflation.





# A bird's eye view

## What's new at Fisher Funds?

We hope that next year this part of the newsletter will become hard to write, as rather than new things happening for Fisher Funds every month, it will be 'business as usual' for a decent period. 2008 has certainly felt like a busy year, though in fact looking back at our history, there have been busier times. 2007 was actually the busiest year as we entered a whole new area of investing with the launch of the International funds, at the same time as we prepared for the PIE tax changes and the launch of KiwiSaver. We understand of course that investment markets are dynamic and investor preferences are also dynamic – while growth assets are popular at times, income generating assets become popular at others. We pride ourselves on being innovative and responsive to our clients' needs, hence our fairly regular launches of new funds over the years.

The timing of the Fisher Morrison Infrastructure Fund launch feels very timely given the latest OCR cut (announced as we write this newsletter). Right now investors will be considering their bank deposits in a new

light because unfortunately annual returns of 5% are not going to be enough for a lot of investors to achieve their investment objectives. Our Infrastructure fund will be a viable alternative as it targets a net yield of 5% but has the added advantage of long-term capital growth. While history can be no guide to the future, Morrison & Co has achieved long-term returns in excess of 18%pa for Infratil shareholders, so we expect that investors will be pleased with the total returns achieved over time from the Fisher Morrison Infrastructure Fund.

Like many, the Fisher Funds team is ready for the Christmas break and hopeful that the New Year will bring a new mood, a focus on the future rather than the past, and an improvement in the investor sentiment that has dragged world investment markets ever lower this year. We wish you and your families a relaxed, happy holiday break and look forward to speaking to you again in February.

## Your questions

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

**Q:** Why has Fisher Funds gone off and launched something new – surely it will be a distraction at a time when you have plenty to do in your traditional business?

**A:** The Fisher Morrison Infrastructure Fund will not be a distraction to the Fisher Funds team as the fund is managed by Morrison & Co team, while our Growth funds continue to be managed by the Fisher Funds investment team. Rather than being a distraction, we believe that both the Fisher and Morrison investment professionals will benefit from each others' specialist expertise.

**Q:** When my granddaughter was born, I put some money into your new Fledgling Fund in order to pay for her university education. But now, nine years, later, the value of my money in your Fund is unchanged - should I have kept the money in the bank?

**A:** It is disappointing and frustrating that a market downturn can undo years of capital growth. This time last year, your granddaughter's capital had grown and her Fledgling Fund investment was on track to achieve your (and her) investment objectives. However, the global share market downturn has been so severe as to wipe out much of the gains achieved over the last ten years or more. The bright side of this scenario is that markets can (and do) rebound after downturns, and over time, capital losses can be recovered and turned into capital gains once again. This can only happen though if your investments remain intact, that is, if you crystallize losses by selling investments, then it is difficult to recover those losses.

Bank deposits will not enable capital growth. Bank deposits offer predictability and certainty, and a regular income return, but \$1,000 invested in a bank will still only be worth \$1,000 in five year's time. Your granddaughter has the luxury of many years for her investments to grow, and the best assets for long term capital growth are share market investments.

# Fund facts

## Fund Performance

Fund Net Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	-43.0%	-24.2%	-7.2%	2.8%	9.2%
Australian Growth Fund	-57.6%	-30.2%	-13.4%	na	-9.6%
International Growth Fund	-15.7%	na	na	na	-14.7%
Fledgling Fund	-36.8%	-20.3%	-6.6%	-0.9%	-0.6%
KiwiSaver	-29.3%	na	na	na	-26.6%

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

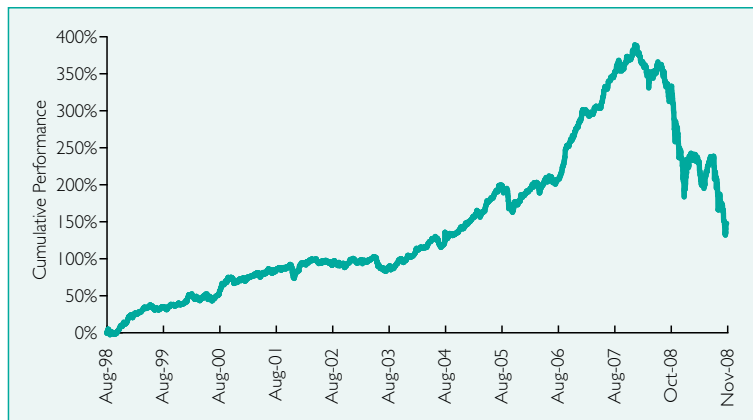
Fund Pre-tax Returns	1 Year	2 Years	3 Years	5 Years	Since Fund Inception
NZ Growth Fund	-42.4%	-25.2%	-4.6%	6.5%	12.1%
Australian Growth Fund	-57.6%	-29.5%	-11.5%	na	-8.6%
International Growth Fund	-15.7%	na	na	na	-14.7%
Fledgling Fund	-36.2%	-20.7%	-4.4%	0.9%	-0.3%
KiwiSaver	-29.3%	na	na	na	-26.6%

*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	Since Fund Inception
NZ50G	-33.3%	-16.2%	-6.5%	2.9%	
90day bank bill	9.0%	8.6%	8.3%	7.6%	
S&P/ASX300 (Calculated in \$NZ)	-38.6%	-12.7%	1.2%	8.6%	
MSCI Global Small Cap Index	-26.3%	-17.6%	-6.1%	1.1%	

November's Biggest Movers	
<b>New Zealand</b>	
Pumpkin Patch	12%
Rakon Limited	-26%
Comvita	-30%
Sealegs	-33%
<b>Australia</b>	
Toxfree	-21%
Vision Group	-24%
Aevum	-26%
Treasury Group	-28%
<b>International</b>	
Gameloft	-43%
Ultimate Software	-43%
Icon PLC	-45%
Wellstream	-64%

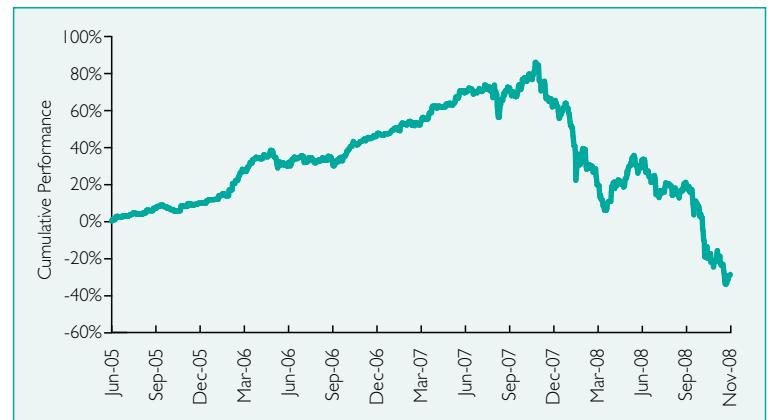
### New Zealand Growth Fund



**Fund Inception** August 1998

**Portfolio Holdings** – Abano Healthcare, Comvita, Delegats, Freightways, Infratil, Mainfreight, Metlifecare, Michael Hill, NZX, Opus International, Pumpkin Patch, Rakon, Ryman Healthcare, Sealegs, 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, Brembo, Celera, China Automation, 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, Roth & Rau, Sarin Technologies, Stratec Biomed, Times Electric, Ultimate Software, Wellstream, Wirecard.

### Fledgling Fund



**Fund Inception** December 1999

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

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