

Nest Egg News

– Your KiwiSaver Update

AUGUST08



At a glance

As at 31 July 2008

Unit Price	\$0.896
Fund Size	\$33.8M
Performance (July)	0.5%

Fisher Funds blew out ten candles this month. Yes, that's right, on 10 August we celebrated 10 years in business. We've come a long way from managing \$17M for a handful of investors in one fund. We now manage money for more than 30,000 investors across eight separate investment products. Over the last ten years we've successfully managed money through good markets and bad markets by sticking to our basic investment principles and investing in companies that sell products or services that people will want or need in the foreseeable future, offer a good return on equity, produce strong cash flows and are well managed. This disciplined approach ensures that our focus is on our companies rather than on their share prices. The former are reasonably predictable, the latter are not. But if our companies grow their profits over time, their share prices will ultimately follow.

A Word From Your Investment Team

July was a month of two halves exemplified by a rising oil price at the beginning of the month and a falling price at the end. In the first half an information vacuum from companies meant there was little news to reassure investors and markets in the face of climbing oil prices and inflationary fears, credit crisis related issues and unfortunately in New Zealand, further finance company failures. However, in the second half of July a few key events brought life to the markets and saw a pleasing rebound in the KiwiSaver portfolio of 4.6% during the final two weeks of the month.

Firstly, US Federal Reserve and Treasury announced that they were putting together a rescue plan for Freddie Mac and Fannie Mae, the largest U.S. mortgage lenders. Secondly, the price of oil started to retreat (and continues into August) as high energy costs have changed consumer behaviour curbing demand. Lastly, the Reserve Bank unexpectedly reduced the official cash rate by 25 basis points and indicated further easing over the next 12 months would follow. This move triggered a sell off in the NZ dollar which was welcome news for a number of our NZ companies who have a strong export focus, namely Delegates, Rakon, Mainfreight, Michael Hill, Pumpkin Patch and Comvita. A weaker NZ dollar improves the value of their overseas earnings translated back into NZ dollars. It also provided a boost to

our investments held outside of New Zealand and Australia the majority of which were made when the dollar was closer to \$0.80 against the U.S. Currency analysts are forecasting the NZ dollar to fall further in the next 12-18 months which would provide a further performance tailwind.

August is a busy month for us as we enter reporting season again. We will be paying particular attention to our companies' comments about their operating and earnings outlooks and will report back on these in next month's newsletter.



Selecting Great Companies

This month we conclude our series on our investment analysis framework STEEPP by taking a look at the second P – Pricing.

It is important to remember that we invest in companies and not in share prices. To many people a share price is a visible guide to how a company is performing. Shares are traded regularly and the latest share price reflects supply and demand for an investment in a particular company. But when markets are volatile share prices can disconnect themselves from the underlying company fundamentals and performance. That is certainly what we have seen in 2008. That is also why pricing is only one aspect of our investment framework.

Once we have established that a company satisfies our pre-requisites of having good growth prospects and strong management we need consider how much of the future earnings growth is already reflected in the current share price. We don't look necessarily to buy cheap stocks, but rather to pay a fair price for above-average earnings growth.

O2Micro is a good example of how we factor in price. O2Micro makes semiconductor chips for the major LCD TV and laptop manufacturers such as Sony, Apple and HP. We have been adding to our holding of this stock as its share price is cheap. Firstly, it is trading at 9 times earnings compared to a compound annual growth rate of the business of 25%. Secondly, it has a solid balance sheet

(no debt, \$2.20 per share in cash, \$5 per share in Book Value and the stock is trading at \$5). So there is extremely low risk of downside from here given the balance sheet provides a floor; especially as the company has never lost money in its 10 year history. Apologies for the jargon!

The reason it's cheap is that their end markets - LCD TVs and laptop computers - are feeling the effects of consumers tightening their belts. However, they are better positioned than their competitors as they are based in Beijing with offices also in Silicon Valley whereas their direct competitors are just U.S based. Whilst American consumers have cut back buying T.V's and laptops, the Chinese are increasingly embracing western consumer goods. There is also a shift from old technology of CCFL (fluorescent light) to LED's and O2Micro's is the market leader there. Lastly, they have begun selling into new emerging end markets like E-Bikes, power tools and security products (VPN firewall). O2 Micro's strong track record of performance, continued market leadership, expansion of product application and strong financial position gives us confidence to increase their weighting in the KiwiSaver portfolio given its current share price.

Annual Reports

In the latter part of August we will be sending to all members the Annual Report for the Fisher Funds Growth KiwiSaver scheme. This is a statutory requirement and will contain a summary of the progress of the scheme to date, a statement summarising all transactions by contribution type to 30 June 2008 and condensed financial statements.

Mortgage Diversion Update

Unfortunately there has been no resolution since last month and the banks have further delayed processing of mortgage diversion applications until 1 September at the earliest. Our website will be first port of call for mortgage diversion applications and will be updated once we have confirmation from the banks. If you are interested in using the mortgage diversion facility please email us at kiwisaver@fisherfunds.co.nz with your account number and we will contact you once the facility is available.

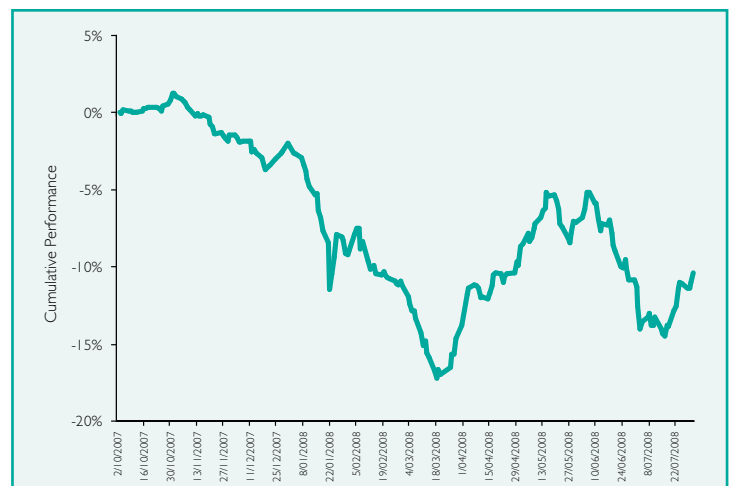
Portfolio Holdings

A current listing of companies in the KiwiSaver portfolio can be viewed on our KiwiSaver website at the following page:
<http://www.fisherfunds.co.nz/kiwisaver/kiwisaver-growth-scheme.asp>.
 This is updated monthly.

Fund Performance

Fund Pre-tax Returns	1 month	3 months	6 months	Since fund inception (Oct 07)
KiwiSaver	0.5%	-0.6%	-1.3%	-10.4%

The above returns are based on the percentage change in the unit price of the fund for the period specified, they are not the returns individual investors will receive as this will depend on the prices at which units are purchased on the date of each individual contribution. Changes in the unit prices reflect changes in the market value of the assets of the fund. The above returns exclude government contributions and no allowance has been made for monthly administration fees. Returns displayed are after management fees but before tax.



If you have any feedback on this Newsletter we would love to hear from you. Please email us at kiwisaver@fisherfunds.co.nz

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