

Nest Egg News

– Your KiwiSaver Update

DECEMBER 08



At a glance

As at 30 November 2008

Unit Price	\$0.6971
Fund Size	\$42M
Performance (November)	-1.9%

It is hard to believe that the year is nearly over. 2008 will go down in history as one of the most challenging years the share market and investors have ever faced. Thankfully, the series of events that we have witnessed in 2008 doesn't happen every year. And, market cycles can also feature very positive years (it's just hard to imagine them when we are in the midst of a bad one!). We are pleased that this month's newsletter gives us an opportunity to update you on a range of positive developments that we have been working on at Fisher Funds recently. Fisher Funds would like to wish all of our KiwiSaver members a Merry Xmas and a prosperous New Year. We are looking forward to recharging the batteries over the break and working with you in 2009 to grow your retirement nest egg. Please note that our next newsletter will be sent in February 2009.

A Word From Your Investment Team

Over the course of this year we have talked about share market weakness presenting great buying opportunities for long term investors such as you. Our thoughts have not changed in this regard – in fact our resolve has firmed.

There is no doubt that this year's share market decline has been steep, scary and widespread. There are few shares listed anywhere around the world that have managed to rise in the face of growing investor fear. The economic fallout from the credit crunch is continuing: consumer spending is down, unemployment is increasing, commodity prices are falling and market sentiment continues to be poor. These events have been occurring at such speed that policy response from Governments and central banks worldwide has been swift and unanimous. It has needed to be in order to prop up ailing economies, sick financial systems and restore confidence. Interest rates are being slashed to ease the debt burden on households and businesses, tax rebate and incentive packages have been announced, major financial institutions have been bailed out and so on. Headlines have been alarming this year, and we should expect more headlines about unemployment, falling house prices and other economic ailments in 2009. Importantly though, we should also expect that some parts of the economy and some businesses will be recovering and even thriving ... even while we are still reading the negative headlines. We also know that share markets rebound months before recession's end, so we could easily experience some significant share price rallies even while the economy is still struggling.

The impact of the credit crisis and the economic fallout this year on portfolio management is that we have entered a "New World" in which there is less credit freely available to drive growth, new regulatory frameworks to operate within and new valuation benchmarks on which companies are assessed. The key to stock selection right now is in choosing companies that provide goods or services people need; have conservatively structured balance sheets

(i.e. little or no debt); have a strong moat around their business and whose shares are reasonably priced. Such a framework will ensure that a company is positioned in this new world to survive first and then prosper.

When we apply this framework to your KiwiSaver portfolio we know that we are very well placed to achieve long term growth. Firstly, your portfolio companies have strong balance sheets. On a weighted average basis, 50% of the portfolio has no debt and the balance of companies have debt that we consider to be very manageable given the current environment. This also means these companies are well positioned to take advantage of opportunities such as acquiring competitors or buying back their own shares on the market as they see this as their best use of capital. In times like these, we do expect to see the strong get stronger and the weak, weaker. Secondly, we believe that our companies are market leaders in their respective niches or have a sustainable competitive advantage that makes it difficult for competitors to easily replicate. Thirdly, our companies largely operate in sectors that aren't overly exposed to a reduction in discretionary spending (e.g. healthcare, retirement villages) and in fact for some of our companies their growth prospects have improved. The Chinese Government's decision to invest over \$US2 billion in its rail infrastructure as a way to stimulate its domestic economy is extremely positive for three companies in our international portfolio that are Chinese train equipment suppliers. Lastly, valuations are now compelling. By that, I mean share prices are cheap. If you look at our Australian companies for example, excluding Arrow Energy and Pharmaxis, the average Price to Earnings ratio is 5.9 times compared with an average past market P/E ratio of 16.3 times. The collapse of P/E ratios has been the biggest driver of negative returns, rather than the deterioration in our companies earning power, and as with all other market cycles, P/E ratios can quickly improve once confidence returns to the market.

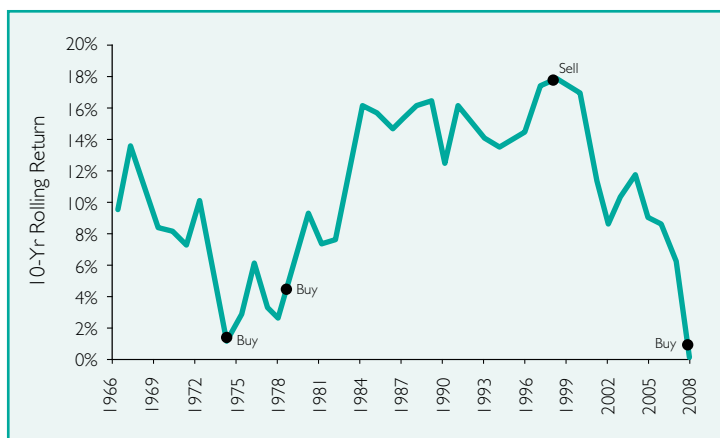
continued overleaf...



Fisher Funds is not alone in thinking that the share market offers tremendous long term value now. Some of the world's most respected investors are buying. Warren Buffett, who we often refer to, rarely talks about the market but it pays to listen when he does. In late October, he publicly stated that he was taking his money out of US Treasury bonds and buying shares. His views are based upon company valuations relative to their share prices, rather than on the economy as a whole. Buffett acknowledges that he doesn't know when the world economy will finally recover but he does know when companies have become undervalued and is well known for promoting the idea that successful investors should "become fearful when others are greedy and greedy when others are fearful". The chart below highlights the few other times that he has commented on the share market.

On the back of our analysis, we have decided to reduce our current cash holdings and increase our weightings in shares over the next few months. Buying great companies at cheap prices is a prudent use of your KiwiSaver capital and we have made some of our best investment decisions when markets have been down.

Buffett rarely talks about the market, but heed him when he does:



Source: Jeremy Siegel; Bloomberg; LMCM estimates. As of 10/23/08.

In short...

New Shareholder at Fisher Funds

As most of you will hopefully have heard by now, during November, well-known infrastructure investor Morrison & Co acquired a 26% shareholding in Fisher Funds. We are delighted to have them on board. They bring a superb track record of performance, acknowledged strategic insight and add another investment skill set to our business which will enable us to expand our range of investment offerings. We have just launched the Fisher Morrison Infrastructure Fund last week and we are already investigating how we can extend our KiwiSaver investment options and will be in a position early next year to outline our plans.

Online Access – an Update

We are progressing well with the development of an online facility that will allow you to check your KiwiSaver balances and transactions at any time via our website. We are currently in the testing stage and anticipate "going live" in the first quarter of 2009. Thank you for your patience – we certainly realise it will make life a lot easier keeping up to date on your KiwiSaver account.

Website Upgrade

Another way we are looking to improve your experience as a member of our KiwiSaver scheme is by upgrading our KiwiSaver website. The site will embrace a new look and feel and will provide you with more information about the composition and performance of your portfolio, developments in KiwiSaver and general FAQ/points of interest to ensure you are maximising KiwiSaver to your best advantage. Keep an eye out for this in late December.

Quarterly Statements

The latest transaction statements for the quarter ended 30/11/08 are being posted in early December. If for some reason you do not receive a copy, please let us know.

Xmas Office Coverage

Our office will be closing on Wednesday 23rd December 2008 and reopening on Monday 12th January 2009. We look forward to responding to any messages on our return.

Fund Performance

Fund Pre-tax Returns	1 month	3 months	6 months	12 months	Since fund inception (Oct 07)
KiwiSaver	-1.9%	-23.3%	-25%	-29.3%	-30.3%

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.



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.

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

For more information call 0800 FFKIWI / 0800 335 494 or visit our website www.fisherfunds.co.nz/kiwisaver

The information and any opinions herein are based upon sources believed reliable, but the Company, its officers and directors make no representations as to its accuracy or completeness. All opinions reflect our judgement on the date of this report and are subject to change without notice. The information contained in this publication should not be used as a basis for making an investment decision about any particular company. Professional investment advice should be taken before making an investment. Past performance is not a reliable guide to future performance. For an investment statement on any of our funds, please go to our website or call us on 0508 FISHER (0508 347437).