

Nest Egg News

– Your KiwiSaver Update

OCTOBER08



At a glance

As at 30 September 2008

Unit Price	\$0.8212
Fund Size	\$43.5M
Performance (September)	-9.7%

It has been hard to escape the media coverage of the last month's dramatic events that saw the near collapse of the US financial system. Thankfully, what we are seeing at present is a once in a generation event and is so significant that it has required (and received) a concerted and genuine response from central banks and governments around the world. In this issue we focus on how we are keeping our perspective in an extremely volatile period and how you should be viewing your KiwiSaver account.

A Word From Your Investment Team

Volatility was the defining word for September. The month began positively, building on from a strong reporting season in August, with news that one of our core holdings in the international portfolio, Sciele Pharmaceuticals, was being taken over by a Japanese company at a 60% premium to its last closing price. We accepted the offer as we believed it was too good for investors to ignore, providing an immediate boost to the value of your KiwiSaver portfolios. It also confirmed our belief that a lot of quality businesses have become significantly undervalued and represent great buying opportunities for savvy investors.

The second half of September saw a major sell off in global sharemarkets as investors reacted to bailouts and loans required to keep some of Wall St's largest financial institutions afloat and the US financial system from crippling. The \$US700 billion bailout package approved by US Treasury in early October was absolutely critical to ensuring liquidity so that banks could still lend money to each other and to businesses and households to encourage consumption and growth. This step is only the beginning and we do expect to see ups and downs in the market from here as the bailout plan is clearly defined and implemented, and the extent and impact of a slowdown in global growth is absorbed by investors.

What has Fisher Funds been doing in light of this volatility?

The reality is that we have been operating in a volatile period for the best part of a year now so whilst September was extreme it wasn't a new phenomenon. We began receiving KiwiSaver funds in October last year just as global sharemarkets started to "get the wobbles". As a result, we have adopted a cautious approach to investing your KiwiSaver savings and are holding much higher

cash levels than we traditionally would. Once markets settle down, which they inevitably will, we will be in a strong position to take advantage of much lower share prices to buy companies we know are still performing well. Our research and investment processes remain very much focused on the long term and as KiwiSaver investors, you also need to focus on the growth in your savings over years rather than months.

How can market volatility benefit my KiwiSaver account?

We have regularly written about the fact that KiwiSaver is a long term savings plan and by drip feeding contributions into your account you benefit from what is known as "dollar cost averaging". This approach is more relevant than ever after a month like September.

Whilst it may seem hard to fathom at first glance, a market correction early on in your investment will actually reap rewards. By making regular contributions you track the performance of the fund up or down – this reduces the risk of getting "timing" wrong, especially in volatile markets. Over time you will accumulate a greater number of units at a lower cost of entry. When we receive money for your KiwiSaver account it is invested and attracts the unit price for that day. If the unit price has gone down, in effect you buy more units. When the unit price goes up in value you now have more units increasing in value and working for you.

It is important to remember that what you have contributed to KiwiSaver in the first year is only a small part of the total contributions you, your employer (if applicable) and the Government will contribute over the rest of your working life.

How does the falling Kiwi dollar impact my KiwiSaver portfolio?

At Fisher Funds we do not profess to be currency experts. We are stock pickers but there is no doubt that currency can and does have an impact on your portfolio so we do need to think about it. There are two primary ways the currency can influence returns – directly through the value of shares in Australia or the rest of the world; or indirectly through the profits our New Zealand companies generate in offshore markets.

As far as the indirect impact is concerned we believe that the management teams of our portfolio companies are best positioned to manage the risks of doing business outside New Zealand. In particular they can juggle their exposure to offshore currencies, by matching costs and revenues and deciding the best currency in which to make any borrowings they might need. In doing this, management can maximize the New Zealand dollar value of the company's revenues and hence the value of the business. We don't see ourselves having a role in second guessing this process.

Where we can add value is around the direct portfolio impact on your KiwiSaver shares of currency fluctuations in overseas investments.

Here our strategy is to protect your portfolio value should the New Zealand dollar rise in value. A rising NZ dollar is a negative for investors in international shares. An example demonstrates this. Assume you have a share holding worth US\$1000 today. At the current exchange rate of \$0.60, the holding would be worth around \$1,600 New Zealand dollars right now. If the kiwi was to rise from \$0.60 against the US to \$0.80, that same US\$1000 would only be worth \$1,250 in New Zealand dollars; a loss of \$350.

We can protect you against these types of movements by hedging currency risk. This allows us, in this example, to lock in that rate of \$0.60 fully protecting you against any rise. We are continuously evaluating the level of the currency and when we believe the kiwi looks very cheap against other currencies we will put a hedge on. This is an important management tool we use to protect and grow the long term value of your KiwiSaver nest egg.

Delays in Transferring Employer Contributions

The media spotlight has recently been on issues around the processing and transfer of employer contributions to scheme providers. We have also received a few calls and emails from members of our scheme.

We have spoken with IRD to try and gain a better appreciation of the issues. Firstly, employer contributions can be held up if the forms that employers submit to IRD do not reconcile with money received in the bank. Manual intervention is then required. Sometimes the error is immediately apparent and resolved whilst in other cases it requires a lot more analysis to resolve and becomes time consuming. IRD have also identified a couple of system defects that were not expected and these have been given top priority to rectify.

It is important to note only a small proportion of members are affected by the delays so don't be too alarmed. IRD are working to resolve the system defects and remember, while your employer contributions are at IRD they are also earning interest.

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	-9.7%	-7.9%	-4.8%	-17.9%

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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