

# Nest Egg News

## – Your KiwiSaver Update

JULY 10



### At a glance

As at 30 June 2010

<b>Unit Prices</b>	
Conservative:	\$1.0038
Growth:	\$0.9993
<b>Performance (June 10)</b>	
Conservative:	-0.2%
Growth:	-4.9%

It's hard to believe we are over half way through the calendar year and it's the beginning of a new KiwiSaver year. The end of June marked the end of KiwiSaver's 3rd year and while it has been quite a ride at times, all KiwiSaver members are better off than they were three years ago! This month we have introduced a new aspect to our newsletter, a focus on one of our stocks, and explain to you in more detail what they do and why we like them.

Read on...

## A word from your investment team

Markets have been challenging for the last couple of months, not only because of the large swings from day to day, but also because of the myriad of explanations provided each time the markets move. Market sentiment has certainly been influenced by uncertainty around Europe as growth is under pressure with Greece and Spain having to tighten their fiscal belts. The economy that we are all relying on, China, has also contributed to investor concerns as the Chinese Government has successfully slowed the economy (and in this case, slowing is good, so as to avoid an inflationary bubble). The economic news from the US is not yet convincing and US consumers have continued to keep their wallets shut. While we acknowledge all these uncertainties, we also know that they are largely short-term concerns, and that each month we are seeing a gradual improvement in the world economy. A gradually improving world economy will result in improving financial markets, and as KiwiSaver members, we will benefit accordingly.

High quality businesses purchased and owned at reasonable prices can generate attractive returns for investors. The volatility last month has created buying opportunities and we have begun to use cash levels, that we had allowed to build in recent months, applied to the purchase of well-priced, quality businesses. We have always expected that 2010 would be a volatile year and so we positioned the portfolios to take advantage of this. As discussed last month we have also been hedging currency in Australia and repositioning the portfolios into more defensive stocks.

While the last six months has been dominated by concerning macro news it is important as investors to focus on the specific rather than on the general. If you look beneath the surface, you can see that not one country, industry or company is in the same situation. Europe is the worst performing region yet

Germany is one of the best performing stock markets in the world. The German economy is relatively robust and has been helped along by a weak Euro helping the export driven country. We are currently holding 15% of our International portfolio in German companies. Closer to home the New Zealand recovery is beginning to be reflected in GDP figures that have increased for the fourth consecutive quarter in a row. Our economy is proving relatively resilient to the point that the Reserve Bank of New Zealand has been confident enough to increase the OCR by 25 basis points to 2.75% in June and has indicated further increases are to follow.

Following the profit reporting season, June was a light month for news from our portfolio companies. In the New Zealand portfolio **Michael Hill** closed 8 of its 17 stores in the USA as it consolidated to a smaller platform of store in one geographical area, which will be the greater Chicago area. The initial purchase of these stores was a test to see if the retail concept would work in the USA. We see the consolidation as a positive move as they recognise that it did not work as well as they initially hoped and have moved to stem the losses the company is making in the USA.

In Australia **Pharmaxis** published the results of its phase 3 Bronchitol drug test for sufferers of Cystic Fibrosis. The results were generally good but there was one piece of bad news as they narrowly missed achieving statistical significance on one of the desired end points of the trial. This may make achieving FDA approval more difficult, however the company's management team remain upbeat about this. We agree that this will just be a bump in the road for **Pharmaxis** however the evidence that this drug changes the lives of Cystic Fibrosis sufferers is compelling.

# A word from your investment team (cont)

We added another new company to our International portfolio. **Prestige** is a leading business process outsourcing company in Japan specialising in roadside and insurance assistance. They operate in a niche section of the market and they are the dominant provider. **Icon** announced that it has signed an

agreement with Bristol-Myers Squibb, a global pharmaceutical company, to be one of two companies providing support for clinical trials over the next three years. This is significant as Bristol-Myers Squibb's press release states that they are "preparing for a large volume of clinical development work".

## Stock Focus

This month we introduce a new feature to our newsletter where we will profile a different portfolio stock, so that you get a full understanding of each of your KiwiSaver investments. This month we start close to home with one of our New Zealand companies, **Ryman Healthcare**.

**Ryman Healthcare** is New Zealand's leading provider of retirement living options for New Zealanders over 65. They currently have 21 villages and they are the only operator that offers the continuum of care aged care ranging from independent townhouses, serviced apartments and a care centre providing rest home and hospital care. This is a big benefit for **Ryman** as clients can move into a village and if they need to, move into a more suitable facility without having to leave the community that they have become a part of. Given our ageing population, we expect the demand for these services will keep increasing over time.

So why do we like them so much? As mentioned above, they are in a market that is going to keep increasing as our population ages.

The company has an extremely efficient capital structure when they build villages. They pay up front for the land and then build the premises which are funded from the sale of units. They have never had to raise equity to build, a situation that many business owners would like to be in! They are also known for the quality of their buildings, and their cost efficiency achieved through economies of scale. **Ryman** has started to land bank for future villages now that land prices have started to fall. This month they announced they have purchased vacant land for a new village in Tauranga along with a purchase in Christchurch. Unlike some property developers, **Ryman** builds to meet demand, staggering their developments to meet waiting lists rather than building an entire village and then hoping to sell it. **Ryman** is usually extending villages on existing established sites (eg Edmund Hillary) and often has building activity on multiple sites at any one time. It aims to build (and sell) 300 units and 150 care beds per annum, and we hope that this will be stepped up over time – steepening its 'wave of earnings'.

## Changes to the KiwiSaver employee contribution rates

From October 1 2010 you will be able to choose a 6% or 10% contribution rate for your KiwiSaver employee contributions, in addition to the 2%, 4% and 8% rates which are currently available. We support this move by the government which gives you far greater

flexibility to choose the best rate of savings to suit you. To change your contribution rate you just need to advise your employer after the 1st October.

## Annual Roadshow

Fisher Funds' annual roadshow will be held around the country during August and we would love for you to join us. This year our theme is Investing World Cup: Playing to win. We will be sending out invitations to you shortly so keep an eye out for these in your Inbox.

## Claiming Member Tax Credits

Now that the KiwiSaver year has ended we are preparing to claim your Member Tax Credits (MTC's) from the IRD. We have booked a date in mid July to submit these claims and the IRD has up to 30 days to send them through. The good news is there is nothing you need to do, we manage this whole process for you.

## Fund Performance

Fund Pre-tax Returns	1 month	3 months	6 months	12 months	2 years*	Since fund inception*
Growth	-4.9%	-7.1%	-3.5%	16.6%	5.9%	0.03%
Conservative	-0.2%	-0.4%	0.02%	n/a	n/a	0.4%

\* Annualised return before tax and after fees

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.

## KiwiSaver Growth Fund



## Portfolio Holdings

A current listing of companies in the KiwiSaver portfolio can be viewed on the homepage of our KiwiSaver website <http://kiwisaver.fisherfunds.co.nz> in the KiwiSaver toolbox section. 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](mailto:kiwisaver@fisherfunds.co.nz)

**For more information call 0800 FFKIWI / 0800 335 494  
or visit our website <http://kiwisaver.fisherfunds.co.nz>**

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