

Nest Egg News

– Your KiwiSaver Update

JUNE 10



At a glance

As at 31 May 2010

Unit Prices	
Conservative:	\$1.0062
Growth:	\$1.0506
Performance (May 10)	
Conservative:	-0.2%
Growth:	-2.4%

There are some months that are better off ignored... May was one of them. As long term savers, you don't need to concern yourself with month-to-month market movements. If you did watch the headlines during May, you could have worked yourself into a lather because it felt at times as if there were few places on earth that weren't having economic troubles. The Europeans continued to squabble, the China story became a little less exciting, and the Australians have come down to earth with a thud. Rest assured though, there were some positive patches. Read on...

A word from your investment team

May was similar to April in that macro news dominated the media landscape and negative stories captured bigger headlines than the positive ones... and there were some. New Zealand's economic news was positive with better than expected employment figures released early in the month, and the May Budget getting a thumbs-up from most. Much of the Budget had been forewarned but we were nevertheless pleased to hear that KiwiSaver was left untouched. There were some positive changes to the tax rates for Portfolio Investment Entities (PIE's), which should encourage New Zealanders to save 'in the right way'. We go into more detail about PIEs over the page.

Notwithstanding the relatively benign environment in New Zealand, investors were troubled by international events, particularly the troubles in Europe and the slowing of the Chinese economy, which has implications for the world at large. Market sentiment was negative and world markets fell for the month.

Against a challenging backdrop, your KiwiSaver account fared relatively well. Our KiwiSaver Growth Fund was down 2.4% for May compared to its benchmark index that was down 6.6%.

Several factors helped the performance of the fund over this volatile period. We have anticipated volatile markets that will likely trade in a sideways fashion until there is evidence of sustained economic recovery. We have therefore maintained higher cash levels than usual so that the cash can act as a buffer and also provide some flexibility to take advantage of oversold stocks or introduce new stocks that make it through our investment filter. These higher cash levels proved beneficial in all portfolios, but particularly in the Australian portfolio as the Australian share market suffered relatively more than other developed markets.

Another factor that has benefited your fund this month is the currency hedging we have put in place for the Australian portfolio. We do not take active bets on currency, but we do use hedging from time to time to smooth some of the volatility of foreign exchange markets, and also to protect gains within the portfolios. We monitor the currency regularly and typically hedge when the currency approaches extreme levels relative to their historic trading range. We tend to hedge our currency exposure on a progressive basis – the further the currency moves from its long-term 'normal' range, the more we will hedge. We started hedging in early April when the New Zealand dollar bottomed against the Australian dollar at 0.76 and since then it has risen to peak recently at 0.82. While our primary focus is to make you money, hedging is an important way that we can help to protect your money by avoiding losses.

We have also used recent months to reposition portfolios for the volatile and uncertain times ahead, moving to higher weighting in some stocks that we think will be more defensive, such as healthcare and consumer staples.

May was a busy month for news flow for the New Zealand portfolio. New Zealand companies released profit results including **Mainfreight** whose full year result met expectations and included positive comments about current trading patterns. **Tower's** half year net profit result was up 29% on a like-for-like basis, with strong performances from general insurance (profit up 27%), and health and life (profit up 23%). **Wakefield's** full year net profit result was down 39%, in-line with previous guidance. ACC funded patient numbers were down, and Wakefield was given significantly less DHB funded work than the previous year.

A word from your investment team (cont)

In Australia **Pharmaxis** reported results from European Cystic Fibrosis patient trials, indicating that Bronchitol delivers a sustained benefit to sufferers over a long time period. **McMillan Shakespeare** rose 25.8% on news that the Henry Review, the Australian's proposed tax reform bill, had no material impact on the on-going operations of the Group.

We introduced a new company to the international portfolio. **Actelion** is a Swiss biopharmaceutical company with multiple drugs

already on the market. Their flagship drug, Tracleer, is approved for PAH (pulmonary arterial hypertension) and has sales of over CHF1 billion (NZ\$1.3 billion) annually. Importantly, **Actelion** has several drugs in its pipeline which could prove to have significant sales potential as well as a strong balance sheet enabling them to in-license or acquire new drugs. We have known the company for many years and used the 40% pullback in the stock price over the last 6 months as an opportunity to buy shares.

Budget 2010

While cuts to personal income tax rates took the limelight in this year's Budget, KiwiSaver members will be better off thanks to the government's desire to see New Zealanders save and invest rather than spend. The Portfolio Investment Entity (PIE) tax rates are being reduced from 1st October 2010 to align with the changes made

to personal tax rates. The PIE tax rates will drop from 30%, 21% and 12.5% to 28%, 17.5% and 10.5% respectively. There have been no changes to the thresholds and there is nothing you will need to do to implement this change as we will be updating all accounts automatically on 1 October.

Update on Super portability with Australia

Last year the New Zealand and Australian Governments agreed in a memorandum of understanding to allow for the portability of retirement savings between the two countries. The portability will take place once both countries have enacted the required legislation. New Zealand is aiming to have this enacted midway through this year, however Australia will probably not have it in place until early 2011.

While this is a bit further away than we were hoping, we still think this is a great initiative. The legislation will allow members who have

worked in Australia to move the money they have in Superannuation accounts in Australia to their KiwiSaver scheme in New Zealand. New Zealanders who move to Australia can also transfer their KiwiSaver funds over there, including the member tax credits and kickstart. If you have been living and working in Australia and have moved back to New Zealand there are forms on our website that you can complete so we can get the process started. If you have any questions please contact us on 0800 FFKIWI.

Final Reminder - Maximising your Member Tax Credits (MTC's)

The end of the KiwiSaver year is only a couple of weeks away so this will be your last reminder that if you need to top up your account or put in an annual contribution don't forget to do it before 30th June. Remember the Government matches your contributions if you are aged 18 or over, up to \$1,042.86 per year. This contribution is on a pro-rata basis if you have been a member for less than a

year, whether you are working or not. We don't want you to miss out on getting the full benefit of the Member Tax Credit from the Government and we're sure you don't want to either! You can either send us a cheque or direct credit the funds to our bank account. The bank account details can be found on the homepage of our website in the toolbox section.

Fund Performance

Fund Pre-tax Returns	1 month	3 months	6 months	12 months	2 years*	Since fund inception*
Growth	-2.4%	1.0%	4.0%	22.3%	6.3%	1.9%
Conservative	-0.2%	0.4%	0.4%	n/a	n/a	0.6%

* 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 Conservative and Growth Fund portfolio's 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

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

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