

Nest Egg News

– Your KiwiSaver Update

MARCH09



At a glance

As at 28 February 2009

Unit Price	\$0.7102
Fund Size	\$50.3M
Performance (Feb09)	-1.07%

This month's newsletter focuses on February's company reporting season and the upcoming changes to KiwiSaver. Both are very important and we have covered them in detail. Firstly, the company reporting season is another opportunity for us to review our company performances, understand the challenges they are facing and how they are tackling them. Secondly, as a provider we need to keep you updated on material changes to KiwiSaver and how these may affect you. We've also provided some tips to ensure that you understand the practical implications of the changes. Read on...

A Word From Your Investment Team

The investment team looks forward to months like February as most of our companies release their profit results giving us an opportunity to thoroughly analyse a company's financial position at a given point in time. As an overall statement, we are very pleased with the way our companies came through the profit result season, and we feel even better about our portfolios than we did in January. None of our companies reported results significantly worse than expected and pleasingly, the only surprises were positive.

A couple of distinct themes emerged across reporting season and we'll use our portfolio to explain further: Firstly, since KiwiSaver began we have talked about the importance of companies having wide, defensive "moats" around their business – or put simply, a sustainable competitive advantage to keep ahead of or deter competitors. After a decade of strong economic tailwinds it is only now that a company's business model is really being tested and the "naked swimmers" are being cruelly exposed. We think they will find things even more challenging in the medium term.

Two companies in your portfolio with impressive "moats" are NZ Exchange (NZX) and Hyflux. NZX reported an increase in Net Profit after Tax (NPAT) of 17%. As the only stock exchange in New Zealand it operates as a monopoly. Despite trading volumes and equity raisings being down, its investments in information

services in recent years have created strong additional revenue streams that increase the resilience of the company in tough markets. A very pleasing result. Since balance date it has also sold (subject to due diligence) TZ1, a carbon registry it developed for \$2.5M for a sale price of \$66M – a superb return on investment I'm sure you'll agree.

Hyflux, is one of Asia's largest water treatment and environmental solutions companies. They are a market leader in an industry that has the tailwind of a fiscal stimulus package, urbanization and an "initiative" to clean up China. They reported earnings up 59% year over year. They have 2.5 years of forward orders so future earnings are very visible and like many listed companies, its current share price presents a great buying opportunity. Hyflux listed in 2001 with a market cap of \$SGD 50M and that has grown to \$SGD 750B. As CEO Sam Ong told us recently, "we are only beginning to compete on a global scale and there is a lot of growth in the future".

The second theme that emerged was debt. The less the better. With economic uncertainty and tight lending conditions, Board's are rightfully focused on balance sheet structure. Three different approaches have emerged. First, we have seen a significant level of dividend cuts as corporates seek to build cash reserves for a rainy day. Secondly, capital raisings have accelerated (particularly

A Word From Your Investment Team cont.

outside NZ) as companies look to reduce debt burdens. Thirdly, what we call dead men walking where a company is over geared didn't raise equity early enough, and its share price has been slammed. We refer to these as dead men walking because to raise enough equity at current share prices requires a massive dilution of existing share holders. In NZ, this was the trigger for the significant falls in the share prices of F&P Appliances, Nuplex and PGG Wrightson – none of which we invest in. On a weighted average basis, 50% of your KiwiSaver portfolio has no debt and the balance of companies have debt that we consider very manageable given the current environment. Pumpkin Patch, is a great example of a company that has managed its debt successfully. Over the latest half year, it reduced bank debt by 60% to \$32M and its debt facilities are sorted until Dec 2010. This was better than the market expected and since reporting the share price has rallied over 20%.

Reporting season has again shown that our companies are in strong shape and whilst profits and earnings growth are not as high as we have seen historically, we do own profitable companies that are well positioned to survive and capitalize on opportunities that emerge in times like these. We firmly believe that because of this, stock prices will be rewarded in due course.

The portfolio was down just a tick over 1% for the month of February as global share markets continued their see saw ride. This was actually a pleasing result, well above the indices we benchmark and evidence that good quality companies that do what they say will not necessarily be rewarded in the short term but will be spared the axe that befalls those who underperform.

KIWISAVER CLASSROOM

KiwiSaver is changing from 1 April 2009

In last November's newsletter we outlined the changes National was proposing to make to KiwiSaver. These have now been legislated and are effective from 1 April 2009. It is important that you are aware of these changes so we have summarised these below for you again. There are also some "fish hooks" to be aware of and we cover these as well so that you continue to make the most of KiwiSaver.

Employee contributions

- The minimum employee contribution rate has been dropped from the current 4% to 2% of gross salary or wages.
 - Members can still elect to contribute at the 4% or 8% rate but the automatic rate for persons joining the scheme on or after 1 April 2009 will be 2%.
 - Your current contribution rate will not change unless you ask your employer to change it.

Employer Contributions

- The compulsory employer contribution rate has been capped at 2% rather than increasing to 3% or 4% in 2010 and 2011.
 - Employers can elect to contribute more than 2%.
- The tax exemption on employer contributions that match an employee's contribution will be capped at 2%. Currently, employer contributions are tax-free up to 4% if matched by an employee contribution.
- The employer tax credit has been discontinued.

Government Contributions

- The \$40 annual fee subsidy will no longer be offered unless at 1 April 2009 you were either enrolled in a KiwiSaver Scheme or had a valid enrolment form lodged with a provider. In that case you may receive one or (at most) two post-1 April 2009 payments of \$20. No fee subsidy amounts will be payable subsequently. For full details, see the Prospectus.

Other changes

- Reintroduction of "total remuneration" whereby an agreed remuneration package can include a KiwiSaver employer contributions component which is tradable for cash. If employees who enter total remuneration arrangements later join KiwiSaver, they will not receive any "free money" from their employer and, technically, their gross salary and wages will reduce.

So what does this mean for members?

The changes affect all KiwiSaver members. Everyone who joins KiwiSaver will still qualify for the \$1,000 kickstart. If you are aged 18 or over, the Government will continue to match your contributions up to \$20 per week (\$1,040 per year).

If you earn less than \$52,000 per annum and elect to contribute 2% you will need to top up your KiwiSaver account to ensure you earn the maximum member tax credit from the Government.

A common question we've been asked lately is why should I continue to contribute 4%? We think that if you can afford to contribute 4% of your income that you are getting a lot for your money i.e. with the unit price at approx. \$0.70 you are able to buy a lot more shares in good quality companies. Investing the extra 2% will also result in a much bigger retirement nest egg due to the power of compounding returns over time. You can choose to reduce your contribution rate to 2% if circumstances change.

KiwiSaver Year End

We've been receiving lots of enquiries from people wanting to top up their accounts prior to the year end in order to maximise their member tax credit. Just a reminder, the Government matches your contributions for the period 1 July to 30 June each year – it is not related to the tax year end. If you do wish to top up your account, you can either send us a cheque or make a direct credit to our bank account by 30 June. Our bank account details can be found on the homepage of our website in the toolbox section.

Listen to Carmel on the Radio

Every Tuesday at 6.30pm on Newstalk ZB Carmel chats with Larry Williams about what's topical in the investment world. This is a great opportunity to tune in and hear Carmel's thoughts. You can also listen to these on the following page on our website: <http://www.fisherfunds.co.nz/media.asp>

Fund Performance

Fund Pre-tax Returns	1 month	3 months	6 months	12 months	Since fund inception (Oct 07)
KiwiSaver	-1%	1.9%	-21.9%	-20.1%	-29%

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 the homepage of our KiwiSaver website <http://www.kiwisaver.fisherfunds.co.nz> in the KiwiSaver toolbox section. This is updated as changes occur.

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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