

# Nest Egg News

## – Your KiwiSaver Update

MARCH 10



### At a glance

As at 28 February 2010

<b>Unit Prices</b>	
Conservative:	\$1.0040
Growth:	\$1.0403
<b>Performance (February 10)</b>	
Conservative:	0.13%
Growth:	-0.42%

KiwiSaver has been in the media spotlight in the last month for all the wrong reasons so we share our thoughts on the fast tracking of KiwiSaver regulation. The investment team updates us on the results season in New Zealand and Australia, a new International company introduced to the fund and Scott shares details of his recent trip to Japan. Read on...

## A word from your investment team

World share markets began the year tentatively and remained cautious through February, with investors unconvinced that a recovery is underway. Amid the global themes of a Greek macroeconomic meltdown and signs of slowing Chinese growth, the Australian and New Zealand profit results season dominated the thinking of market participants over February. On balance we would call this results season a draw between bulls and bears with earnings results, and the all important outlook statements, providing neither camp with enough ammunition to win the argument on where to from here. This was despite the fact that earnings were generally better than expectations particularly in Australia.

Also during the month John Key outlined the government's economic objectives for 2010 and beyond. He confirmed that changes to the tax treatment of housing and a higher rate of GST look likely. We will have to wait till the May budget to see more details.

In New Zealand the results season was a mixed bag and we saw the companies with operations in Australia outperform New Zealand based operations. **Pumpkin Patch's** interim result was better than expected as a result of stronger sales and profits in Australia, reduced losses in the UK and USA and considerable effort applied to reducing debt and inventory levels. **Delegat's** announced a disappointing full year guidance. Currency was a factor in this, as **Delegat's** sells approx 45% of it's production to the UK, so the rise in the Sterling has had a major impact. The other main contributing factor was higher operating costs in the US and Canada where they have recently put in their own sales teams. While this has impacted its short term earnings, the long term upside is significant.

In Australia the result season gave us a chance to formally review the performance of our companies. Overall we are more than

happy with the results as they demonstrated that our companies have enjoyed the improved trading conditions of the last six months as the Australian economy moved out of the global financial crisis. **Nick Scali's** results were particularly impressive with their sales growth up 22% versus last year, resulting in a staggering 146% earnings growth. Not surprisingly the share price responded positively. We also saw the Australian dollar perform strongly against the New Zealand dollar, adding to our returns from our Australian companies. The currency is currently being driven by the way the different economies are rebounding from the global financial crisis – Australia is rebounding strongly while New Zealand's recovery will be slower and longer.



We added a new International company, **Hanger Orthopedic** to the portfolio in February. **Hanger Orthopedic** are the largest owner and operator of orthotic and prosthetic patient-care centres in the United States. In addition they are the largest distributor of orthotic and prosthetic devices and components in the US, and further have a division which develops products for patients who have had a loss of mobility. The product development

division has recently begun sales of a new product called WalkAide which potentially could transform the growth profile of the company.

# Opportunities in Japan

Scott Brown, our International Analyst, recently visited Japan and shares his thoughts about where Japan is at.

Japan was one of the worst performing major markets in the last year as they fought against a strengthening yen, slow domestic growth, declining exports and concerns about the size of government debt. Japan remains the second largest economy in the world and we believe there may be improving prospects for some Japanese companies in 2010.

We currently have only one holding in Japan, **Shinko Plantech** however there could be opportunities for future investments. I attended a conference where over 200 Japanese companies presented and met with 20 different management teams as well as strategists, economists and politicians.

There is a new administration in Japan which aims to pursue pro-consumer policies and stimulate domestic demand and they have low unemployment at about 5%. The biggest source of potential growth for Japanese companies will come from expansion in other areas of Asia, especially China. Exports to Asia now account for over a third of Japanese exports, bigger than both the US and Europe.

While there are many opportunities in Japan the challenge is finding companies with real sustainable growth opportunities. We have uncovered what could be some diamonds in the rough and are continuing with our thorough due diligence so watch this space.

## Changes to Prescribed Investor Tax Rates (PIR's)

We have recently sent you a letter regarding the new tax rates that come into effect on 1st April 2010. There will now be three possible tax rates for individuals, 12.5%, 21% and 30%. This means that individuals whose taxable income is less than \$14,000 and whose taxable income plus PIE

income/loss is less than \$48,000 will be able to be taxed at 12.5%, which will be beneficial for children. It is important that you advise us of your correct PIR to ensure that the correct amount of tax is deducted. If your PIR changes during the year please advise us in writing.

## KiwiSaver regulation changes

Commerce Minister Simon Power announced recently that changes to KiwiSaver will be fast-tracked to "ensure confidence is maintained". His officials have a month to make recommendations but it is likely that regulations will be introduced to steer the KiwiSaver industry, indeed the whole financial services sector, towards plain English documentation, with warnings on risky or complex products. With simple and consistent documentation, investors will be able to compare different providers on an 'apples for apples' basis. The Government is also looking to beef up

the ability of the regulator to supervise trustees, to ensure that they fulfil their obligations. It is encouraging that the Government is committed to KiwiSaver and wants to ensure its integrity by making it transparent and straightforward for investors. The next task will be to work towards improving the financial literacy of New Zealanders, so that investors know what questions they should ask, and things they should look out for when trusting anyone with their money.

## Fund Performance

Fund Pre-tax Returns	1 month	3 months	6 months	12 months	2 years*	Since fund inception*
Growth	-0.42%	2.9%	8.6%	46.5%	8.2%	1.6%
Conservative	0.13%	0.16%	0.5%	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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