Fisher Funds TWO KiwiSaver Scheme

Your Monthly Update

March 2015

Happy 6th Birthday, Mr Bull Market

I have fond memories of March 2009. I admit my memories have become fonder with each passing year … a bit like my childhood memories, as I blot out anything negative and focus only on birthday cakes, holidays and family pets! March 2009 marked the beginning of what has been a six year bull market. Though it hasn't necessarily felt bullish throughout because for most of it, nobody has wanted to believe it and so we've been consistently told that it wouldn't last! But it has very definitely been a bull market and a big one at that.

At the start of this year, it looked like the bears might have been on to something. Markets were a bit rocky and the news globally was mixed at best. But then along came February and the bulls roared. Share markets climbed to new heights – the FTSE 100 hit a 15 year high; the Nasdaq is back to levels last seen in the dotcom era of 2000; the MSCI World, S&P 500 and Germany's DAX have all seen records broken and while Japan's Nikkei 225 isn't near an all-time high, it is at levels last seen 15-odd years ago. Even the Australian share market got its mojo back, despite the expectations of most commentators.

And this was all in spite of a very low oil price, the possibility of a Grexit (Greece leaving the EU), ongoing geopolitical concerns, and market valuations that were considered lofty and in some cases, were in nose-bleeding territory. Well, nose-bleeding based on the "old normal" theories and norms when interest rates were double those of today.

The record-breaking flurry has sent the naysayers into overdrive, with many citing similarities with the bursting of the tech bubble, and warning that the end is nigh and that markets will "revert to the mean" or that they're "running on fumes" and so on.

I know better than to suggest that this time is different – those are invariably famous last words. However, to my mind at least, a logical argument can be made to explain last month's flurry, and indeed the six year bull market. And what's more, the argument gives some confidence that the bull might have a bit further to run.

The fumes or fuel that has driven the bull market to date has come from central banks and yield-hungry investors. World bond prices have reached ridiculously high prices (low yields) as central bankers have electronically printed money and bought bonds. We now have a situation where you will earn just 2.25% per year for ten years lending to the Australian government, 1.8% lending to the US government for the same period, 0.3% lending to the German or Japanese governments, and you'll have to pay the Swiss government 0.1% per annum to have them hold your money that long!

Is it any wonder that investors decide to buy shares instead of setting aside their cash in unrewarding fixed income investments? And is that going to change in a hurry? The answer to both questions is no. While the earnings results that we've seen in the last two months have been solid rather than spectacular, they have featured high dividends, and rising dividend payouts, which have been music to the ears of investors seeking decent investment returns. The earnings results have also featured growth – real growth in revenues and earnings – which could sustain the lofty valuations that investors have been prepared to pay for a little while longer. I think the memories of 2015 might be fond ones.

I will leave the final word to Seeking Alpha columnist Louis Navellier: The Bible speaks of "seven fat years" and "seven lean years," but we can't forget that we had NINE lean years from March 2000 to March 2009, with the S&P 500 falling over 50%. It makes for some sort of cosmic justice for this recovery bull market to go on for nine years – until 2018.

Carmel Fisher
Managing Director

Your KiwiSaver Portfolios

Highlights and Lowlights

» In New Zealand, the company result season was robust, without being spectacular. We underperformed the NZ50G Index by exactly the amount that Xero (not owned) contributed to the Index for February. The Summerset result was above expectations, with development margins surprising on the upside. Metro Performance Glass fell 10% on no new news while Contact Energy disappointed shareholders and was the worst performer for the month (-13%) – see page 3 "Whose money is it?" for more details.

» The Australian share market enjoyed a broad-based rally with investors enthused about the prospect of lower interest rates and encouraged by the recent bottoming of commodity prices. The Kiwi dollar continues to strengthen against the Aussie dollar but our active hedging policy is providing some protection minimising the impact on investors.

» Internationally, fourth quarter earnings season was strong, particularly from sectors exposed to consumer spending - our stock selection in the consumer discretionary sector was a positive for us in February. On the flipside, our overweight position in utilities held performance back as investors focussed less on the "hunt for yield" reorienting back towards growth.

» After a couple of strong months, bond markets (and government bonds in particular) were more reserved in February as bond investors likewise see-sawed between deflation concerns and emerging economic growth.

Report card for Australasian earnings season

By Manuel Greenland, Senior Portfolio Manager, Australian Equities and Murray Brown, Senior Portfolio Manager, New Zealand Equities

If we were writing the report card for the Australasian companies that have reported earnings so far this season, we would probably say something along the lines of "good effort, making steady progress and with a continued effort, should do well."

The Australian reporting season was positive for investors with 13% more companies beating profit expectations than those missing them. The margin of "beats" was smaller when looking just at revenues, illustrating that positive profit growth has been driven largely by companies cutting costs, rather than by growing sales.

Australian companies have responded to more challenging business conditions by becoming leaner, but there is a limit to how much cost they can take out without negatively impacting their capability. Going forward profit growth will increasingly depend on the ability of companies to grow revenues. This is exactly why our Australian holdings are concentrated in companies with sustainable competitive advantages which we expect will allow them to raise prices or increase sales volumes. Although the first half results of our companies were broadly positive, they guided full year profit expectations slightly downwards, indicating that general conditions are likely to remain difficult. At such times it is critical to be invested in companies that are distinguished by their strengths.

It was a similar scenario in New Zealand with 36% of our portfolio companies reporting results that exceeded expectations, 43% in line, and 21% that were somewhat disappointing. Dividends have again been an interesting feature of the NZ reporting season with 60% of reporting companies increasing their dividends and none reducing them. This trend provided further evidence of companies' reluctance to disappoint investors in this yield hungry market environment.

Lessons from Warren Buffett's 50th Anniversary letter

By Carmel Fisher - Managing Director

There is always something to be gleaned from Warren Buffett's annual shareholder letters and this year's letter, which marked the 50th anniversary of Buffett and partner Charlie Munger taking control of their investment company Berkshire Hathaway, was no exception. This year Buffett also discussed some of the investment mistakes he has made over the decades which was quite reassuring. Even the master investor, who has turned US$1,000 invested 50 years ago into US$7 million today, had some bad investing days! Among his many comments and anecdotes were the following gems.

"It is entirely predictable that people will occasionally panic, but not at all predictable when this will happen. Though practically all days are relatively uneventful, tomorrow is always uncertain. If you can't predict what tomorrow will bring, you must be prepared for whatever it does."

Lesson: You may not be able to predict, but you can prepare

"Investors can, by their own behaviour, make stock ownership highly risky. And many do. Active trading, attempts to "time" market movements, inadequate diversification, the payment of high and unnecessary fees, and the use of borrowed money can destroy the decent returns that a life-long owner of equities would otherwise enjoy."

Lesson: Be aware of your investing enemies

"Share prices will always be far more volatile than cash-equivalent holdings. Over the long term however, currency-denominated instruments are far riskier than widely-diversified stock portfolios that are bought over time and that are owned in a manner invoking only token fees and commissions. Volatility is far from synonymous with risk."

Lesson: Know that volatility and risk are not the same thing

"A business with terrific economics can be a bad investment if it is bought for too high a price."

Lesson: The price you pay matters

"Market forecasters will fill your ear but will never fill your wallet."

Lesson: Well, that one is self-explanatory!

Whose money is it?

By Murray Brown
Senior Portfolio Manager, New Zealand Equities

One of our New Zealand companies, Contact Energy, has been indicating for some time that, given its large capital expenditure program has come to an end, it will begin generating considerable free cash flows. Further, it said this would enable the company to increase dividends and potentially return excess cash to shareholders. In a market hungry for yield, the Contact share price rose strongly heading into its interim result last month, in anticipation of increased distributions.

Shareholders were understandably shocked when, not only was the interim dividend not increased, but the company said it is considering investing $1 billion of shareholders' money in international geothermal operations over the next five-eight years. With considerable irony, competitor Mighty River Power announced the following week that it will sell all of its offshore geothermal assets having been unsuccessful in developing these operations. The Contact share price has fallen by over 10% since announcing the potential change of plan.

This begs the question of "whose money is it"? Shareholders are entitled to clarity around a company's intended capital structure, so that they can have a reasonable expectation of future dividends. After all, it's their money and they quite rightly want to know how it is going to be invested and/or distributed.

To be fair to Contact, it has not yet committed to investing the money offshore. However, clearly it is favouring this avenue of investment, which is at odds with what shareholders' were led to believe previously and represents a definite change in strategy. To cloud the issue, Contact Energy is owned 52% by Australian listed company Origin Energy. Major shareholders can, and often do, have a different view than minority shareholders on future investments/distributions. This is where the independent directors are tasked with ensuring that investment intentions are clearly articulated well in advance, so that there are no shocks and/or disgruntled shareholders. Shareholders' funds are called that for a reason.

Managing your KiwiSaver account

First home buyers to get even more help from KiwiSaver

As signalled late last year, a series of changes to the KiwiSaver first home buyer packages will come into effect on 1 April 2015. These changes will allow first home buyers to make bigger withdrawals from their KiwiSaver accounts and potentially receive more financial assistance from the Government.

What's changing?

1. The KiwiSaver First Home Withdrawal will be expanded to include member tax credits – this means first home buyers will be able to withdraw all of their KiwiSaver savings except the $1,000 Government kick-start.
2. The KiwiSaver First Home Deposit Subsidy will be replaced by the KiwiSaver HomeStart Grant. This will double the support for buying or building a new home and increase the house price limits.
3. Expanding eligibility for Welcome Home Loans by aligning house price caps with the new KiwiSaver HomeStart Grant.

The following table outlines the key changes:

	Current rules			Changes from 1 April 2015		
KiwiSaver First Home Withdrawal	The first homer buyer can withdraw all funds except: » member tax credits » the government $1,000 kick-start contribution			The first homer buyer can withdraw all funds except: » the government $1,000 kick-start contribution		
Subsidy/Grant	**KiwiSaver First Home Deposit Subsidy**			**KiwiSaver HomeStart Grant (existing home)**		
	KiwiSaver contributions	***Single***	***Couple***	***KiwiSaver contributions***	***Single***	***Couple***
	3 years	$3,000	$6,000	3 years	$3,000	$6,000
	4 years	$4,000	$8,000	4 years	$4,000	$8,000
	5 years	$5,000	$10,000	5 years	$5,000	$10,000
				KiwiSaver HomeStart Grant (new home)		
				KiwiSaver contributions	***Single***	***Couple***
				3 years	$6,000	$12,000
				4 years	$8,000	$16,000
				5 years	$10,000	$20,000
House price caps for KiwiSaver HomeStart Grant & Welcome Home Loans	Auckland	$485,000		Auckland	$550,000	
	Wellington & Queenstown	$425,000		Wellington & Queenstown	$450,000	
	Christchurch & Selwyn district	$400,000		Christchurch & Selwyn district	$450,000	
	Hamilton, Tauranga, Western Bay of Plenty, Kapiti Coast, Upper Hutt, Hutt City, Porirua, Tasman Nelson & Waimakariri	$350,000		Hamilton, Tauranga, Western Bay of Plenty, Kapiti Coast, Upper Hutt, Hutt City, Porirua, Tasman Nelson & Waimakariri	$450,000	
	All other areas	$300,000		All other areas	$350,000	

Managing your KiwiSaver account continued

Visit our website to see if you're eligible for a first home withdrawal.
www.ff2kiwisaver.co.nz/about-kiwisaver/first-home-ownership-programs

So what might the numbers look like for a first home buyer?

Let's use the example of a couple in Hamilton who each earn $50,000.

After five years of contributing to their KiwiSaver account at the minimum 3% rate they will be able to withdraw $32,585 (excludes the impact of investment returns) made up as follows:

	Per person	Couple
Employee contributions over five years	$7,500	$15,000
Employer contributions over five years (after deducting Employer Superannuation Contributions Tax)	$6,188	$12,375
Member Tax Credits	$2,605	$5,210
Combined savings to withdraw		**$32,585**

They will also be eligible to receive a $20,000 KiwiSaver HomeStart Grant, giving them **$52,500 to put towards the purchase price.**

End of tax year processing

Due to end of financial year processing (for tax purposes) as well as Easter holidays (Good Friday and Easter Monday), **our registry system will be closed on 1, 2, 3, 6 and 7 April.** This means we'll be unable to process any transaction requests - such as contributions, withdrawals, switches and direct debits on those days.

If you are making a First Home Withdrawal and your settlement date is on one of the above dates, you MUST have your fully completed application form and supporting documents to us by 21 March so that we can pay it out by 31 March.

If you wish to access your Member Tax Credits as part of your First Home Withdrawal (available from 1 April 2015), your settlement date will need to be on 13 April at the earliest and your fully completed documentation and supporting documents will need to be submitted by 2 April.

Getting to know ... Exchange Traded Funds or ETFs

An exchange traded fund (ETF) is a fund that is listed on a stock exchange and trades just like a share. Generally, an ETF aims to track a market index in shares, bonds, property or commodities. The main difference between an ETF and a traditional managed fund is that ETFs don't try to outperform their corresponding index; they simply replicate its performance. Rather than try to beat the market, they try to be the market.

An exchange traded fund typically has a lower management fee than a managed fund because no active decisions are made and trading activity is kept to a minimum. The most commonly cited benefits of ETFs include the low cost, the ability to trade them throughout the day and the ability to access an entire portfolio of stocks through one single security. The most common criticisms of ETFs are that they don't always track their underlying index exactly (they can miss by up to 1% each year, giving rise to what is known as tracking error), there is a wide and sometimes confusing array of ETFs making it difficult to choose, and because they trade like shares and can be used for margin trading and short-selling, they are sometimes criticised for increasing market volatility.

ETFs are increasingly being launched in Australia, and the NZX is planning to launch some here this year. ETFs have become more complex over the years, with some being actively managed and some involving gearing and derivatives. As with any investment, it pays to do your research and "look under the bonnet" before investing.

Fund Facts

Fund Performance to 28 February 2015

Fund after Fees & before-tax Returns	Unit price ($)	1 month	3 months	12 months	2 years*	3 years*	5 years*	7 years*	Since Launch*
Preservation Fund	2658.1312	0.3%	0.9%	3.5%	3.3%	3.4%	3.2%	3.8%	4.0%
Conservative Fund	1.5503	0.5%	2.9%	9.3%	7.3%	7.6%	6.8%	5.9%	5.6%
Balanced Fund	4112.0786	1.0%	3.6%	11.6%	10.0%	10.5%	8.0%	6.0%	5.5%
Growth Fund	1.4314	1.5%	4.2%	13.2%	12.2%	12.9%	9.2%	5.6%	4.3%
Equity Fund	3560.0947	2.0%	5.1%	15.2%	14.0%	12.9%	8.9%	4.0%	2.0%
Cash Enhanced Fund	1.4937	0.4%	2.8%	8.9%	6.8%	7.0%	6.2%	5.6%	5.5%

** 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.

Biggest Holdings as at 31 December 2014

Preservation Fund	Percentage of fund net assets
Cash - ANZ Bank	9.13%
Westpac 2015 FRN bonds	8.47%
Fonterra 2017 FRM bonds	7.50%
Total value of 10 highest value assets as a percentage of fund net assets	**66.39%**

Conservative Fund	Percentage of fund net assets
Cash - ANZ Bank	6.28%
NZ Govt 2019 5.00% bonds	4.25%
Bayfair Mall	3.83%
Total value of 10 highest value assets as a percentage of fund net assets	**31.26%**

Balanced Fund	Percentage of fund net assets
Cash - ANZ Bank	7.09%
Bayfair Mall	4.29%
Cash - Westpac Bank	2.89%
Total value of 10 highest value assets as a percentage of fund net assets	**26.79%**

Growth Fund	Percentage of fund net assets
Cash - ANZ Bank	6.13%
Bayfair Mall	4.14%
Cash - Westpac Bank	3.27%
Total value of 10 highest value assets as a percentage of fund net assets	**28.28%**

Equity Fund	Percentage of fund net assets
Cash - ANZ Bank	8.11%
Fletcher Building	4.30%
Ryman Healthcare	4.08%
Total value of 10 highest value assets as a percentage of fund net assets	**36.18%**

Cash Enhanced Fund	Percentage of fund net assets
Cash - ANZ Bank	6.98%
NZ Govt 2019 5.00% bonds	5.07%
NZ Govt 2021 6.00% bonds	4.19%
Total value of 10 highest value assets as a percentage of fund net assets	**34.24%**

Further information about your KiwiSaver portfolios (including a full breakdown of the portfolio holdings and investment team profiles) can be found at **www.ff2kiwisaver.co.nz**.

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To find out more about us or the Fisher Funds TWO KiwiSaver Scheme, contact us at:
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