

REPORT TO THE UNIT HOLDERS IN THE ASPIRING FUND FOR THE  
MONTH APRIL 2017

	Aspiring Fund	NZ50G	ALL Ords Accumulation Index (rebased in NZ\$)
<u>Short-term returns</u>			
Month	1.02%	2.53%	0.60%
Last 3 Months	4.48%	4.65%	11.66%
Last 12 Months	9.47%	8.18%	16.42%
Financial Year to Date	1.02%	2.53%	0.60%

Long-term\* returns and volatility

Return (annualised)	11.07%	5.93%	2.54%
Return volatility (annualised)	8.88%	11.90%	16.56%

\* since the introduction of the PIE Tax regime, 30 Sept 2007

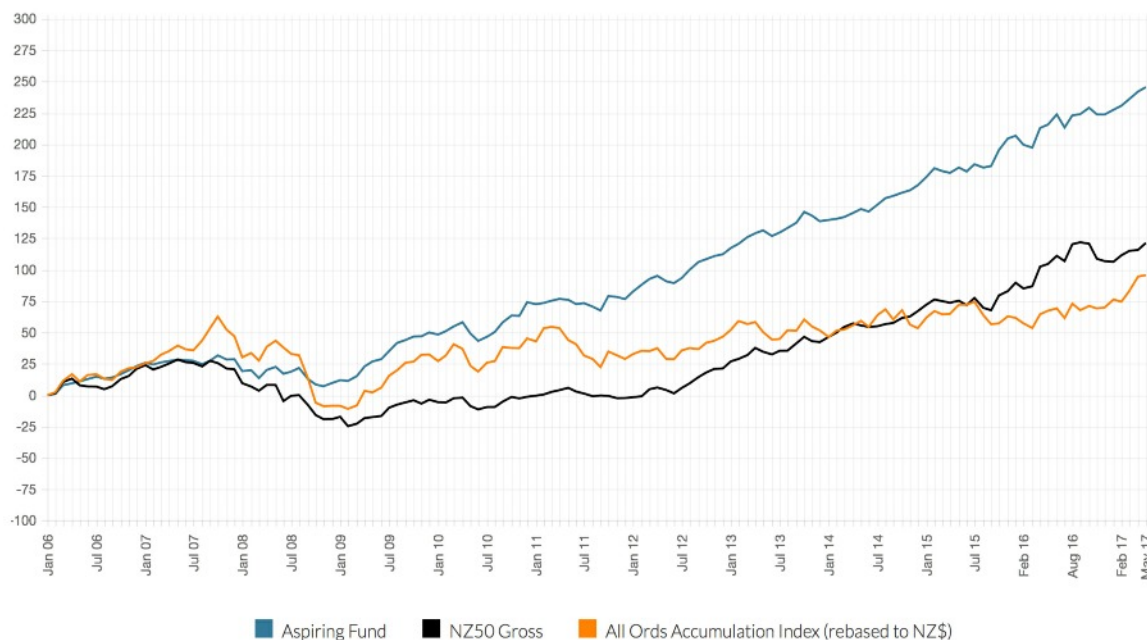
**Unit Price:** \$3.2311

**Asset allocation (approximately):**

New Zealand Equities	44.2%
Australian Equities	17.3%
International Equities	7.1%
Bonds	3.2%
Total Cash	28.2%
Short Equities	-2.3%

**Net Asset Value of the Fund (approximately):** 343.8m

# Fund Performance



The Fund returned 1.02% for the month of April.

Our International portfolio was once again the stand out for the Fund, with our two largest holdings, Google and Facebook, up 9% and 6% respectively. Quarterly earnings highlighted how each part of the Google machine continues to demonstrate significant growth - its core Ad revenue business grew 19% year on year – a particularly impressive rate given its already enormous scale. Facebook rode the coattails of Google somewhat, but also rose after announcing it had reached 1.2b monthly users of its facebook messenger app and laying out its strategy for continued growth and dominance at its annual developer conference. Facebook reported a result at the beginning of May which largely met expectations.

As we noted when we first bought positions in these stocks, we like owning businesses that have good growth prospects and disrupt old world models. There are only a few that fit that template in Australasia and they don't have global scale. We also take comfort from the bullet-proof balance sheets and liquidity which these stocks offer.

New Zealand equities had another strong finish to the month, up 2.52% over the last seven days – basically all of April's 2.53% return. The 'fourth week trader' has made a killing in 2017, with an average weekly return of 1.2% versus a 0.2% average for the first three weeks of each month. Interestingly this recent trend has been less pronounced globally (for US equities; 0.6% vs 0.4%).

Maybe it is NZ's higher sensitivity to end of month global flows? maybe it is statistical noise? While we don't know the reason, what is telling (and we think related) is the resurgence of large company share-price performance and the completely price insensitive behaviour of a lot of the buyers.

As an example EBOS's share price rose 85 cents on 26 April to close at \$18.90. There was no news to explain such a move- just a large DMA (direct market access) bid which appeared in the last hour of trading and, after trying to buy shares at about 18.50, moved up to \$19.35 in the match(during the last 15 minutes the market does not trade but bids and offers are loaded in to the screen and are matched on the close). Sellers took advantage of this extraordinary generosity and the stock actually matched at \$18.90. There is no sign that the buyer has remained active in the market and the shareprice fell back

to close the month at \$18.31. This behaviour might make sense to a large off shore buyer with computerised decision making but it smells to us like an investor playing with “other people’s money”.

As is typical in monthly newsletters, Fund managers attempt to reconcile market moves with prior news-flow. For us, the back story to April’s strong ‘risk-on’ finish was two key political events offshore.

The first round of the French election on the weekend of the 24th, went largely as expected by polling. NZ equities were initially unmoved (Monday NZ time) but then followed the lead the following day after a positive reaction from offshore markets (~1%). The voting results signalled the populist (including anti-EU) policies of Marine Le Pen are unlikely to carry her to victory.

The Donald followed up three days later by announcing “the biggest tax cut in (US) history”, with plans to boost US company earnings with a corporate tax rate change from 30% to 15%. Unsurprisingly, the Trump gap (the difference between the cost of his promises and how he is going to fund it) was not filled. After a ~15% rally in US equities since the Nov election, this continues to place investors in ‘wait and see’ mode. US shares finished the month fractionally down after the tax plan news.

Locally, NZ inflation surprised to the upside. March quarter CPI came in at 1%, for an annual pace of 2.2%. This marks the first time inflation has hit the mid-point of the Reserve Bank’s 1% to 3% target range since September 2011.

The inflation data co-incides with what is perhaps the largest government sector payrise in history, as the long awaited decision on pay equity for care and support workers was settled by government to the tune of \$2b. The payrise, which will be between 15 and 49%, is a significant boost for the community health business of one of our long-term holdings Green Cross Health.

While most market commentary has focussed on the implications for the retirement village industry we think the impact for community health will be more significant. Historically this has been a low margin industry with a payscale which ensured it was plagued by high staff churn and difficulties in attracting quality staff. The company is tight-lipped between official announcements but we will be very surprised if they don’t welcome the news at their result announcement later this month.

Our Australian portfolio had a disappointing month, down 0.9%. We have experienced a very strong run over the last few months, primarily from low earnings multiple (‘value’) stocks. Our analysis shows these companies had materially out-performed being up about 20% from October to March. The attractiveness of this segment has clearly unwound as a result of their relative performance. In April, we attended Goldman’s Australian Small Cap Conference in Sydney. Their strategist concurs with our view, and now sees both Value and Growth segments of the market as fully valued, leaving more traditional non-cyclical industrials as relatively better positioned. We reduced the Fund’s exposure to Australia from 21% to 17% over the month.

In New Zealand our equities investments had a very pleasing performance, but with a more diversified portfolio we were unable to keep pace with the market as large caps rose late in the month. We participated in Infratil’s sell-down of their Metlifecare shareholding. Somewhat disappointingly, Infratil was ultimately a passive shareholder. After buying in at a 2% premium to net tangible assets their influence was unable to re-rate the company, and they exited at a 7% discount. This discount is out of step with other listed retirement and aged care operators and provides a level of comfort against the risks we see emerging in the Auckland property market.

Despite, and probably because of, high levels of risk appetite and record low levels of volatility in both equities and bond markets, we continue to have a cautious near-term outlook and a continuing focus on capital preservation.

The fact that markets have been stable at elevated levels with the level of geo-political risk on display merely highlights how distorted central bank activity has made them. Predicting when it will end is above our pay grade but we do not mistake the absence of volatility for an absence of risk- something the fans of ETF’s should think about.

## TOP 10 HOLDINGS AS AT THE 30<sup>th</sup> APRIL 2017

Contact	4.0%
Metlifecare	3.9%
Google	2.9%
Heartland	2.4%
Sanford	2.3%
EBOS	2.3%
Spark	2.1%
Mainfreight	1.9%
Meridian	1.7%
TILT	1.6%

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