

REPORT TO THE UNIT HOLDERS IN THE ASPIRING FUND FOR THE
MONTH APRIL 2018

	Aspiring Fund	NZ50G	ALL Ords Accumulation Index (rebased in NZ\$)
<u>Short-term returns</u>			
Month	2.13%	1.50%	4.28%
Last 3 Months	-2.12%	0.02%	-2.08%
Last 12 Months	7.74%	14.43%	4.68%
Financial Year to Date	2.13%	1.50%	4.28%

Long-term* returns and volatility

Return (annualised)	10.66%	6.66%	2.72%
Return volatility (annualised)	8.63%	11.40%	16.25%

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

Unit Price \$3.4813

ASSET ALLOCATION (approximately):

New Zealand Equities	36.4%
Australian Equities	22.7%
International Equities	17.7%
Bonds	2.6%
Total Cash	20.7%
Short Equities	-0.7%

Net Asset Value of the Fund (approximately): 390m

Fund Performance



The Fund returned 2.13% in April, a pleasing return following a volatile couple of months in markets.

Our Aussie and International portfolios did most of the heavy lifting, as the US reporting round swung into gear with a strong showing and the Aussie market continued to be pushed along by commodity price strength. We lifted our allocation to these portfolios during the month.

Currency also provided a decent nudge to performance as US\$ strength saw the kiwi fall 3% against the USD while the NZD/AUD cross also drifted lower. Easing of trade tensions and rising bond yields help explain some of the US\$ strength. Market commentators are much better at finding reasons why something has happened / is happening than reasons why they will happen. For some months, there has been a widespread expectation that interest rate differentials would support the USD - finally it seems to be coming true. Certainly, the Fed is leading the world in terms of tightening monetary policy with rate hikes and the withdrawal of QE. In contrast the RBNZ and RBA are not expected to begin raising rates until sometime next year.

The NZ market finished with a not uncommon month end flurry to end up 1.5% with main contributors being large cap stocks Fletcher Building (9.3%), Auckland Airport (4%) and Spark (3.6%).

Away from these leaders the best performers tended to be stocks more loved by Australian investors than their local counterparts with Synlait (+19%) the standout but Sky City, Trademe, Kathmandu and Gentrack also posting solid performances. While we rate some of these businesses highly we own none due to our belief that they offer unattractive rewards for the level of risk embedded in their market value.

Fletcher Building was the 2nd best performer in the NZ index after it pre-released key outcomes of its strategic review while concurrently surprising the market with a \$750m equity raise. The initial driver of Fletcher's performance was media reports that Wesfarmers had acquired a stake in the company with the inference they were positioning for a potential takeover. The stock initially jumped 14% on the news, before settling 7% higher after Fletcher's announced it was unable to confirm or deny Wesfarmers shareholding (it has since confirmed they don't have a stake).

We view the large size and timing of the equity raise as particularly noteworthy. Fletcher will have ~\$1.5bln of debt following the capital raise. However, when considering a successful sale of its Formica business (analysts estimate +\$800m) and the company's seemingly not well known residential land bank position (+\$400m), the balance sheet presents as very conservatively set. In our view this is a negative signal for the company and sector outlook.

The other key impact of the capital raise was its announcement on the first day of the ten-day pricing period for the MSCI World Index. This index has the largest following from global passive investors (computers), and the now larger market capitalisation of Fletcher is likely to see the company remain in the index. The potential causality is Mercury Energy (which was down ~7% at lows following the FBU equity raise announcement) which is now expected to exit the index and see resulting pressure from global passive selling. As we have commented in the past global investor in(out)flows are an increasingly important consideration for large company investment in New Zealand.

Tegel, Comvita, PGG Wrightson and Orion all announced takeover or corporate interest in April. Our only significant exposure to this group was Comvita which announced another weather-related earnings downgrade simultaneously with the advice of corporate interest. This has been a frustrating investment for us, full of promise and promises but prone to mishaps. Through it all the brand has remained the trusted hero brand for manuka honey in China, which a potential acquirer could look to further leverage.

The others are small caps which have been relatively unloved for some time. Part of their neglect is due to company and industry specific performance issues, however much is also due to a marked market preference for liquid large caps and growth stocks which has been in force for some time. With floundering share prices and performance, we expect to see continued takeover interest in NZ names from private equity and/or larger global players who can take advantage of low interest rates and the earnings boost from removing duplicated overhead.

The fund's worst two performers were small caps Green Cross Health (-6%) and Wellington Drive (-19%), contributing 6 bps of negative performance each. The share prices of both stocks and others like Pacific Edge have been affected by the NZX Smartshares Fund which is transitioning to a passive model. This fund has successfully liquidated a lot of its positions but the illiquidity of these stocks and the size of their position in each present some challenges. We are monitoring the situation closely as we sniff a potential opportunity in both.

The ASX 200 had a strong month up 3.9% in local currency. Healthcare, Energy and Materials (commodities) stocks were all very strong while Financials across the board underperformed as evidence of misconduct, poor lending practices and governance hogged the headlines. AMP in particular took a pounding, down 19% and claiming the scalps of both the CEO and Chair by month end after some woeful revelations around service, fees and cross selling. Fortunately, the fund had very small exposure to financials over the month.

Our best contributors were Macquarie Atlas (11%), BHP (10%), Aristocrat (11.5%), Woolworths (6%), Cleanaway (10%) and our collective Oil exposures. Our only real disappointment was not having any significant exposure to the large Healthcare stocks (CSL up 9.6%), which in our view remain quality but expensive, having potentially gathered further support as alternatives to Financials given the Inquiry.

With the US\$ now finding some strength we expect our bias will remain to favour Energy and Materials and those companies with International legs to their operations. For the larger Financial institutions, we expect on-going negative news flow to dominate the headlines from the Royal Bank Inquiry. There seems little doubt that the rotten cultures exposed as endemic in the big 4 banks will become a major focus for boards and the inevitable costs and new levels of conservatism around lending argue for a wait and see approach before we take any meaningful steps back into the sector.

Our international portfolio had a volatile month with very large intraday swings as upward moves in interest rates and the anticipation of first quarter earnings announcements saw large swings in market sentiment. When Caterpillar's CFO called their last quarter "peak earnings" the Dow Jones fell by 2% as investors feared the long running bull market was over. The majority of the stocks in our portfolio are concentrated in the technology sector and their results were overall above consensus and the forward guidance gave the markets comfort to mark them up into the end of the month.

Amazon was a stand-out result with revenues of \$51 billion up 43% over last year and earnings were \$3.27 for the quarter versus analyst expectations of \$1.27. The fact earnings were so far ahead of expectation shows how dynamic their business model is and how difficult it is to predict specific numbers for this business. We take the view trajectory is a more appropriate way to look at these companies and many have years of high growth ahead of them so whilst the ride can sometimes be bumpy the destination makes it worthwhile.

TOP 10 HOLDINGS

Amazon	2.8%
Contact	2.7%
Spark	2.5%
Precinct Convertible Notes	2.5%
A2 Milk	2.4%
Metlifecare	2.3%
EBOS	2.0%
Google	1.9%
Visa	1.8%
Sanford	1.8%

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