



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

	Aspiring Fund	NZ50G	ALL Ords Accumulation Index (rebased in NZ\$)
<u>Short-term returns</u>			
Month	2.34%	1.60%	4.82%
Last 3 Months	4.34%	5.37%	6.91%
Last 12 Months	10.31%	5.65%	16.43%
Financial Year to Date	4.49%	8.62%	0.89%

Long-term\* returns and volatility

Return (annualised)	10.96%	6.29%	2.46%
Return volatility (annualised)	8.76	11.72%	16.48%

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

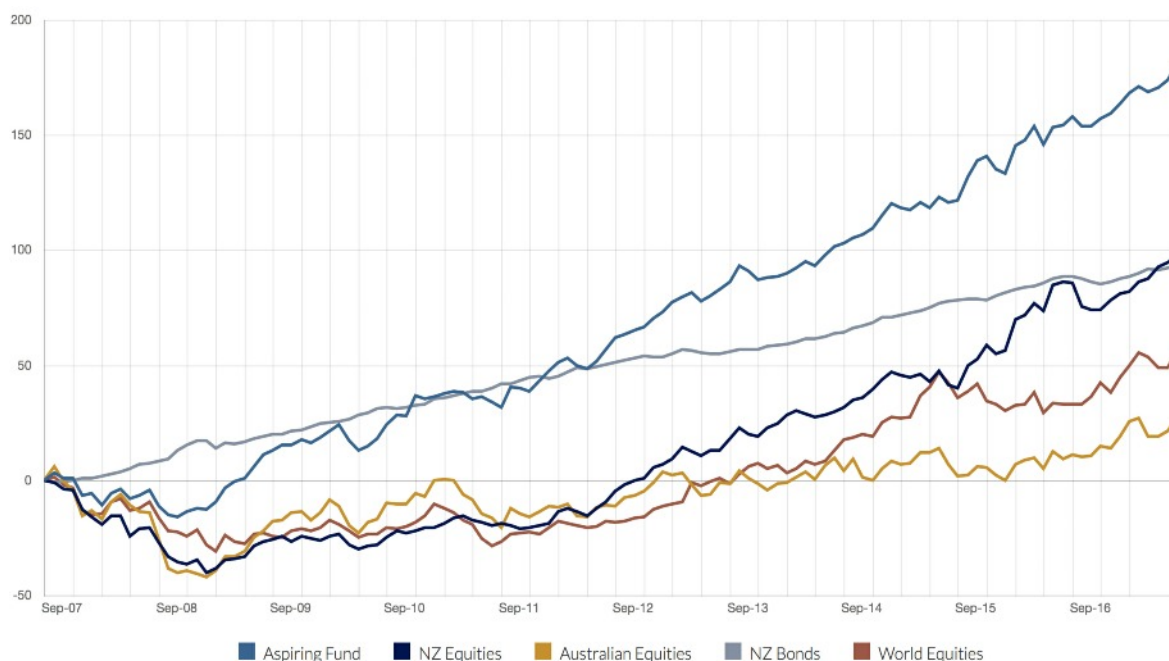
**Unit Price:** \$3.3419

**Asset allocation (approximately):**

New Zealand Equities	43.0%
Australian Equities	20.1%
International Equities	10.6%
Bonds	2.3%
Total Cash	24.1%
Short Equities	-1.2%

**Net Asset Value of the Fund (approximately):** 362.2m

# Fund Performance



The Fund returned 2.34% in August. This wasn't a bad result. Every portfolio (NZ, Australia and International) had a good month relative to its underlying market and a weaker NZD effectively turned on the afterburners for our overseas exposures. Cash was the biggest drag on absolute performance but we have canvassed our reasons for holding it pretty extensively over the last 5 years or so and believe those reasons remain valid.

We are not sure why the NZD had such a weak month but the imminent election and rise in the Labour Party's electoral support seems a pretty plausible explanation. It fell 3.8% against the A\$ and 4.4% against the US\$ and we finally enjoyed a good win from our long held currency diversification. If this is a reaction from global investors rattled by election uncertainty we think it is a bit overdone. Relative to their other global choices New Zealand, under any likely election outcome, will still look sensibly governed with credible economic management. As a result, we started to hedge our A\$ exposure in the low 90's and are currently about 40% hedged.

The NZ market, as measured by the NZ50G, was up 1.6% despite only an ok reporting season, with 3% and 2% median revenue and EBITDA growth for those that reported (ex-property related companies). Not the sort of numbers you would normally expect from a market trading around record high multiples, but then of course we live in abnormal times courtesy of central bank induced moral hazard, and, increasingly, the ETF phenomenon. In New Zealand we had a number of standout performers and, equally importantly, managed to stay largely clear of the particularly weak cyclical building sector, and weakness in names well held by Aussies.

Two of our larger holdings, Contact (7%) and Metlifecare (9%) were key contributors to Fund performance. While Contact's earnings suffered as a result of low-hydrology, the market gave the thumbs up to management signalling a lift in the dividend payout ratio, as their target gearing is now within reach. Along with many others in the market, we had been waiting for this announcement since Origin sold out of the stock, but patience was required as the Aussie energy company left the gentailer saddled with debt. Metlifecare posted a decent result that highlighted strong demand for their units. We continue to like the value and relatively low gearing levels in this name relative to the sector.

A2 Milk (26%), Heartland Bank (5.5%), Fisher and Paykel Healthcare (7%) and Tourism Holdings (7%) all continue to grow earnings at a decent clip. Comvita, in which we had accumulated a modest holding, also had a big month (+21.5%) as the company forecast a strong FY18 (albeit with a fairly long list of caveats) and remains resolutely committed to its long-term targets in spite of recent hiccups.

August once again highlighted the plight of NZ's building sector stocks – Fletcher Building (+2%, -23% for the year), Steel and Tube (-3%) and Methven (-6%) all posted disappointing results, and Metro Performance Glass (-28%) lowered guidance. Fletcher's woes have been well documented, but they are not alone in suffering through a combination of peak cycle pressures and poor execution.

Some of NZ's stocks with large Aussie registers - Trade Me (-15%), Chorus (-10%) and Sky TV (-14%) - each exposed their own specific issues. Sky TV's falling subs and growing content costs continue to put the squeeze on earnings and the stock price. Rumours of Amazon potentially chasing NZ Rugby screening rights when bidding opens in April 2018 is likely to keep the pressure on the stock. Sky also has the potential for further falls if it falls out of the dividend yield ETFs which currently make up 13% of the register – Sky's ongoing inclusion in such ETFs is dependent on meeting certain performance related thresholds, one of which is a market cap level with which the stock now flirts.

The Aussie market was up 0.8% in A\$ (+4% in NZ\$), with the resource sector doing the heavy lifting as commodity prices continued their upward trend. The sector is now up over 15% (ASX200 Resources) since its 2017 lows in June. While we don't have any big bets here, our basket of smaller plays (including mining services companies) provided a decent contribution to fund performance.

We had largely de-risked our Aussie portfolio coming into reporting season given the often excessive reactions to expectations, which in themselves can be challenging to predict. Aussie industrials (ex-resources and property related companies) reported 5% and 7% median revenue and EBITDA growth respectively. However the outlook statements in general were uncertain, reflective of what Goldman Sachs noted as one of the weakest 2nd half earning seasons statistically in their 22 year dataset. Goldman's go on to note that rising wages, higher input costs and increased competition are starting to bite, and pressure to reinvest in the company rather than the share price (buy backs and dividends) is building.

We had a good win in Cleanaway (+10%), as the waste management company continues to post decent earnings growth (+7% EBITDA), and took a hit on Commonwealth Bank (-7%) as it had court proceedings initiated against it for allegedly breaching Anti-money laundering requirements.

The international portfolio had another good month (up 8%) with contributions from both currency and stock price moves. Growth stocks (the majority of our international exposures) have outperformed value as a broad category for a number of years and whilst it is an enjoyable ride currently, there will be times when some mean reversion can be expected. These stocks will not grow earnings in a linear fashion and when inevitable hiccups occur the test will be to maintain the commitment to those stocks that we believe have long term sustainable and successful business models. One of the reasons for owning international stocks, particularly in the tech sector, is our appreciation of how aggressive and effective they are at challenging incumbent industry players. A number of companies in retail, advertising, media and sectors not yet targeted face existential threats from technology. Australasia has a fair share of these types of businesses - one of the advantages of our broad mandate is that we can deploy our assets away from the hunted and into the hunters.

Our best performing stock was one we suspect not many people will have heard of. Gogo is a US listed business that provides internet on private and commercial aircraft and was up 15% for the month. They are rolling out new satellite based systems so passengers will be able to stream movies via the likes of Netflix and generally have an internet experience similar to that in their home or office. Their previous offering was slow and used land based towers so was limited primarily to continental USA. The company is an approved installer for Airbus so they factory install their product into the aircraft on the assembly line in France. Currently this costs the company money with no return until the aircraft are operational, but as their systems grow in numbers the company expects to produce positive cash flow in 2019.

For the airlines the advantages are several- the early adopters may get increased passenger demand, potential removal of heavy and clunky seat back screens and an extra revenue stream by charging for this add on.... a well-worn path for anyone who has booked an aircraft ticket online. It feels to us as though Gogo's business model's time has come so we plan to hold this stock for some time. The fact that every airline magazine on board seems to have the crossword or Sudoku puzzle done indicates to us passengers would be receptive to an alternative form of entertainment to pass the time in the air.

Pleasingly our strong August return came despite a fairly conservatively positioned portfolio, as we ended the month with 25% cash and we have gradually increased the liquidity across our equity holdings. Macro events tested the market's resolve throughout August but served as a good reminder of just how immune equity markets have become to potentially catastrophic events. We get little comfort from this and plan to continue trading cautiously.

Regular users of our website ([www.aaml.co.nz](http://www.aaml.co.nz)) will have noticed we have refreshed the presentation, and significantly enhanced information provided in the Fund Performance section. We hope you will welcome the improved disclosure, and would appreciate any feedback on the changes (good and bad).

## TOP 10 HOLDINGS

Contact	3.8%
Google	2.7%
Metlifecare	2.5%
EBOS	2.4%
Heartland	2.2%
Sanford	2.2%
Z Energy	2.1%
Mainfreight	2.0%
Amazon	1.9%
ANZ	1.6%

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