

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

	Aspiring Fund	NZ50G	ALL Ords Accumulation Index (rebased in NZ\$)
<u>Short-term returns</u>			
Month	2.02%	4.38%	1.53%
Last 3 Months	4.04%	7.56%	7.13%
Last 12 Months	11.76%	19.14%	14.13%
Financial Year to Date	9.57%	11.95%	14.02%

Long-term* returns and volatility

Return (annualised)	11.03%	7.41%	3.48%
Return volatility (annualised)	8.53%	11.32%	16.05%

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

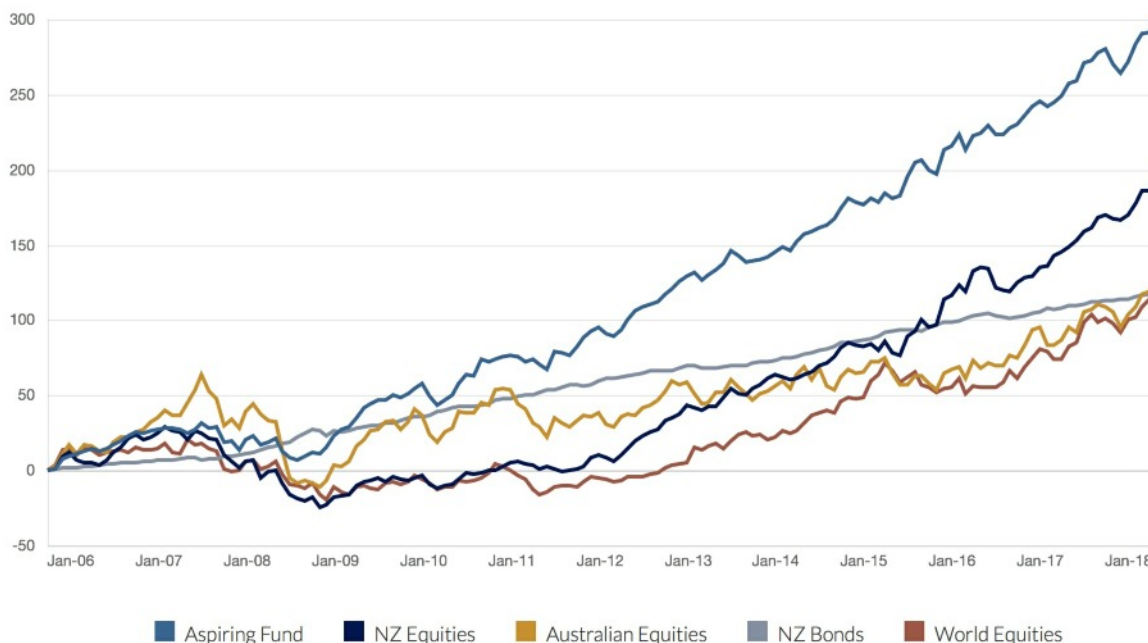
Unit Price \$3.73

ASSET ALLOCATION (approximately):

New Zealand Equities	37.1%
Australian Equities	20.0%
International Equities	16.6%
Bonds	3.8%
Total Cash	22.5%
Short Equities	-0.5%

Net Asset Value of the Fund (approximately): 417.4m

Fund Performance



Aspiring Fund returns include all charges but are before tax expense, and exclude New Zealand tax credits. The returns of market indices shown above include capital returns and cash distributions, but reflect no deductions for trading and transaction costs, applicable tax, and other expenses. All return data is shown in NZD.

The Fund returned 2.02% in August, supported by pleasing returns from the NZ (+3.3%) and Australian (AUD +2.1%) portfolios, and our unhedged international positions.

Almost three quarters of the way through the year, it is clear the synchronised positive returns seen in 2017 across all markets have broken down. Year to date US Equities are up 6.5%, vs Europe and Emerging markets of -2.8% and -7.2% respectively. As we noted in our June monthly commentary, the quality of the US benchmark return is low, propped up by a handful of stocks.

High index return concentration is particularly evident in NZ. While the NZ50 Index was up 4.4% in August, if we exclude the three NZ growth stocks included in the MSCI World Index (a2 Milk, Fisher and Paykel Healthcare and Ryman), the benchmark would have carded a 1.2% return (in line with the average stock return of ~1.1%). a2 was the only company of the three which reported results in August. While the result was stellar, it was pre-guided, and analysts only revised their forecast earnings up 2% - somewhat lower than the stock's 20% return for the month.

We continue to be wary of patchy trading liquidity, particularly in NZ large cap shares. In August, average volumes for this group were roughly 25% lower than the average of the last 5 years. We suspect the share price sensitivity to offshore investor inflows is elevated with the apparent absence in NZ institutional selling.

Approximately 60% of reporting companies downgraded forward earnings in August. This shouldn't be a surprise as, on First NZ Capital's estimates, we have not seen a broad-based positive earnings revision since early 2016. Australia was a similar story with 11% of Aussie companies providing positive earnings revisions vs the long-run average of 20%. In terms of our portfolios, it was a relatively uneventful reporting season.

The lack of positive earnings surprises in NZ continues to challenge the mathematics of local equities valuations. During August the NZ average Price to Earnings ratio (P/E) hit an all-time high of 17.7x. The concurrent fall in the yield on the NZ 10y Government Bond (currently ~2.5%) is a reminder that TINA (there is no alternative) lives on. Investors continue to accept a historically low margin for equities risk just to get a more palatable absolute return. Long-time newsletter readers will know we have not had much of an appetite for this – a conservative stance that has cost the Fund material returns.

With high expectations built into local valuations, it is worth noting shares in emerging (high growth) markets are well down year to date (-7.2%). The global importance of these regions should not be understated. Today China alone represents a third of global growth (vs ~10% from the US). The Fund has ~5% exposure to China Equities, including a basket of 290 stocks in an ETF. The median P/E ratio of these stocks is ~9x - to put this level in context, if all of their share prices immediately rose 80% they would still be on a lower valuation than the average NZ company. While the timing of our entry could have been better, with NZ Equities close to a decade high P/E premium to Emerging Markets of ~60%, we have our toe in the water.

Following the Datamars bid for our unlisted investment Tru-Test in May, the Fund was again on the right side of corporate activity in September. PGG Wrightson agreed to sell its seed and grain business to Danish cooperative DLF Seeds for \$439 million. We view the sale price as attractive, and hope PGW can unlock further strategic upside from its retained businesses.

Infratil (working in partnership with Mercury) announced its intention to buyout the minorities of Tilt Renewables at a small (8%) premium to the prevailing price. We think the transaction has strategic merit and see a bid price from the astute investment fund (and insider) as validation of upside potential of Tilt. The independent Directors have subsequently advised shareholders not to accept the offer.

We were particularly pleased to sell part of our unlisted investment in Flick Energy to Z Energy, a tie-up we view as a win win. Z's acquisition of ~70% of Flick, values the company at \$53m. Unlike a vanilla customer transaction, Flick provides a dynamic brand and a scalable operating technology platform. With huge customer reach (~90m transactions a year) but lack of a direct relationship, we believe Z is well placed to materially grow Flick's customer numbers and ultimately benefit from owning an ecosystem and getting closer to their customers.

Our Aussie portfolio had a reasonable month, outperforming the index performance which was up 1.7% in A\$. The cross section of performance across the Australian market was quite remarkable, with darling sectors IT and Healthcare leading the way (up 6.5% and 3.0% respectively) while Resources dragged the chain as trade tensions created fears around global demand/prices. In addition, markets absorbed yet another change in Prime Minister, with liberal Scott Morrison taking the reins eventually from a tortured Malcolm Turnbull.

Pleasingly we had some good wins from long time position Bingo and Collins Foods, and some good performances from Star Entertainment and Boral (recent purchases) which we thought had been well oversold pre their results. Bingo in particular was our best contributor reporting a solid result/outlook in conjunction with purchasing Dial a Dump for \$580m. The deal was funded with a combination of debt and equity, with the Bingo CEO following his money and the key shareholder in Dial a Dump accepting cash and scrip which leaves him with a 12% shareholding in the merged entity. The stock was up 19.5% for the month, hitting a high of \$3.28 before settling back to \$3.20 at month end. We took some profits in Bingo, Star and Boral late in the month.

The international portfolio ended the month up 3% in local currency terms, helped by the strength of the US dollar during the month and a modest return from the portfolio. The Nasdaq index had its best August in 4 years gaining 5.7%, mainly due to the contribution from Apple and Amazon. An excellent result from Apple saw growing recognition that their services revenue should command a higher multiple and the stock ended up 20% for the month, breaking through the trillion-dollar market value, the first company to do so.

We had halved our international weighting at the end of July as the tech markets felt overbought and vulnerable to a selloff following several disappointing earnings results. In hindsight, our cautious approach was wrong and, cognisant of the old Wall Street saying "don't fight the tape", we purchased

the majority of the stocks back during the month. The age of this bull market and the small number of companies that are driving the markets higher means we will continue to be somewhat flighty, but the deep liquidity in the international portfolio means getting out then back in is frictionless in a transactional sense.

The Fund's international portfolio consists of predominantly US high growth momentum stocks and a moderate weighting in Chinese stocks. The later position is based upon the fact the Chinese market has become relatively cheap because of the ongoing trade tension with the US. We are particularly mindful of the divergent returns between the dominant Chinese technology stocks and technology stocks in other equity markets (including Australia). Our view is any economic damage is likely to be largely priced in, but sentiment remains negative, and we are unlikely to increase the Fund's exposure to this region until political tensions improve.

TOP 10 HOLDINGS

Amazon	3.6%
China MSCI ETF	3.3%
Mercury	3.2%
Contact	2.5%
Precinct Convertible Notes	2.5%
EBOS	2.4%
Metlifecare	2.3%
Sanford	2.3%
Z Energy	2.2%
Google	2.2%

Aspiring Asset Management Limited

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