



## REPORT TO THE UNIT HOLDERS IN THE ASPIRING FUND FOR THE MONTH AUGUST 2019

*All returns are in NZ\$*

	Returns			Return volatility	
	31 August 19	3 months	12 months	Since inception pa <sup>i</sup>	Since inception pa <sup>i</sup>
<b>Aspiring Fund</b>	<b>0.51%</b>	<b>4.80%</b>	<b>3.86%</b>	<b>11.04%</b>	<b>8.34%</b>
New Zealand Equities <sup>ii</sup>	-0.93%	6.32%	15.50%	8.97%	11.20%
Australian Equities <sup>iii</sup>	0.03%	4.66%	6.42%	6.56%	15.46%
World Equities <sup>iv</sup>	2.51%	8.45%	5.48%	6.04%	12.65%

<sup>i</sup> February 2006, <sup>ii</sup> NZX50 Gross, <sup>iii</sup> ASX All Ordinaries Accumulated, <sup>iv</sup> MSCI World Equities Total Return

### Unit Price

**\$3.88**

### Asset Allocation (approximately):

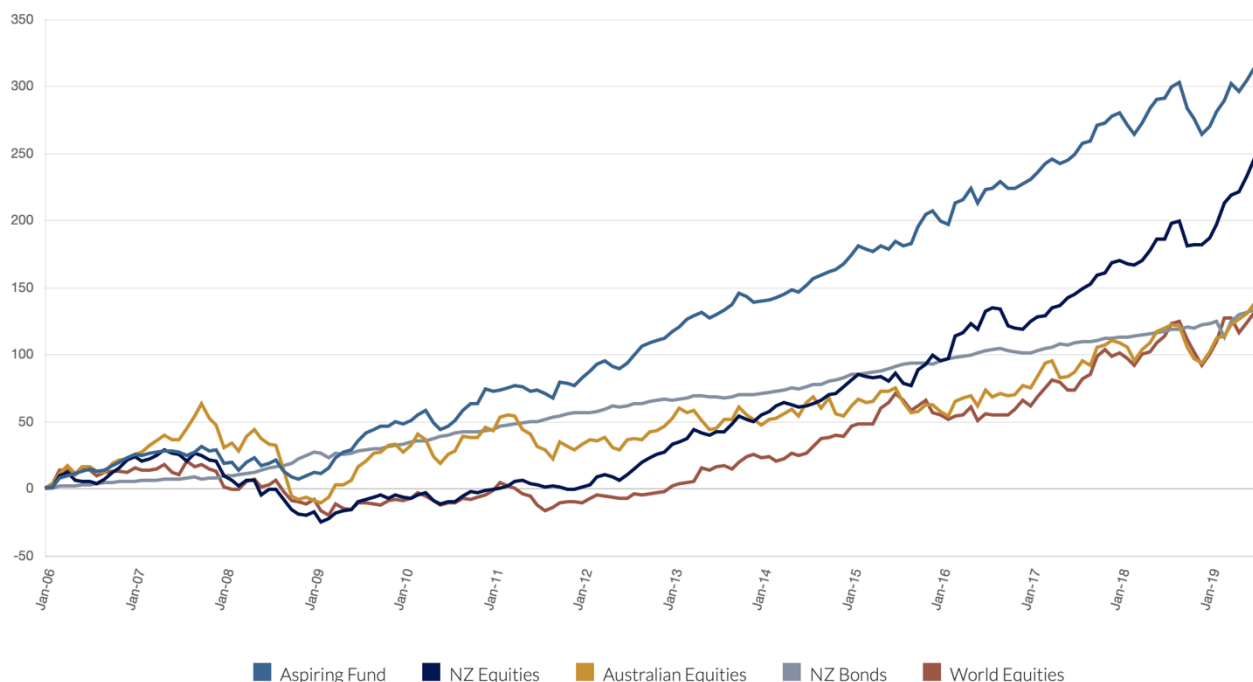
New Zealand Equities	39.1%
Australian Equities	17.7%
International Equities	24.8%
Bonds	4.2%
Total Cash	14.2%
Short Equities	-0.1%

### Net Asset Value of the Fund (approximately):

**\$430.3m**

*The fund's main direct currency exposures at month end were - NZD 52%, AUD 22%, USD 20%*

## 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 was up 0.51% in August, a pleasing return in a weak month for equity markets.

The global equities rollercoaster continued apace in August. The market can be best described as anchorless, with price swings highly sensitive to US politics and global central banks. The August episode started when President Trump tweeted that more tariffs were coming. This was countered by China announcing new tariffs on US goods, and calm was restored when both sides indicated that negotiations were progressing. You could be forgiven for being bored by the groundhog day nature of the whole affair if the market reactions were not so material – as a result of the tit for tat, US equities saw the biggest price swings for the month of August since 2011. ~70% of days had daily swings in excess of plus or minus 1%. We do note that these moves may have been exacerbated by the Northern Hemisphere summer holiday period in August, where trading volumes are lighter than normal.

The uncertainty generated by the trade war is clearly dampening the US growth outlook. Forecasts for US equities earnings growth in 2019 have fallen from 7.6% at the start of the year to just 2.3% today, and the benchmark US 10 year government bond remains anchored around 1.5%.

Our global portfolio fell with the weak offshore markets, with the MSCI World index down -2% in US\$ (the fierce drop in the NZDUSD cross saw the index register a positive return in NZ\$) in line with the US market's decline. It is also worth noting that US equities are now flat on 12 months ago (S&P500 capital index).

Top 10 position Alibaba produced a strong first quarter result, with operating earnings up 34% (the highest rate since 2017). Revenues in its core ecommerce business were up a staggering 44% to

Rmb99.5 billion (NZ\$22 billion), as the business continues to benefit from online spending growth in higher tier cities and more recently new customer growth in lower tier regions. The company is a key Fund holding. On our estimates the share price implies a price/earnings multiple for its highly profitable ecommerce business below that of the current record multiple (~20x) for NZ shares.

We continue to broaden the international portfolio, which now has 22 holdings, with a weighted average PE of 17x. Importantly, our portfolio comprises companies with rock solid balance sheets which will enable them to ride out any prolonged weakness in the international economy.

The key contributors to the Fund's positive performance for the month were the weakening NZ\$ and a strong performance from our NZ portfolio.

The NZ\$ fell after the Reserve Bank caught the market by surprise with a 0.5% cut, taking the official cash rate to 1%. The mortgage market responded with all banks lowering rates materially and HSBC now offering a market low 3.35% rate for 1-5 year terms. While these rates are eye catching to the NZ market, we still have some way to go to reach rates offered in Europe including in Denmark where negative mortgage rates are being offered - that is, the bank is paying you to take out a mortgage. However, with 75bps of cuts from the Reserve Bank in the past few months it is clear we now have a hyper-interventionist central banker in Adrian Orr who has no issue taking rates even closer to European levels if he considers it necessary.

August is a big month for company results. As such it provides a window in to current trading conditions and a forum for outlook comments from many companies. The overarching outlook message was particularly cautious. By way of example, Freightways, a reasonable bellwether for NZ activity, noted monthly volume growth has just turned negative in its express packaging division, while Air New Zealand called out a noticeable slowdown in kiwi discretionary travel.

This subdued outlook was confirmed by the most recent ANZ business confidence survey which hit 11 year lows in August. Ironically, feedback we have had from the major banks is that their corporate clients were more alarmed than reassured by the RBNZ's aggressive actions in August so this trend seems likely to continue.

Traditionally optimistic analyst earnings growth forecasts reflect the tone of reporting season, with average growth forecasts for the next 12 months now down to 2.1%.

We have slowly reduced our exposure to NZ and have tilted the portfolio away from expensive defensive yield into new positions including Sky TV, Vista and Air New Zealand. The aggressive selling in Sky TV (-13%) and Vista (-35%) provided attractive entry points for the Fund, and we were reassured by the sustainability of Air New Zealand's dividend at their result, as it enters a low capex period.

The New Zealand portfolio performed well with key contributions from Spark (+11%), Contact (+7.6%), Mercury (+13.6%), Tilt (+5%) and Napier Port (up 17% from its listing price). The key offset was from a big fall in the NZ market's largest index position a2 Milk (-20%).

Spark produced a solid result, and most pleasingly, held its dividend which it expects to be covered by free cashflow from 2020. The announcement was well received by a market hungry for sustainable income, with its best yield benchmark (Telstra) implying a share price well north of current market. Mercury and Contact rallied on speculation about their potential entry into the MSCI World Index in November.

The listing of Napier Port was a key highlight in August. The listing is significant as we hope it can provide a funding blue print for further local government investment in New Zealand. Proceeds from the \$230m listing, which was well supported by iwi, port staff, and local rate payers, will be used to expand wharf infrastructure. Notwithstanding cyclical issues, including the near-term outlook for log volumes, our investment thesis is supported by the Port's strategic positioning and belief it can improve its return on capital over the long-term.

A2 fell hard after producing a strong result but pointed to lower margins ahead on rising costs. We welcome the additional investment to future-proof the business, and continue its expansion in China and the US, the latter of which it is still very much early days. While the top-line continues to grow admirably, any bump in the road for a stock well held by Australian investors and trading on +30x earnings will get punished.

The Australian market had a weak results season, with a subdued outlook, with the market down over 2% in Aussie \$. As noted last month, we de-risked our Australian portfolio coming into reporting season, a move which was validated by the market's typically unsympathetic treatment of earnings misses. We bore the brunt of this treatment with key holding Cleanaway's 14.5% sell-off. While growth slowed markedly in the 2nd half of the year for the country's leading waste management company and the outlook has been tempered by the slowing domestic economy, we are comfortable with the quality and long-term future of the business. We used the sell-off to pick up more stock at attractive prices.

While NZ analysts are factoring in a subdued outlook, Aussie analysts remain typically upbeat with average trend earnings growth of 8% (average industrials ex-Financials earnings growth) for the year ahead. While we remain wary of the potential for future downgrades, a number of prospective investment opportunities have opened up in Australia which we are evaluating.

## Top 10 Holdings

Spark	4.8%
TILT	3.8%
Infratil	3.7%
Contact	2.6%
Amazon	2.6%
A2 Milk	2.4%
Alibaba	2.3%
Google	2.2%
Treasury Wines	1.9%
Cleanaway	1.8%

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