



REPORT TO THE UNIT HOLDERS IN THE ASPIRING FUND FOR THE MONTH FEBRUARY 2019

All returns are in NZ\$

	Returns			Return volatility	
	28 Feb 19	3 months	12 months	Since inception pa ⁱ	Since inception pa ⁱ
Aspiring Fund	2.94%	1.49%	2.85%	10.77%	8.42%
New Zealand Equities ⁱⁱ	3.78%	5.68%	11.36%	8.14%	11.27%
Australian Equities ⁱⁱⁱ	5.32%	7.81%	3.10%	5.91%	15.70%
World Equities ^{iv}	4.84%	3.39%	6.43%	5.77%	12.69%

ⁱ February 2006, ⁱⁱ NZX50 Gross, ⁱⁱⁱ ASX All Ordinaries Accumulated, ^{iv} MSCI World Equities Total Return

Unit Price **\$3.57**

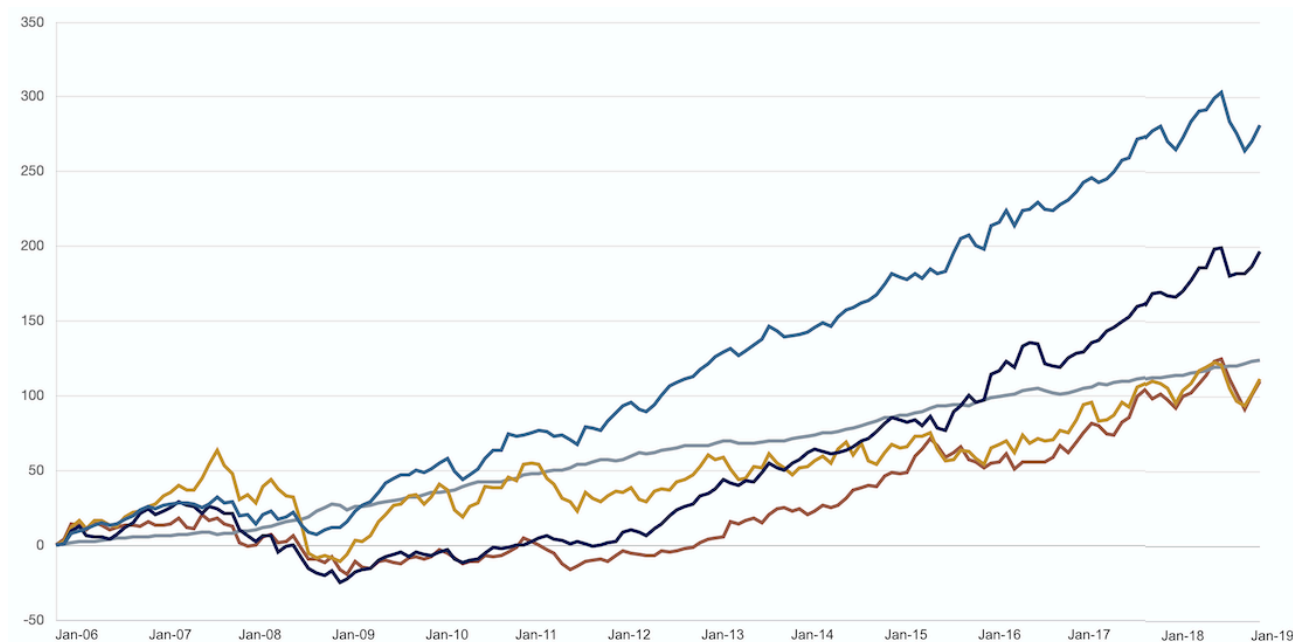
ASSET ALLOCATION (approximately):

New Zealand Equities	38.5%
Australian Equities	17.7%
International Equities	19.4%
Bonds	5.0%
Total Cash	19.3%
Short Equities	-0.9%

Net Asset Value of the Fund (approximately): **402.6m**

The fund's main direct currency exposures at month end were - NZD 68%, AUD 18%, USD 12%

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 2.94% in February, in what was another strong month for global equity markets.

We navigated our way through the Australasian reporting season fairly well, baring few scars at the end of it. As with the US reporting season, results for our holdings in general met expectations, with outlook statements tepid at best. We continue to see evidence of slowing growth trends for cyclically exposed companies in NZ and Aussie, with less than half of ASX200 firms growing earnings.

However despite mixed growth trends globally, equity valuations continue to move higher for the time being on the TINA (there is no alternative) thesis. We have gradually increased our equity weighting over the past couple of months as market volatility has calmed, however remain wary of how quickly volatility can return.

The NZ50 was up 3.8%, with 2.6% of that return coming from market darlings a2 Milk and Fisher & Paykel Healthcare. a2, a top-3 Fund position, was once again the best contributor to Fund performance following a 2nd successive 13% monthly gain, after it delivered another robust result. Fisher and Paykel (+17%) benefitted from calling a truce to its litigation battles with competitor ResMed, removing the threat of downside regulatory risk.

Outside of these growth names, the NZ market continues to be driven higher by yield hungry investors. The NZ 2 to 5 year swap rates were all at record lows before rising after a less dovish Reserve Bank statement. The Bank still expect the official cash rate to remain at its record low of 1.75% until 2021, while also highlighting how well they think the NZ economy is performing. Like a

number of economists, we think there is better than even odds that the Governor may have to soften his tone further as the weakening economic data trends continue.

Precinct was the first property company to take advantage of the yield focussed market with a capital raise. Notably, the issue price was at such a high valuation (low yield) that the deal had very limited earnings dilution. Also, the Manager and major shareholder surprised by not electing to participate in the offer. We see very little appeal in REITs, the same view we have on NZ's 10 year bond yield closely approaching 0% in real terms.

The Fund's largest holding, Contact Energy, was up +5% after it raised its dividend pay out to 100% of free cashflow, slightly tempered by lower imputation credits going forward. Contact became a key fund holding when Origin sold down its stake in 2015. Our thesis was that the company would use its significant free cashflow generation to paydown debt and lift its dividend over time – this thesis has now largely played out.

The largest headwind in the NZ portfolio was Spark, which came back down to earth with a thud (-8%) after having had a strong yield induced run. The sustainability of Spark's dividend, not fully covered by earnings, was called into question with its key growth drivers moderating. As the price has fallen we have increased our weighting. A dividend cut would be a unwelcome mark against CEO, Simon Moutter's, execution.

To add to a busy month, the Tax Working Group released their proposals around Capital Gains Taxes (CGT). In common with most market participants, we think these will be anti-growth proposals if fully adopted. Fortunately, the early feedback has been overwhelmingly negative. We have not always regarded Winston as a good influence on NZ politics but, in this instance, we expect to agree with his eventual decision. At this stage our best guess is that Labour will choose to run with a CGT on investment property (a risk to listed property PIEs), and possibly other taxes on activities they deem to be speculative trading of the wealthy.

Australian equities continued their strong run, up 5.3% in NZ\$. Most of this gain was made in the first week of the month when the Aussie market had its best weekly performance in 2 years off the back of a benign Royal Commission report into the Banking sector. Our Aussie portfolio had a stellar month, with Aveo Group, Cleanaway and Ruralco our best contributors.

Aveo Group has been a core holding for some time, our attraction supported by the deep discount of its market value to its net tangible assets. The company, as expected, reported a weak result, however the stock rallied (+31%) as Management noted a number of potential takeover suitors are now in a due diligence phase. We continue to hold our breath for a favourable outcome.

Cleanaway (+20%) reported yet another strong result, pleasingly unaffected by the recent downturn in the Aussie housing market. A part offset to this was our other Aussie waste management holding Bingo (-20%) which did not escape the impact of the housing downturn, as it downgraded earnings. The stock fell by 49% on the downgrade in typical Aussie style, where we bought more, before it bounced back strongly.

A moderate fund holding, rural supplies company Ruralco, was up 48% after it received a takeover offer from Canadian based fertiliser giant Nutrien. We took profits and exited the name post the offer.

During the month we increased our weighting in the international component of the Fund and this now represents ~20% of Fund assets. It is quite likely this weighting will continue to increase if the quality and fundamentals of a number of international stocks remain superior to what we can find in Australasian markets. The price to earnings (P/E) ratio of the international portfolio is ~16.5x (below ANZ equities at +17x) and has near term earnings growth projected at ~15% pa (3x ANZ equities).

Earlier this year we increased our exposure to Asia, on the basis of a material valuation disconnect with local equities, and an increased appetite from the US to negotiate with China on trade issues. In addition to tech heavyweights, Alibaba and Tencent, we added value based investments in the infrastructure sector, and more diversified equities exposures across the wider Asia region.

We also added a modest exposure to the UK, where Brexit has ensured a complete lack of foreign interest in their stock market. The UK market is now trading on P/Es which are at multi-decade lows relative to the average P/E ratio of NZ equities. Whilst the outcome of Brexit is still unknown, the resolution one way or the other will be the first step to seeing confidence return to that market. We will increase our exposure as the political situation settles down and economic outcomes become clearer.

Our US stocks exposure is weighted toward the tech sector which gives us exposure to trends which are likely to shape our lives over the next twenty years. PayPal, Visa and Mastercard will lead the trend to a cashless society and Alphabet, Amazon, Apple and NVIDIA (alongside our Asian tech holdings) are likely to be at the winners table when it comes to artificial intelligence. Disruption and transformation is a theme that runs through the US portfolio and it provides a good balance to the more mature and yield driven investment holdings within our Australasian portfolio.

Management Company update:

From 1 April this year Stephen Montgomery will move to a Non-Executive Director position with the Company. Stephen will continue to be a shareholder in the management company and investor in the Fund but would like to move away from day to day dealing and focus on providing more strategic and macro input to the Fund. This is a great outcome for both Stephen and the Fund as we will continue to have access to his many years of experience but also will allow him more time to enjoy his other interests and pursuits. We will be looking to add additional resource in Auckland during the year.

Top 10 Holdings

Contact	3.7%
Spark	2.9%
A2 Milk	2.7%
Precinct Convertible Notes	2.5%
China MSCI ETF	2.2%
Amazon	2.1%
TILT	1.9%
Meridian	1.7%
Google	1.6%
Aveo Group	1.5%

If you have any questions or feedback in relation to the newsletter, please email the team.

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