



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

	Aspiring Fund	NZ50G	ALL Ords Accumulation Index (rebased in NZ\$)
<u>Short-term returns</u>			
Month	0.97%	2.46%	-1.06%
Last 3 Months	2.13%	1.29%	3.10%
Last 12 Months	10.37%	14.27%	10.89%

Long-term* returns and volatility

Return (annualised)	10.76%	5.52%	1.38%
Return volatility (annualised)	8.99%	12.03%	16.61%

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

Unit Price: \$3.0926

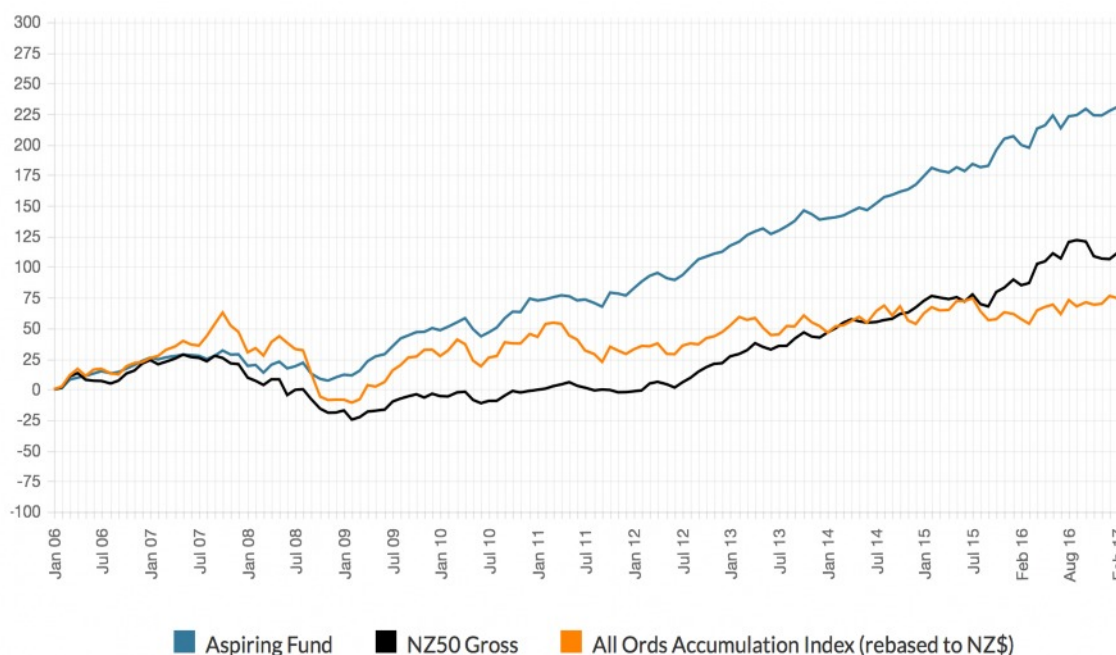
Performance after all expenses: 0.97%

Asset allocation (approximately):

New Zealand Equities	45.6%
Australian Equities	17.0%
Global Equities	5.0%
Corporate Credit/bonds	4.2%
Cash	28.2%
Short Equities	-2.9%

Net Asset Value of the Fund (approximately): \$321.4m

Fund Performance



The Fund returned 0.97% for January.

This outcome was a result of many small wins and fewer and smaller losses in a month which was notable for the lack of corporate or macro-economic news, even by January standards.

Likely aided by low liquidity, the NZ50 index was up a strong 2.4% in the month (more than half the 4.5% capital performance it recorded in 2016), ahead of both US (+1.4%) and Australian (-0.8%) share benchmarks in local currency terms. Of particular relevance for NZ equity valuations, its key comparable – Australian Industrials (the Australian share market excluding Resources) - was weak in January with a 2% fall.

We think investors in New Zealand may have taken some comfort from the recent plateauing in interest rates. 5 year swap rates backed up nearly 100 basis points from 2.12% to 3.05% in the December quarter but barely budged during January, finishing the month at 3.08%. In doing so they mirrored the performance of US bonds where the benchmark 10 year yield climbed from 1.59% to 2.44% over the December quarter before ending January at 2.46%.

New Zealand has long been seen as a yield market and a number of bond sensitive stocks recorded +3% bounces, led by Auckland Airport which was up 9% in the month (but still 12% below six month highs).

We are not as sanguine about risks in the bond market and think most NZ shares require a growth surprise and/or lower bond yields to justify current valuations. We continue to view the 'bond proxies', the traditional defensive shares, as risky bets on US bond yields/inflation. After eight years of trying, the US Fed seem closer to achieving their long held objective of higher inflation and they may well be aided by fiscal largesse from the new US President.

Where this leaves the Fund is a wide spread of investment holdings and an elevated level of cash and short term corporate credit (the best priced hiding places).

One of the most interesting developments for us was the weakness in the US currency - down over 5% against both the Australian and New Zealand dollars in January and 2.7% on a Dollar index basis. Trump as President has probably exceeded his most fervent supporters' expectations in terms of his assault on the status quo. However, at least in the short term, there is an economic cost associated with extreme policy uncertainty.

We think UBS senior economist, Paul Donovan, provides a telling insight; "Uncertainty about the content of the Trump Twitter feed is hardly an incentive for international investors to stump up the (USD)\$2.7bn dollars a day that the United States needs to stay afloat".

Sustained currency strength will be an unwelcome headwind to already high New Zealand growth expectations. Economists expect the NZ economy to grow by c3.5% (excluding inflation), well above trend (c2.5%) and especially so at a core level when adjusting for the wind down in Christchurch rebuild activity. Broker analysts forecast 9% average earnings growth in 2018, more than 2x the current run-rate of <5%. Meanwhile momentum in population, tourism, housing and consumer spending all feels peak-cycle to us.

Within the Fund, our New Zealand equities portfolio performed particularly strongly, running slightly ahead of the local bourse despite not holding four of its better performers (Auckland Airport, Xero, Ryman and Port of Tauranga). Our biggest win came from our meaningful position in Tilt Renewables which was up 18.6% on the back of a recent slew of positive initiation reports from broker analysts. We have long been fans of the option value embedded in Tilt's business, but recognise the development and financing challenges ahead of it.

In corporate news, Z Energy reaffirmed it is on track to deliver on its targets and review dividend policy in the 2nd half of FY18. The stock rose 6% during the month but gave it all up to end flat following comments by the Energy Minister Judith Collins about a pending Government inquiry into petrol margins.

Comvita updated the market on disappointing sales and honey collections. Industry feedback in previous months had made us increasingly nervous about both of these issues and we were down to a very small holding when the announcement came.

Our Aussie portfolio performed creditably in a weak market, with Boral and Incitec Pivot our key winners. Boral continued its decent run since it raised capital late last year to fund its US acquisition. Incitec Pivot, which manufactures fertiliser and explosive chemicals, lifted 7% after an on target operational update for its new US ammonia plant, coupled with a 28% lift in the ammonia price.

For our money, the global environment has become riskier in the last three months. The 12% (top to bottom) selloff in New Zealand equities which preceded January's minor rally, has not moved prices enough to compensate for those risks. Market focus continues to rotate away from central bankers to politics. Donald Trump has been the main act in this new show, but there will be plenty of supporting roles in upcoming European elections. The Netherlands' general election in May, France's Presidential election also in May and Germany's Federal election in October all have non-trivial odds of producing unsettling outcomes. Closer to home, we are now less than 8 months away from our own little drama.

We expect 2017 to be another difficult year and intend to continue with the "wait and see" approach to the new global order until greater clarity emerges. Valuations generally offer little protection from rising bond yields or earnings disappointments. For us, the option value of cash, in a year with many risks and possible opportunities, currently exceeds the opportunity cost of holding it. In the very near term February, which is a major month for company reports and trading updates, will provide us with valuable information about many of the companies we own.

TOP 10 HOLDINGS AS AT THE 31ST JANUARY 2017

Contact	4.2%
Spark	3.4%
EBOS	3.2%
Heartland	2.6%
Google	2.5%
Meridian	2.3%
Sanford	2.3%
Mainfreight	1.9%
Fisher & Paykel Healthcare	1.8%
Green Cross Health	1.7%

Aspiring Asset Management Limited

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