



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

| | Aspiring Fund | NZ50G | ALL Ords Accumulation Index (rebased in NZ\$) |
|---------------------------|---------------|--------|---|
| <u>Short-term returns</u> | | | |
| Month | 0.69% | 0.52% | -0.27% |
| Last 3 Months | 2.45% | 3.63% | 1.89% |
| Last 12 Months | 15.00% | 19.73% | 20.06% |
| Financial Year to Date | 11.20% | 17.30% | 8.17% |

Long-term* returns and volatility

| | | | |
|--------------------------------|--------|--------|--------|
| Return (annualised) | 11.16% | 6.82% | 3.06% |
| Return volatility (annualised) | 8.62% | 11.52% | 16.31% |

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

Unit Price \$3.56

ASSET ALLOCATION (approximately):

| | |
|------------------------|-------|
| New Zealand Equities | 34.1% |
| Australian Equities | 23.9% |
| International Equities | 14.1% |
| Bonds | 3.2% |
| Total Cash | 24.6% |
| Short Equities | -1.8% |

Net Asset Value of the Fund (approximately): 395.0m

Fund Performance



The Fund returned 0.7% in January.

Most readers will be aware that volatility and weakness have returned to markets globally in the first few days of February. This renders discussion of the swings and roundabouts which drove January's numbers somewhat irrelevant as they have been totally swamped by the even bigger moves we are currently seeing.

Suffice to say there was something close to a global melt-up in asset prices, led by the US market, in January and it has been substantially unwound in the early days of February. The Australasian markets did not really participate in the melt-up but they have caught the downdraft in early February. A 4% rally in the NZ\$ against the US\$ took the gloss off our January numbers and the partial reversal of this is softening the blow in February although our persistent strength against the Aussie \$ is unhelpful.

We ended January with an equity weighting just above 70% - down 3% for the month with most of the reduction coming in the New Zealand portfolio. This reflected our continued and frequently voiced concerns about aggregate market valuation.

It is too soon to tell how serious this episode of market volatility will be. For now, it seems very likely that this is a market event which will have limited impact on real economies or economic activity. Markets generally are only giving up a part of their gains of the last 6 months. There are also natural stabilisers in place – the US 10 year bond rate touching 2.85% was frequently cited as one of the immediate causes of the selloff and it rallied back to 2.75% in the immediate aftermath.

However, this has been a violent correction and it will affect the general complacency which has enabled markets to rise consistently from very high starting valuations. While the absolute level of volatility will diminish we expect it to be consistently higher in future than we have experienced over the past few years.

Our cash weighting means we are theoretically well placed for this. However, we are unlikely to react as aggressively as some might expect. Selling pressure in some of our less liquid holdings may take them down to levels where absolute value emerges but a 5-10% correction in many stocks will simply move them from very expensive to quite expensive.

Our core concern in recent years has been the extent to which global central banks have distorted investor incentives with very aggressive interest rate policies. There are clear signs now that this is changing, albeit at glacial pace, and this episode of market volatility is probably attributable, in part, to widespread recognition of this.

We underestimated how far asset prices could run on the back of this largesse but we are still in the early stages of the central bank unwind.

The return of volatility and the absolute level of valuations still leave us cautious at a market level. At a company level we are more optimistic that some opportunities may emerge, especially in light of possible new information during the February reporting season.

TOP 10 HOLDINGS

| | |
|----------------------------|------|
| Precinct Convertible Notes | 2.5% |
| Chorus | 2.2% |
| Metlifecare | 2.2% |
| EBOS | 2.0% |
| Google | 2.0% |
| Heartland | 1.9% |
| Woodside | 1.8% |
| Sanford | 1.7% |
| iShares MSCI China | 1.5% |
| Contact | 1.5% |

Aspiring Asset Management Limited

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