ASPIRING
ASSET MANAGEMENT LTD

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

All returns are in NZ$			Returns		Return volatility
	31 Jan 19	3 months	12 months	Since inception pa[i]	Since inception pa[i]
Aspiring Fund	**1.77%**	**-3.40%**	**-2.63%**	**10.60%**	**8.43%**
New Zealand Equities[ii]	1.98%	2.66%	6.44%	7.88%	11.27%
Australian Equities[iii]	4.13%	-1.98%	-3.29%	5.53%	15.70%
World Equities[iv]	4.20%	-5.18%	-0.28%	5.43%	12.68%

[I] February 2006, [ii]NZX50 Gross, [iii] ASX All Ordinaries Accumulated, [iv] MSCI World Equities Total Return

Unit Price	$3.46
ASSET ALLOCATION (approximately):	
New Zealand Equities	35.4%
Australian Equities	13.3%
International Equities	13.4%
Bonds	5.0%
Total Cash	32.9%
Short Equities	-0.3%
Net Asset Value of the Fund (approximately):	391.4m

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

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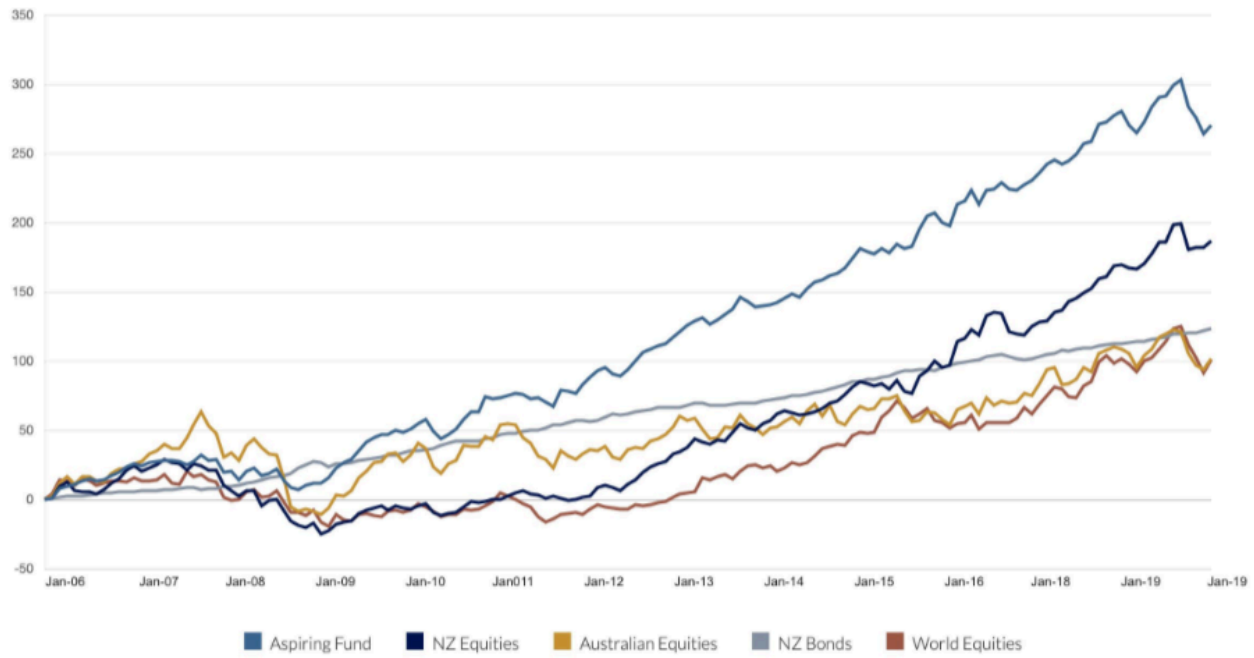
FUND PERFORMANCE



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 +1.77%, as global markets continued their bounce back from Christmas Eve lows.

January put an exclamation mark on the volatility that has beset markets, with the US benchmark S&P500 posting its best January since 1987 (+8%), following the worst December since 1946 (-9%). This trend was felt globally with Emerging Markets up +9% in US$ v -2.6% in December, Europe +6% v -4.3%, while Australia was up +4% in A$ and the NZ market posted a more modest 2% return.

While we became far more comfortable with equity valuations following last year's market correction, we did not expect such a sharp rebound in investment sentiment.

The bears have numerous reasons to remain on the prowl. Debt mountains continue to build up across the globe (notably in the key US and Chinese economies), and their negative impacts will be long-lasting. In the shorter term, geo-political uncertainties remain high and, despite supportive monetary conditions, growth is faltering.

The International Monetary Fund revised down their global growth outlook from 3.7% to 3.5%. Not an earth-shattering change, but, critically, expectations have wound back from the synchronised growth witnessed this time last year. This view was reinforced by the release of PwC's Global CEO Survey which noted 30% of CEOs think global economic growth will decline in the next 12 months, up from 5% last year. North American CEO's optimism dropped to 37% (from 63% last year), and in Germany optimism fell from 33% to 20%.

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But critically important to equity markets, fears of an imminent US recession cooled following the release of very strong US job numbers early in January and central bankers made it (more) clear they would react supportively to a slowing growth environment.

The Chairman of the Federal Reserve set the tone for markets early in the month when he noted they were 'sensitive' to the message equity markets were sending, implying a potential pause in monetary policy tightening. The dovish tones continued from Fed members throughout the month including its most hawkish member who noted it might be time to pause on interest rate hikes and to take the run-down in the Fed's balance sheet off auto-pilot.

This was a significant reversal of earlier comments from the Fed Chairman which many people, ourselves included, had interpreted as an unwind of the Fed's decade-long commitment to market stability regardless of the level of asset prices. As evidence of the impact of this Fed support, the Dow put on over 500 points in 6 minutes during the Chairman's speech signalling this reversal.

Not surprisingly, the cocktail of not-negative growth (no recession) and Federal Reserve support was just the tonic the TINA (there is no alternative to equities) thesis needed to get off the December mat and drive equities higher.

We recorded very solid returns across our equities portfolios in the month (the Fund return was impacted by our cash holding). Pleasingly, our equities portfolios had very few land mines go off at a company specific level with our largest negative single stock contributor being ~$250k (0.07% of Fund value).

In New Zealand it was ground hog day again for bond-yield sensitive equities with a very noticeable theme of a melt-up of defensive company valuations as the NZ 10-year bond yield tested 2016 lows of 2.2%. It wasn't a time to question what a yield resembling the inflation target rate means for earnings growth as defensives continued their march higher, with some of the recent laggards playing catch-up (EBOS +8%, Sky City +8%, Vector +3%).

Our NZ equities portfolio had a solid month, up 2%. Key holdings, Contact (+2.4%) and Meridian (+3.4%) reached +3-year and all-time highs respectively but the top NZ contributors were a2 Milk (+13.5%) and Z Energy (+9.3%). Infant formula port data was strong with Lyttleton reporting its 3rd highest monthly export volume in December, and while the data is volatile, the trend continues to be strong for a2's top line. Z Energy provided a positive 3rd quarter update as it benefitted from a 37% fall in the oil price over the quarter, and largely reversed the earnings and dividend downgrade put through at the 1st half result.

The sharp re-rating of NZ defensive hiding places makes stock selection particularly difficult given high valuations across the broader market and our growing concerns around the impacts of cooling house prices and emerging signs of a future slowdown in tourist growth.

Downside risk to the domestic outlook has also been exacerbated by the recent release of a Reserve Bank document proposing a significant (~30%) increase in capital requirements for NZ Banks. We are surprised by the lack of media coverage on the report, for what we see as material system-wide economic impacts it could have on the economy and particularly indebted households (the public submission period for the proposal ends in early May).

Despite the lack of obvious value on offer in NZ we expect the market to be well-supported by mandated fund flows e.g. most KiwiSaver funds have an automatic demand for more NZ equities for part of their guaranteed inflows – and the re-investment needs of existing holders of stocks like Trademe, Methven and Restaurant Brands which are all subject to takeover offers.

Our Australian portfolio was up close to 4%. Top performers were waste management companies Cleanaway (+8.4%) and Bingo (+12.7%) in addition to our oil exposures as the crude price rebounded, with US crude registering its best January on record, up 18.5%.

At time of writing the Australian market is being buoyed by the Royal Commission's final report into the banking sector. The report was an unequivocal win for the Aussie banks compared to market expectations, and bank shares accordingly enjoyed a relief rally (+5%). While the report conclusions should not trigger a material acceleration in the tightening of lending standards already under way, nor should it drive any loosening of lending standards that would drive a reflation of the housing market which remains under significant pressure in most major cities, particularly Sydney and Melbourne.

We added to our international weighting during the month. The US quarterly result season was broadly as expected (strong results, more timid outlooks), but on balance the mood of investors was generally very forgiving with a number of stocks rebounding despite weak news.

US / China Trade negotiations progressed. While details remain scant, in a joint media release both parties appear willing to get a deal done quickly. To paraphrase Mandy Rice-Davies "they would say that, wouldn't they".

Our international portfolio had a very strong month (+9% in US$), with our China MSCI (+13%), Alibaba (+23%), and Amazon (+14%) positions alone accounting for 0.5% of total Fund performance. At the time of writing, Amazon has given back some of these gains following weaker than expected guidance at their result. The result itself had many things to like about it, principally continued strong 46% revenue growth in their Amazon Web Services business (AWS).

We continue to see value in diversifying the Fund into secular growth industries we cannot access in NZ. At the recent Davos World Economic Forum, when asked about Artificial Intelligence (AI), PwC survey results found about 85% of CEOs agree the technology will "dramatically change their business" over the next five years and two-thirds say it will have a larger impact than the internet. The Fund holds a number of technology positions currently investing in AI.

February brings Australasian reporting season, which gives us a good chance to have a look under the bonnet of the bulk of our positions, and gauge management confidence at post result meetings.

We expect the volatility to continue and have positioned the Fund conservatively as a result. However, we have been and will continue to buy into dips in stocks we favour with strong growth potential, and also seek out markets and companies with material valuation buffers that are more appropriately priced for slower economic growth. The outcome of this over the medium term is that we expect the Fund to be more fully invested.

Top 10 Holdings

Contact	3.1%
Precinct Convertible Notes	2.6%
Meridian	2.5%
A2 Milk	2.4%
Amazon	2.2%
China MSCI ETF	2.2%
Spark	1.9%
Z Energy	1.7%
Sanford	1.5%
Metlifecare	1.5%

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

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