



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

*All returns are in NZ\$*

	Returns			Return volatility	
	31 July 19	3 months	12 months	Since inception pa <sup>i</sup>	Since inception pa <sup>i</sup>
<b>Aspiring Fund</b>	<b>2.05%</b>	<b>2.61%</b>	<b>5.42%</b>	<b>11.07%</b>	<b>8.37%</b>
New Zealand Equities <sup>ii</sup>	3.40%	8.43%	21.7%	9.10%	11.23%
Australian Equities <sup>iii</sup>	2.91%	7.13%	8.02%	6.60%	15.51%
World Equities <sup>iv</sup>	2.27%	1.75%	6.63%	6.27%	12.67%

<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

**\$3.86**

### Asset Allocation (approximately):

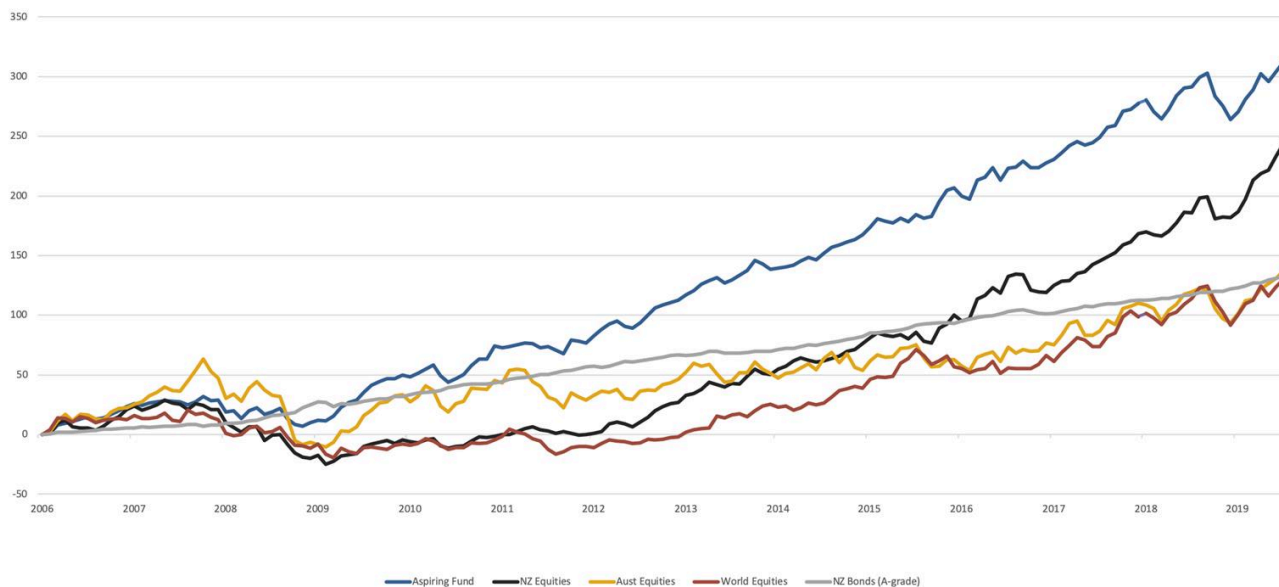
New Zealand Equities	41.4%
Australian Equities	16.5%
International Equities	21.9%
Bonds	4.0%
Total Cash	16.3%
Short Equities	-0.1%

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

**\$431.1m**

*The fund's main direct currency exposures at month end were - NZD 56%, AUD 22%, USD 18%*

## 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 2.05% in July. All of our portfolios carded decent returns, and pleasingly we had no material detractors. The key contributor to the performance was a2 Milk, the Fund's second biggest position, after it posted a 22.8% return.

The strength of a2 Milk was once again the key driver of NZ equities market return. Excluding a2 the NZ50 would have only been up 1.2% (consistent with the average stock return for the month). The big move for the share price came as two analysts materially upgraded their valuations, after extending their high-growth runways. The stock got a further push later in the month from release of positive clinical trial data from pre-school children in China indicating A1 beta-casein relative to A2 beta-casein has negative effects on both digestion and cognitive performance.

The other key contributor in our NZ equities portfolio was windfarm owner and developer Tilt Renewables. Tilt hit a July high of \$2.71 (+8.4%) however due to a small parcel of shares traded right on market close finished the month at \$2.60, a still pleasing 4% return. The share price was driven higher following positive media speculation on the sale process of its key windfarm Snowtown 2. To date we have been rewarded by our decision to pass on the full takeover offer for Tilt in late 2018. After deducting the value of ~\$270m equity raise, the company's market capitalisation is close to a 35% premium to value implied by the takeover bid.

Our Aussie portfolio had a particularly strong month, with Treasury Wines up 18.6%, and Waste Management company's Bingo (+6.6%) and Cleanaway (3.9%) also providing solid contributions. Treasury Wines, like a2 Milk, is a market darling with growth focussed on the Chinese and US markets, and the stock benefitted from the release of strong US and Chinese data during the month.

Australian Industrials have produced a bond-yield driven return of A\$22% in 2019 against a backdrop of deteriorating earnings momentum and economic growth. We have taken some risk off the table in our Aussie portfolio as the reporting season approaches.

The divergence between earnings and share price performance is also evident in NZ. We note broker Forsyth Barr sees average earnings per share growth of only 1.2% for the 41 companies reporting in August. This is an extremely low growth rate when considering the price paid for NZ earnings is a record multiple (average price to earnings) of +19x.

Alphabet (Google's parent company) was the absolute standout in the International portfolio with a 12.6% return after a strong result. The company reported an acceleration in revenue growth driven by mobile search and YouTube, and also highlighted a rapidly growing cloud business. While we are mindful of overhanging regulatory concerns, the company is growing revenues and profits at close to 20% is trading on an ex-cash PE in line with average New Zealand stock. We remain happy holders.

The investment team continues to engage with offshore companies to help shape our views on local markets. An interesting area that is rapidly developing is the Financials Industry. Driving much of this change is neobanks (digital banks), which are making inroads into traditional high street banks. Ant Financial (China's biggest Fintech firm, part owned by Fund holding Alibaba) in Asia, and examples in UK/Europe include Revolut, Monzo and Peter Thiel backed N26 (recently valued at US\$3.5bln) are three of the larger names and operate via an app on your phone and a physical and virtual debit card. Their offerings include, app-based cheque accounts, interbank FX rates on currency conversions when travelling overseas and free ATM withdrawals on capped amounts. Peer to peer lending and insurance are also part of their European product suites. Alongside physical and virtual debit cards, customer interaction and services provided via a mobile phone app, means no branch network and largely automated systems mean they can undercut the incumbents and progressively roll out more services targeting the most profitable bank segments and growing segments. Alibaba (via Alipay) for example seamlessly introduced a buy-now pay-later service. New fintech players are targeting youth and are testing incumbent pricing models.

With Australian banks being some of the most profitable in the world, it's hard not to see the new digital banks encroaching on the sleepy incumbents and eroding their high returning businesses. The Australian regulator has licensed three digital banks, and like regulators in Europe are investigating foreign exchange margins and charges amid concerns that they are simply too high or not sufficiently explained by banks.

Against holding the top-4 Australian Banks (which account for ~20% of the Australian Equities market) our strategy has been to diversify globally and own large online consumer ecommerce platforms (Amazon, Alibaba), card and processing businesses (Visa, Mastercard, PayPal) as they capture the emergence of Fintech and the growth in online retail/ digital wallets. Additionally, we own small positions in UK & Nordic banks who are deeply discounted and have premium cash dividend yields on significantly lower earnings payouts than Australian banks.

While it is pleasing to report positive returns for July, markets turned negative late in the month, and have given back recent gains in August. Despite citing an economy "as close to its goals as it's been for a long time," The Federal Reserve cut interest rates by 25bps with insurance required for uncertainties including trade risk. This disappointed interest rate induced investors who were craving a bigger move. In what seemed a reaction to rate cut decision, the following day Trump tweeted (announced) plans for additional trade taxes to China. As we saw in May, volatility has spiked, and global equities have been hit.

Unsurprisingly bond yields have tracked steeply lower. As we have recently shown in our June Newsletter, falling long bond yields have been the enduring driver of market direction in this investment cycle. At the time of writing the US 10-year yield has fallen below 1.8% (down 30bps in a week) and the German 30-year yield has moved below zero for first time ever. Down under, the NZ 10-year is at a record low 1.3% and the Australian 10-year has fallen below 1%. Unless the story changes, when volatility settles we suspect the low returns on cash will eventually lure investment flows back into equities. Our unhedged USD currency position traditionally provides a buffer - but we expect the Trump Twitter feed to continue to set the direction of markets.

## Investor Information

We have improved our verification process and security checks for Fund investors.

When we receive transaction requests by email or website inquiry, we will send confirmation of the request to the investor by mobile phone text message (SMS) or email.

Our team remains available for any assistance on 09 302 0496.

## Top 10 Holdings

Spark	4.2%
A2 Milk	3.8%
TILT	3.6%
Contact	3.5%
Infratil	3.1%
Amazon	2.6%
Google	2.1%
Mercury	2.1%
Alibaba	1.8%
Treasury Wines	1.7%

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

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