



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

	Aspiring Fund	NZ50G	ALL Ords Accumulation Index (rebased in NZ\$)
<u>Short-term returns</u>			
Month	0.69%	2.60%	0.16%
Last 3 Months	0.83%	5.76%	-5.48%
Last 12 Months	10.05%	10.35%	13.35%
Financial Year to Date	0.83%	5.76%	-5.48%

Long-term\* returns and volatility

Return (annualised)	10.75%	6.11%	1.82%
Return volatility (annualised)	8.82%	11.81%	16.55%

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

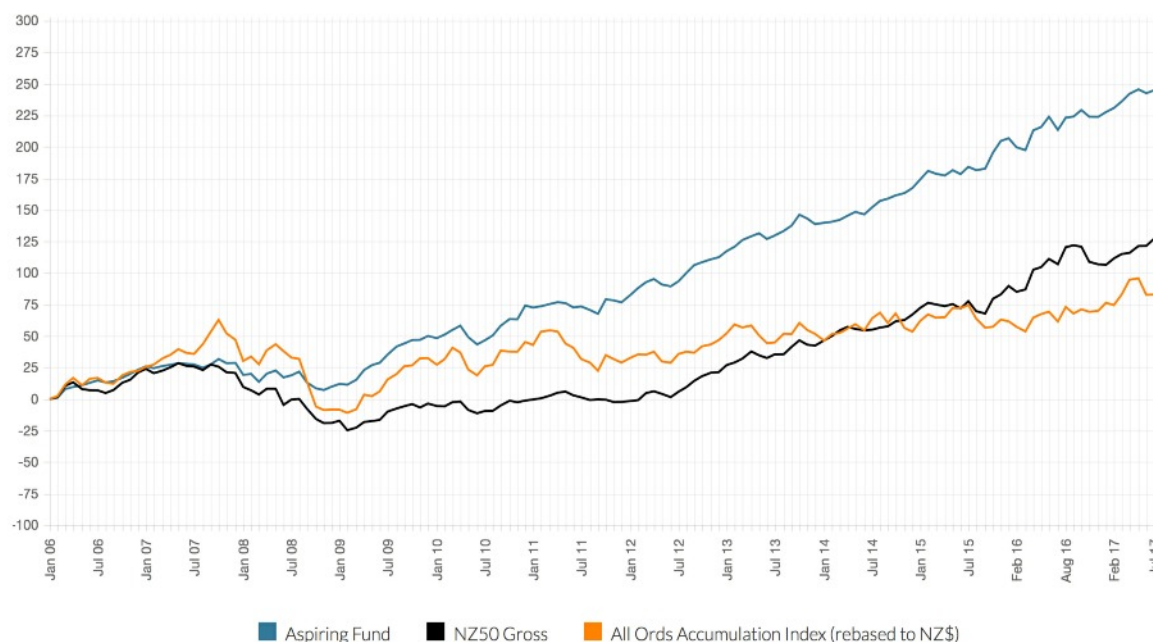
**Unit Price:** \$3.2249

**Asset allocation (approximately):**

New Zealand Equities	45.3%
Australian Equities	18.1%
International Equities	9.1%
Bonds	5.0%
Total Cash	22.4%
Short Equities	-1.5%

**Net Asset Value of the Fund (approximately):** 346.4m

# Fund Performance



The Aspiring Fund returned 0.7% in June, with strong Australasian returns dampened by weak international investment performance and the drag of cash allocation.

The standout feature of the month was the strong performance of NZ shares. The benchmark NZ50G was up 2.6% in the month – driven by a 3.7% average return from the 10 largest companies in the index. In light of this large cap skew, the Fund's more diversified NZ portfolio didn't have a chance, and achieved a more moderate +2% return.

In contrast to surging investment returns, New Zealand macro news was disappointing. GDP growth of 0.5% for the March quarter, carded similar features to the +0.4% in the preceding Dec quarter; growth was 1) low, and 2) below market expectations. Looking back over the six months NZ GDP is annualising ~2%, well-down on the +3% pace in the middle of 2016. More importantly, GDP/capita growth remains anaemic (-0.1% in March). Despite supportive monetary policy and the lagged wealth effects of high house prices, economic growth remains principally sourced from population change.

Looking ahead, optimists will point to healthy forward looking indicators such as 'own activity' bank surveys. But we remain concerned that to sustain current high growth expectations requires either a sudden step-change in productivity or ongoing strong population growth. Neither seems a strong central case to us.

With regard to the ever topical Auckland house prices, news-flow continues to be incrementally more negative. Auction clearance rates are down ~30%, with more restrictive financing options for unconditional bids. Interest rates are rising too. Advertised fixed mortgage rates now factor in a 6.9% interest rate in 5 years. We have calculated this by taking 5 years of interest at the 5-year fixed interest rate of 6.09% ( $5 \times 6.1\% = 30.5\%$  interest) minus 4 years of interest at the 4-year rate of 5.89% ( $4 \times 5.9\% = 23.6\%$ ).

On top of this, China has ramped up its efforts to control capital flows out of the country. New restrictive measures include requiring all buyers of foreign exchange to pledge that they will not purchase offshore property, and domestic banks having to provide daily reports of clients' overseas transactions of more than 1,000 yuan (AUD\$200).

In today's 'cheap money' ruled Goldilocks investment environment, markets remain very sensitive to comments made by offshore Central Bankers. In June we saw shifts toward a more hawkish stance.

The US Federal Reserve are now clearly less data dependent. This time last year, the Fed would point to any data-point to justify not changing rates. After raising rates again in June (to 1 - 1.25%) it appears they want to get as close as they can to Neutral (~3%), where "our job is done, over to you Donald". The bond market remains unconvinced the US economy would be able to sustain rates anywhere near 3%, with the yield on the benchmark US 10-year bond sitting at 2.3%.

In Europe, ECB President Mr Draghi made a number of hawkish comments late in the month, saying "All the signs now point to a strengthening and broadening recovery in the euro area". Regarding inflation, he now thinks reflationary forces have replaced deflationary forces. At the same time in Germany, business confidence climbed again to new record highs, inflation topped forecasts, and economists upgraded their growth targets. As a result, Europe's most important bond barometer, the German 10-year, rose from a yield of 0.23% to 0.47%. While this is still a remarkably low yield, the quick move higher indicates a significant shift in sentiment.

As we have written at length, we are wary of the impact that rising long-term interest rates will have on risk assets, and in particular large parts of the NZ equities market. While the yield on the NZ 10-year bond has been lower, we note its premium to the US 10-year yield is now straddling ~20-year record lows. If long rates rise globally, NZ has a very small buffer to protect it from following suit.

Our Australian investments carded a pleasing +1.5% return in a flat market, with a bunch of decent winners. Waste management company Cleanaway was up 4% after it won a valuable Brisbane contract. The company has struggled for years but is undergoing a turnaround under new management and is up 75% in the past 12 months. Aussie KFC operator Collins Foods, was up 15% (and still trades at a discount to NZ peer, Restaurant Brands) after raising funds to acquire 28 restaurants from Yum Brands. And it was also a relief to see radio and outdoor media company HT&E (formerly APN News and Media) finally catch a bid, and return 13%.

Our NZ portfolio posted a +2% return, in a market which was pulled around by large impulses of global ETF/quant buying. Strong contribution came from a couple of NZ's dominant growth stories. A2 Milk and Fisher and Paykel Healthcare are now up ~90% and ~35% for the year respectively. We also had a decent win in our core holding digital print and comms business, Solution Dynamics (+7.6%), after it again upgraded earnings. Trilogy rallied (+16%), following the acquisition of a Christchurch beauty product company with US based earnings, a market where Trilogy has struggled to get a foothold. Green Cross Health fell a disappointing 6%, which we suspect was due to Amazon's continued dominance of market headlines and investor concern.

In June Amazon made one of the most disruptive m&a moves in recent history with a takeover offer for high-end US supermarket chain Wholefoods, at a 27% premium. The news immediately wiped \$29bn off the market values of listed US Grocery & Chemist retailers. What made the market reaction even more remarkable is that the Amazon deal valued Wholefoods at \$13.5bn, and Amazon's share price ended the day \$11bn higher.

Our international portfolio, by design, does not hold any traditional retail business models. It is technology heavy, and this sector took a beating in June. The Fund's global (ex-ANZ) investments were down over 6% in NZ\$ with the weak US\$ playing its part. In hindsight, our holdings were due a pull-back. The portfolio remains up over 15% for the year in NZ\$, despite the exchange rate headwind, but we continue to be attracted to what we see as compelling growth and diversification that we can not access in local markets.

Following the year to date rebound, we find ourselves in a similar place to where we were in the middle of last year, with local shares again lacking a historical margin of safety.

In fact, based on our internal database (which spans 271 months from Dec-94) the average price/earnings ratio for NZ equities in June (16.5x), has only been surpassed twice; in May-07 (16.6x - pre GFC peak), and Aug-16 (16.8x). For our money, a GFC type market correction is unlikely with low interest rates acting as a 'zero gravity' type support mechanism.

However, it is worth noting in the second half of last year the NZ50G index fell 7% from August-16 (month end). And despite a strong recovery this year, NZ equities have still only returned 3% from August-16 to June-17 (including dividends). By comparison, the Aspiring Fund only retreated 0.1% from Aug-16 levels, and has returned 6.5% to the end of June.

We see no reason to change tack and will continue to err on the side of caution to preserve capital.

## TOP 10 HOLDINGS

Contact	3.8%
Google	2.7%
Metlifecare	2.6%
EBOS	2.6%
Heartland	2.4%
Sanford	2.0%
Mainfreight	2.0%
Xero	1.8%
Meridian	1.7%
Fisher & Paykel Healthcare	1.7%

### Aspiring Asset Management Limited

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