



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

	Aspiring Fund	NZ50G	ALL Ords Accumulation Index (rebased in NZ\$)
<u>Short-term returns</u>			
Month	1.82%	0.41%	5.89%
Last 3 Months	4.42%	4.59%	9.82%
Last 12 Months	9.27%	6.58%	17.69%
Financial Year to Date	9.27%	6.58%	17.69%

Long-term* returns and volatility

Return (annualised)	10.95%	5.65%	2.48%
Return volatility (annualised)	8.92%	11.93%	16.65%

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

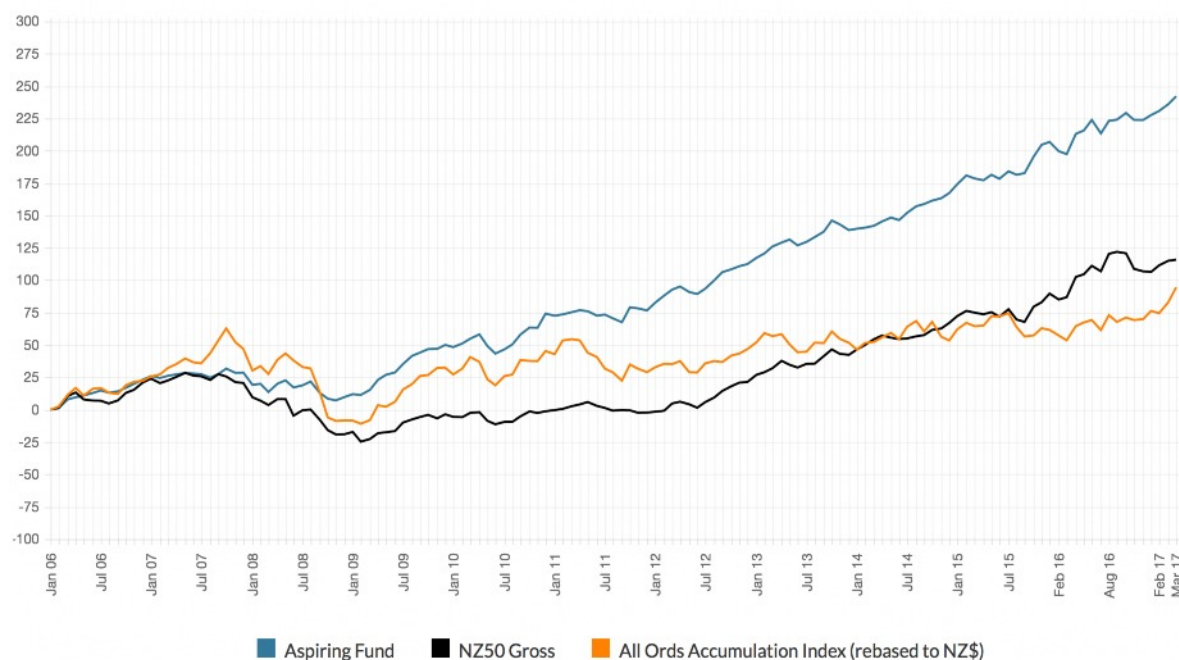
Unit Price: \$3.1984

Asset allocation (approximately):

New Zealand Equities	43.7%
Australian Equities	20.8%
International Equities	6.6%
Bonds	3.3%
Total Cash	25.7%
Short Equities	-1.8%

Net Asset Value of the Fund (approximately): 338.2m

Fund Performance



The Aspiring Fund returned 1.82% for the month. March was characterised by a relatively pedestrian performance for the New Zealand market and a much more buoyant performance from Australia. While our individual portfolios performed in line with, or better than their underlying markets, our asset allocation bias towards New Zealand and cash was the difference between a good month and a great month.

Neither we nor our investors should be surprised by this result. We have bored readers to death with our explanation for the cash weighting in the portfolio and nothing in March dissuaded us from the views which inform that decision. We increased our allocation to Australia modestly at the beginning of the month and the Fund benefitted from the widespread strength in our Australian portfolio and the fall in the NZ\$ cross rate. NZ\$ weakness also boosted the return on our US\$ denominated international portfolio as we elected to hold this exposure unhedged.

March is normally a quiet month, as the majority of companies update the market on their operating performance at their first half results announcement in February. This March was unusual in that Fletcher Building, which had just reported its interim results, provided new guidance incorporating a significant downgrade to their construction division's earnings.

We were less surprised than the market by the quantum of the downgrade, however it came earlier than we had expected. As we wrote in our February newsletter, we were seeing increasing evidence across our industry contacts of the emergence of 'peak cycle problems' and thought the earnings implicit in analysts' Fletcher Building valuations were very optimistic. We had a tiny holding when their downgrade came out (it cost us less than a basis point of performance) but index-aware investors had a far worse time of it as the 11.7% fall in the FBU share price took 1% off the market's return for the month.

Overall we had very few significant winners or losers in any of our equity holdings. Contact Energy made the biggest positive contribution to the equities portfolio. As this has been our biggest gentailer holding for many months it was overdue to do some heavy lifting for the portfolio.

Our biggest winner for the month was the 22% of the portfolio held in unhedged A\$. After many months of inactivity on the hedging front we elected to start hedging this exposure and had about 40% of it hedged back to kiwi at around 0.915 at month end. This is more a short term tactical trade than a fundamental view about long term value. If anything, we are beginning to wonder how strong the headwinds for the NZD might get this year.

The NZD is influenced by the whole interest rate environment but the Official Cash Rate (OCR) is the single biggest influence on it and the Reserve Bank (RBNZ) have virtually guaranteed that it stays put for the whole of 2017, at the same time as the US Federal Reserve Board is virtually promising 3 steps up for the Fed funds rate. This interest rate convergence is very unlikely to be supportive for the NZD.

The New Zealand interest rate story is a bit more complex than this though. The following table, using data sourced from the RBNZ website, shows how a variety of rates have changed over the past 12 months.

DATE	OCR	3 YEAR FIXED RATE MORTGAGE	SME O/D*	6 MONTH BANK DEPOSIT RATE
Feb-16	2.50%	5.38%	9.43%	3.28%
Feb-17	1.75%	5.57%	9.25%	3.25%

SME/OD - Small to Medium Enterprise Overdraft rate*

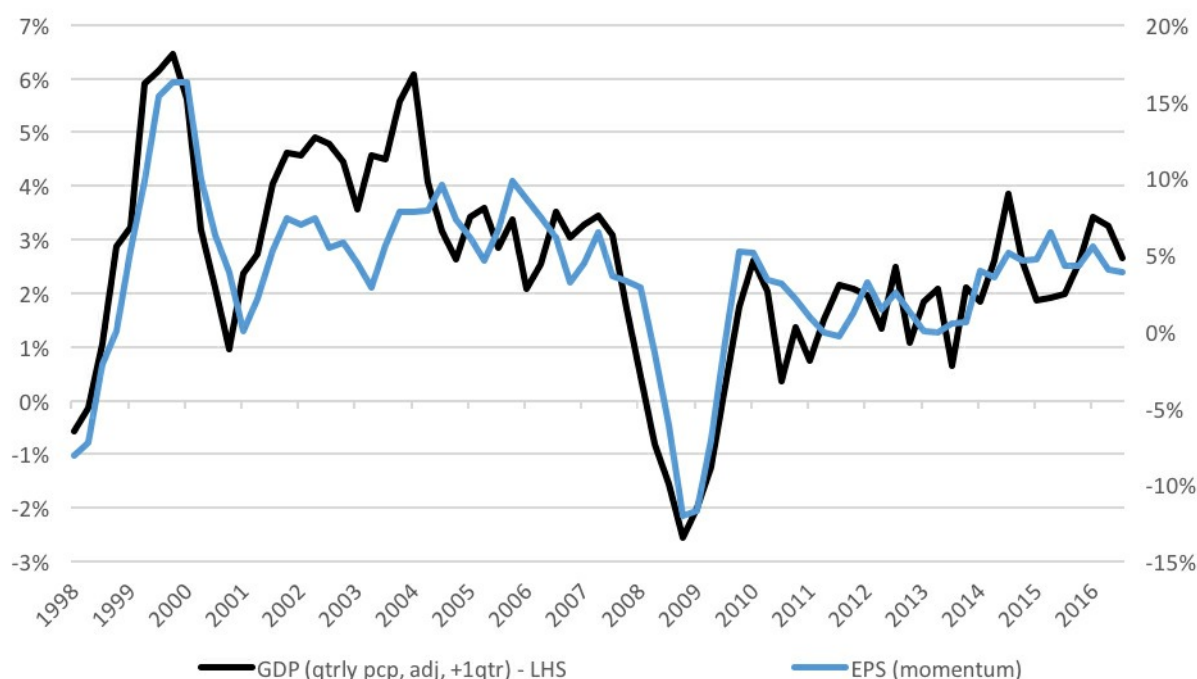
This shows how other forces have been far more influential than the OCR on the rates which affect New Zealand households and small businesses. An increased emphasis by the regulators on the banks using domestic funding for domestic lending has underpinned both deposit and mortgage rates despite the steep decline in the OCR. Worse news for domestic borrowers is the credit rationing being forced on the banks by increasingly stringent regulation of mortgage lending.

Little wonder that wealth-induced consumption looks particularly vulnerable to a cooling residential housing market, reduced credit availability and rising mortgage rates.

Domestically, politics will become increasingly front of mind and it seems likely that the next Government will include NZ First with a solidly anti-immigration/population management platform. Per capita GDP growth has been bumbling along at around 1% in recent years - a far cry from the headline-grabbing 3%+ figures most often quoted by the Government. The coming slump in population growth will be followed, with a small lag, by falling GDP growth.

Some local economists are taking note. In their latest NZ Economic Outlook report, ANZ expect GDP growth to fall from 3.2% in 2017 to, a below trend, 2.1% in 2018.

Slowing macro growth has important implications for equities investment, particularly when growth expectations at the corporate earnings level are high. Data provided by Forsyth Barr shows analysts are currently forecasting above-trend corporate earnings growth of ~7% in 2018-19. The following chart shows the tight relationship between historical GDP growth, and the change (momentum) in analyst expectations of 12 month forward earnings. Put simply, to hit analyst earnings expectations, forecasts of waning macro momentum need to be proved incorrect.



With earnings multiples elevated and emerging risks to earnings momentum, the Fund remains anchored to a defensive bias with wide diversification at a company and country level.

TOP 10 HOLDINGS AS AT THE 31st MARCH 2017

Contact	3.7%
Spark	3.6%
Google	2.6%
Heartland	2.6%
Sanford	2.5%
EBOS	2.4%
Mainfreight	1.9%
Meridian	1.8%
TILT	1.6%
Green Cross Health	1.5%

Aspiring Asset Management Limited

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