

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

	Aspiring Fund	NZ50G	ALL Ords Accumulation Index (rebased in NZ\$)
<u>Short-term returns</u>			
Month	-1.66%	-0.65%	-4.94%
Last 3 Months	-3.49%	-0.94%	-6.89%
Last 12 Months	6.58%	15.59%	0.99%
Financial Year to Date	6.58%	15.59%	0.99%

Long-term* returns and volatility

Return (annualised)	10.53%	6.56%	2.33%
Return volatility (annualised)	8.65%	11.44%	16.27%

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

Unit Price \$3.4088

ASSET ALLOCATION (approximately):

New Zealand Equities	36.7%
Australian Equities	20.7%
International Equities	14.6%
Bonds	3.7%
Total Cash	24.3%
Short Equities	-0.8%

Net Asset Value of the Fund (approximately): 382.6m

Fund Performance



The Fund fell 1.66% in March against a continued backdrop of weak global equities markets.

All major indices were down in the month with the MSCI World index falling 2.2%, the US S&P500 -2.5%, the Euro Stoxx 50 -2.2% and Japan's Nikkei -3.4%. The Aussie market registered its worst quarter (-5%) since September 2015 as it bore the brunt of falling commodity prices, with the All Ords falling 3.55%.

The NZ market held together relatively well, the NZ50 index fell 0.7%, held up by a decent showing by a number of more defensive sectors. The average return of stocks in the NZ50 index currently sits at around -4.5% (year to date), well behind that of Global Equities (MSCI World -1.9%).

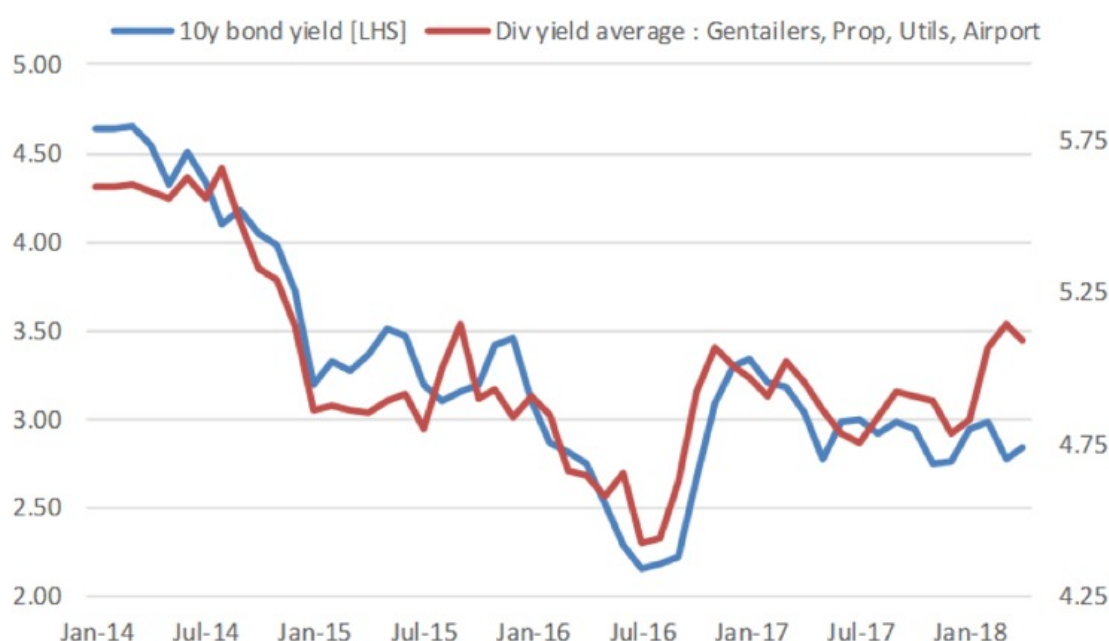
As highlighted in previous newsletters, against this broad-based local weakness the headline NZ50 has been propped-up by the strong weighting and performance of A2 Milk. This dynamic reversed in March, with A2 falling 6.3% as Nestle announced its entry into the Chinese infant formula market with another infant formula brand free of the A1 protein.

We discussed the return of volatility to global equity markets last month, as global central banks shift their stance from ~9 years of easy monetary policy, to one of gradual tightening. Add to this the emergence of governments with a protectionist bent and we have genuine risks to recent synchronised global growth. Trump is the loudest proponent of protectionism and fired his first real shot at the US trade imbalance during the month by announcing tariffs on a range of imported goods including aluminium and steel. China fired back with planned tariffs, mainly on US agricultural commodities. These initial trade tensions have hit the risk appetite of investors on fears escalation of these issues could impact a reasonably solid global growth outlook, despite Trump's attestation that 'trade wars are good'.

For now, 2017's record low volatility seems to be well and truly behind us. US Equities' major benchmark, the S&P500, traded in a low to high range of 8% in March. The average daily trading range of this index currently exceeds 1.5%, more than 3x the average of last year. And at the time of writing the S&P500 has already had 14 days with >2% moves in 2018, well above the annual average of 9 days over the last 5 years.

We also remain wary of the impact of regime change in NZ. The initial phase of the Labour government has gone by with the economy seemingly unaffected, excluding an immediate dip in business confidence. For an economy that may have already seen peak house prices, peak tourist (growth), and peak population growth the potential impact of higher taxes (fuel, alcohol and tobacco excise) and labour costs should not be ignored in our view.

Still high equity valuations, and elevated uncertainty, should see us favour fixed interest and lower risk NZ equities with high gross dividend yields (due to NZ tax credits). We have deemed both segments as 'risky hiding places' given the scope for interest rate rises and the high correlation between 10-year bond yields and the trading dividend yields of the defensive (bond proxy) equities sectors. Interestingly, the chart below shows this tight relationship has recently broken out, with bond-proxies now factoring in a more favourable risk premium. We have put more money to work in this space (example Spark NZ now a top 10 holding, ~15% off 2017 share price highs and now provides a dividend yield of +9.5%) and will continue to do so where we see compelling valuation support.



The Fund's best contributor was Chorus which returned 10% during the month. Post the capex outlay required to rollout fibre to the country, we find the long-term sustainable cash yielding nature of the stock appealing, however we lightened our allocation significantly following the stock's strong performance in March.

While our Aussie portfolio outperformed the broader market, there really was no place to hide in March as the All Ords fell -4.94% in NZD. Our best performer was Waste Management company Bingo which rose 9.4% on no real news. We like the defensive nature of the business, and its growth opportunity on the back of strong infrastructure investment and it being set to benefit from the move from landfill to recycling. The CEO and his family interests also have a decent amount of skin in the game.

Our weakest performer was lithium miner Orocobre (-18%). While our position is relatively modest, we are happy playing the popular lithium theme by holding one of the 8 listed operating miners (ex-China), rather than one of the hundreds of companies claiming lithium exposure.

Our international portfolio unsurprisingly struggled through the wider market volatility, and our tech exposures were also impacted by the revelation that US consulting firm Cambridge Analytica had accessed data from ~50m unknowing Facebook users. We took a modicum of satisfaction that we traded out of Facebook in December, however our reasoning was less to do with privacy breaches and more to do with the potential for the social network to fall out of vogue with its users. Our reasonable

positions in Google (-6.6%) and Amazon (-4.3%) suffered as the risk of regulatory interference in their businesses rose.

Following a number of years of strong returns across almost all asset classes, 2018 is proving challenging. The Fund has held a high level of cash in anticipation of this change in investment environment. Our focus remains on long-run outcomes, and history has taught us getting the 'entry price' right is critical to this. While share prices of a number of companies we track closely have experienced significant falls year to date (for example average NZ share price down ~4.5%) we are yet to see sufficient value emerge to warrant increasing the risk of the Fund. If market volatility remains elevated this would likely change, providing the opportunity for us to put the Fund's cash reserves to work.

TOP 10 HOLDINGS

Amazon	2.6%
Precinct Convertible Notes	2.5%
Contact	2.5%
Metlifecare	2.4%
Z Energy	2.2%
Spark	2.2%
A2 Milk	1.9%
Google	1.9%
Sanford	1.8%
Woolworths	1.7%

Aspiring Asset Management Limited

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