

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

	Aspiring Fund	NZ50G	ALL Ords Accumulation Index (rebased in NZ\$)
<u>Short-term returns</u>			
Month	3.11%	2.55%	2.07%
Last 3 Months	3.56%	3.40%	1.17%
Last 12 Months	12.08%	16.71%	13.90%
Financial Year to Date	5.31%	4.08%	6.43%

Long-term* returns and volatility

Return (annualised)	10.89%	6.85%	2.90%
Return volatility (annualised)	8.62%	11.37%	16.19%

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

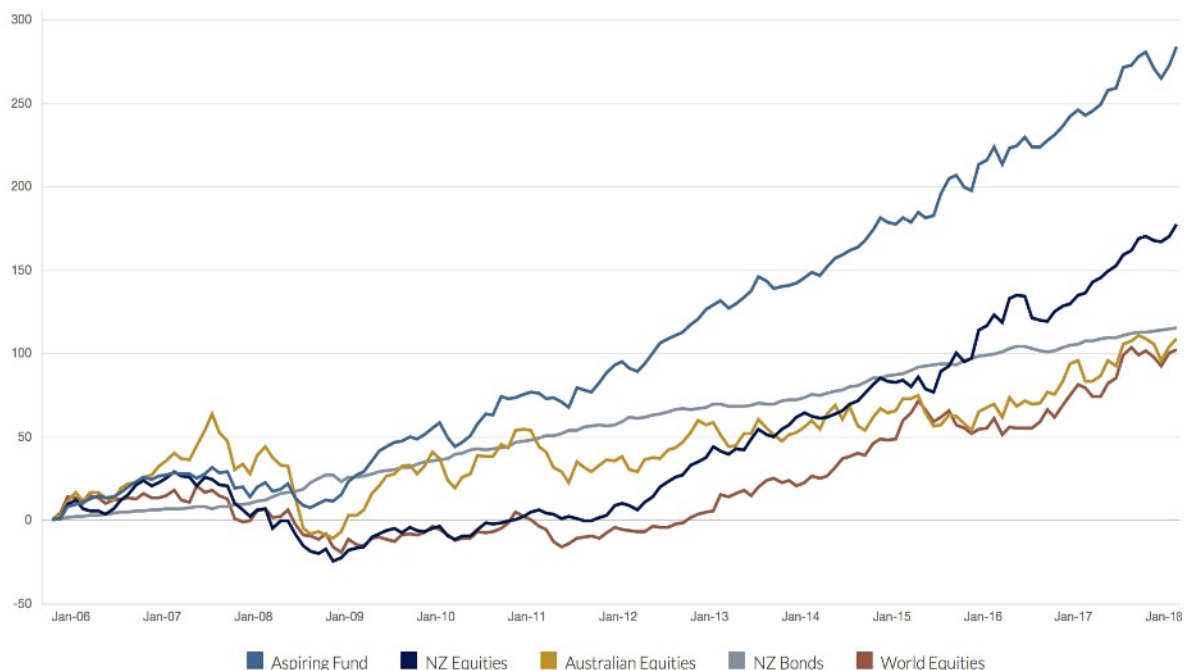
Unit Price \$3.5897

ASSET ALLOCATION (approximately):

New Zealand Equities	34.2%
Australian Equities	22.2%
International Equities	9.9%
Bonds	2.5%
Total Cash	31.2%
Short Equities	-1.0%

Net Asset Value of the Fund (approximately): 402m

Fund Performance



The Fund returned 3.11% in May. Solid returns across our equities investments (including one of our NZ unlisted positions), and modest wins in unhedged FX exposures all contributed to the result.

The New Zealand market had a very good month with ~60% of NZ50 Index stocks returning 3% or better. This broad based strength is a welcome reversal of the recent trend of headline index returns driven exclusively by a few large cap companies, masking weakness across the majority of the market.

Of the few negative returning stocks, Comvita (-16.5%), a2 Milk (-10.5%), and Fonterra (-9.8%) each warrant mention.

We have rarely owned Fonterra and owned none when they announced a dreadful result for the value-add businesses while trumpeting a \$7 payout forecast for the farmers. We note that since listing Fonterra has disappointed in 3 results out of 6. The most recent downgrade adds to the volatility of the story, and we think is unlikely to encourage many of the sceptics to change their minds about an organisation whose agility resembles a dinosaur swimming in molasses.

Comvita traded down sharply following the announcement its Directors agreed to withdraw from merger talks with an unnamed third party. In negotiations, the Directors could not bridge the considerable distance on price expectations. While we are not surprised by the Director's positive view on the company's value, we believe minority shareholders should be informed if a bidders' proposal was likely to be at a significant premium to the share price (in the absence of a bid).

a2 Milk was widely expected to be volatile over the month with many anticipating its inclusion in the MSCI Index at month end to be the catalyst for an avalanche of passive buying. We got the volatility call correct, but were caught on the wrong side of it. In early May the stock rallied about 8% in a generally strong market but then a poorly explained trading update mid-month caused a big unwind, with the price falling nearly 14% on the day of the update. Thereafter, despite some minor rallies, the price never recovered and it finished the month down 10.5%. We had bought a few of these to trade

around the MSCI event but then subsequently reduced our holding when we concluded that negative momentum had set in.

What made a2's weakness more apparent was the rock solid performance of the other large cap stocks in NZ. Fletcher Building (+4.4%) continued its recent run, while Ryman (+7.5%), Z Energy (+5.2%) and Mainfreight (+7.3%) all rallied further than we thought their results justified. F&P Healthcare is another good example, where despite providing earnings guidance which saw analysts cut their forecasts (resulting in the lowest level of forecast revenue growth in a number of years), its share price finished the month 4.2% higher and represents in excess of 35x forecast earnings.

As the tide came in, the Fund benefited from widespread strength in some of our mid and small cap stocks with Tourism Holdings, Vista, Skellerup, Scales, Tilt, Green Cross and Metlifecare, all up solidly. In addition, recent buying of local defensive yield names including Contact, Meridian, Infratil, Spark and Vector contributed strongly to Fund performance.

The major change to the Fund's top positions in the month was Mercury Energy, which made our Top-10 list during the month and ended as our largest position. We have long held a view of Mercury as a top-rated Gentailer business, but have been put off by its premium valuation. Its removal from the MSCI World Index in May saw it significantly underperform its defensive peer group, and we took the opportunity to get set.

Our unlisted investment in Tru-Test was a material contributor in the month. The Fund has held a position in the company for over 5 years, and marked it below our investment cost since 2016. We were therefore pleased to hear in early May that Swiss company Datamars SA had entered into an agreement to buy the company's weighing, electronic identification, contract manufacturing, electronic fencing products and milk metering businesses.

The deal, subject to Overseas Investment Office (OIO) approval, should allow for a cash distribution to be made to shareholders, with a residual investment remaining in a much smaller business (including Farm Tanks operations). Datamars is a global business with an already established agricultural related footprint in Australasia, which provides for significant synergies from the acquisition, with the positive impact to share price amplified by Tru-Test's high financial leverage. While the purchase must go through due process, we have assumed a high probability of success as Datamars has recently been vetted by the OIO, and there is no sensitive land attached to the deal.

Our Australian portfolio had a month of two halves. In the first two weeks our portfolio was up in excess of 6% in NZ\$, following a relatively benign Macquarie conference (known for downgrades) and a generally stronger resource sector. By mid-month, sentiment changed as more global market volatility crept in, a lacklustre government budget was delivered and the third round of the Royal Bank inquiry took hold. Healthcare stocks were again the best performers while Telcos and some Banks dragged on the index. We have limited exposure to these sectors, and our portfolio had no real highlights or lowlights, finishing the month up 3% in NZ\$.

The international portfolio performed well in the first ten days of the month and we took the opportunity to lock in some profits and lower the risk profile of the portfolio. This is not a change of long-term view but more near term opportunism. We will look to weight up again on weakness and have done some selective buying at month end. Overall the thematic of disruptive growth continues to perform and this is where most of our international exposure is concentrated.

We continue to view the investment landscape as particularly challenging with equities valuations at levels that either require above trend earnings growth and/or the absence of further tightening of interest rates, or higher investor risk aversion. We note that calendar year to date, the benchmark ASX200 index (in AUD) and the average NZ equities return, are both up a meagre 1-2% including dividends. The Fund's conservative asset allocation reflects these dynamics.

TOP 10 HOLDINGS

Mercury	2.8%
Precinct Convertible Notes	2.4%
Metlifecare	2.3%
Contact	2.2%
Spark	2.1%
EBOS	2.0%
Google	1.9%
Cleanaway	1.9%
Sanford	1.7%
A2 Milk	1.6%

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