



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

	Aspiring Fund	NZ50G	ALL Ords Accumulation Index (in NZ\$)
<u>Short-term returns</u>			
Month	-2.02%	0.81%	-4.25%
Last 3 Months	-5.95%	-5.26%	-11.77%
Last 12 Months	0.84%	7.78%	-4.98%
Financial Year to Date	3.05%	6.06%	0.60%

Long-term* returns and volatility

Return (annualised)	10.16%	6.72%	2.25%
Return volatility (annualised)	8.65%	11.39%	16.09%

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

Unit Price	\$3.51
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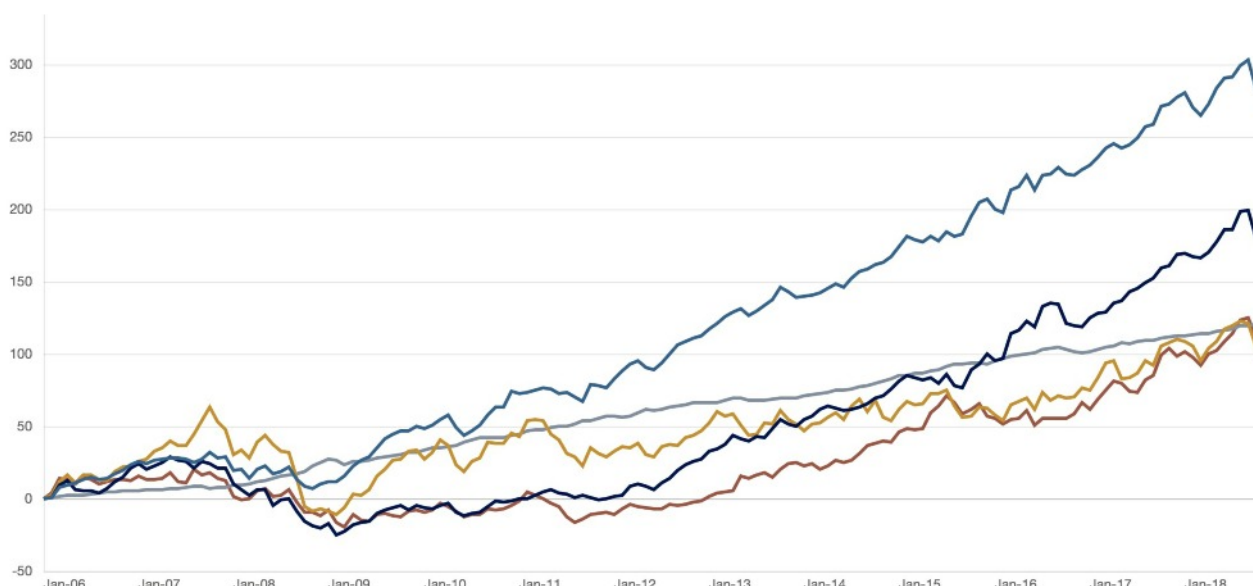
ASSET ALLOCATION (approximately):

New Zealand Equities	36.3%
Australian Equities	18.4%
International Equities	16.6%
Bonds	5.1%
Total Cash	23.6%
Short Equities	-0.6%

Net Asset Value of the Fund (approximately):	402.2m
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The fund's main direct currency exposures at month end were - NZD 61%, AUD 22%, USD 16%

Fund 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.

October's volatility continued throughout November both locally and globally. The Fund suffered another poor month with a -2.02% return.

Over 1% of this fall was attributable to the translation of our offshore investments back in to NZ dollars. We have been mildly negative on the NZ\$ throughout the financial year and being unhedged has worked pretty well, particularly against the US\$ where we had fallen from a high of 74 cents to an early October low of 64.4.

The NZ\$ was the best performing currency in the world in November and the +5% rally in the NZ/US cross over the month was as painful as it was surprising. The last half of this NZ\$ rally was triggered by a distinct change of tone from US Fed chairman, Jerome Powell, indicating a more cautious approach to rate hikes. This sparked a global rally in risk assets late in the month from which both the NZ\$ and large cap NZ stocks benefitted.

We have maintained our unhedged currency exposures, but the experience of the last two months has made us less confident that the NZ/US cross is going to be as low as we had previously thought.

The New Zealand portfolio had a frustrating month with a small fall in absolute terms. This was due largely to the Fund's 1.7% position in Fletcher Building which fell 21% over the month. Fletcher's was caned after downgrading guidance at its ASM, principally on weakness in its Australian business. Following a strategic review, the new CEO sees Australia as the company's best growth opportunity with earnings targeted to double over five years. Even after a \$4 billion fall in the company's value since late 2016, a number of long-standing investors have clearly lost patience. We topped up at the stock's lows as we felt the selling had been overdone, and with the potential sale of its US Formica business a near-term catalyst for the stock to re-rate.

Other sources of negative contribution included Sanford which fell 6% after missing earnings expectations due to abnormal climatic conditions, and Metlifecare which was down 4.6%. The Fund has a small 1.4% position in the NZ listed Retirement sector which has fallen 20% since September as fears mount of a decline in Auckland house prices.

Pleasingly both our large Gentailer positions (Contact and Meridian) were each up over 5%. We continue to view the Gentailer sector as a core exposure for the Fund. We have no holdings in NZ

Property or Spark. Simply put, a high dividend yield for electricity generation infrastructure provides more appeal to us than a lower yielding Telco.

Freightways was sold off in anticipation of its exclusion from the MSCI Small Cap Index. It finished the month down 5% at \$7 but we were able to double our holding at prices around \$6.80. We are comfortable with the direction of the company under its new CEO, with its continued focus on driving cost efficiencies and pricing in its dominant NZ business.

Australia was the worst performing major market globally in November (down 2.2%), clobbered as iron ore fell 14% and oil a staggering 22%. Australian Resource stocks were accordingly hardest hit, down 6.5% after having been down by the same amount in October.

Our Aussie portfolio fell by more than 3.5%, battered by our cyclical and resource stock positions. After being on the wrong side of the weight of selling, we have substantially cut our building materials exposure.

Our best performer was KFC operator Collins Foods (+15%). Collins is a classic example of how sentiment, being in or out of the 'cool' club, matters in Australia. In November the company was valued 75% higher than when we were acquiring stock at lows just over two years ago. The company has not substantially changed since. We have materially cut our position as our valuation thesis has closed.

The other shining light was lithium miner Orocobre which rose 30% on a positive company update including favourable market conditions, and later in the month an expansion to its mining operations.

Our International portfolio had a pleasingly positive month. Despite a large position in Apple, we finished the month close to square across our US company holdings with Amazon leading the list of winners.

Apple shares fell 18% as it provided soft guidance and announced it would no longer report unit sales for any of its products, sparking fears of maturing growth. We are comfortable holding the stock with its current valuation of 10x earnings (when adjusting for 25% of the company value in cash) and a still powerful eco-system.

The heavy lifting from our International portfolio came from our growing number of investments in China. Our large MSCI China position was up 8%, and a number of our direct holdings registered double digit returns. The positive turn in Chinese equities mapped strong-outperformance across Emerging markets globally, which rose 4%.

Long-time readers of our monthly commentaries will have noticed the Fund's gradual broadening of diversification toward global equities over the last few years.

The Fund's allocation to Australasian equities has steadily declined from 75% in 2015 to 55% today. Companies included in the major ANZ equities benchmark indices (NZ50 and ASX200) now represent less than half of the Fund, and approximately 20% of the Fund is currently invested in equities outside Australasia.

The initial thesis behind this move was to invest in high quality global technology leaders with a combination of strong growth and network values we simply could not access in local markets. This strategy has paid off, with our International portfolio delivering strong returns. Our attitude to global equities has developed further in 2018.

One of our key themes this year has been the re-rating of NZ equities valuations (earnings multiples) to levels we have not seen in our careers, while global equities markets have de-rated. The following chart shows NZ and Australian (industrial) stocks currently trade on average price to earnings (P/E) multiples higher than their historical (20 year) averages. This compares to offshore

markets which trade on multiples lower than NZ and Australia, and are in fact at a discount to their own history.



In our view, there is a clear disconnect here in the pricing of equity risk. Low interest rates have been almost universally viewed as a key reason for elevated NZ valuations. However, global markets enjoy the same benefit from their own generationally low interest rates, yet trade at a discount to their averages.

We can understand the appeal of New Zealand to overseas investors confronted by the uncertainties of rising trade wars, slowing growth, debt mountains and increasing social and political unrest. However, New Zealand is not an 'economic' oasis. We are dependent on trading partner growth, and the growth rates for key domestic economic drivers such as house prices, population and tourism all look to have peaked.

The premium valuation of New Zealand equities is most pronounced when compared to emerging growth markets. For example the P/E multiple of owning China Ports, Baidu (the Chinese Google), and Alibaba is approximately half that of a New Zealand equities holding of Port of Tauranga, Gentrack, and Vista Group. The chart below shows this dynamic more broadly - the average P/E ratio of NZ equities has blown out to a 60% premium to the aggregate ratio of Asian Equities markets (ex-Japan).



New Zealand will always be an attractive source of yield thanks to the imputation credit regime and with structural information advantages (access to management, competitors and customers) for NZ equities we will have a home bias. However we will continue exploring opportunities and will further diversify the Fund offshore where we view the risk/return trade-off as compelling for long-term investors.

On a monthly basis this will mean our returns diverge from the New Zealand market. Over the long term, if our assessments of value and view on the importance of current value to future returns is

Top 10 Holdings

Contact	3.2%
Amazon	3.1%
Meridian	2.8%
China MSCI ETF	2.6%
Precinct Convertible Notes	2.5%
A2 Milk	2.3%
Z Energy	2.0%
Metlifecare	2.0%
Google	2.0%
Fletcher Building	1.7%

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

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