



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

	Aspiring Fund	NZ50G	ALL Ords Accumulation Index (rebased in NZ\$)
<u>Short-term returns</u>			
Month	0.45%	1.45%	-1.94%
Last 3 Months	4.09%	4.19%	4.67%
Last 12 Months	9.06%	7.73%	11.94%
Financial Year to Date	4.95%	10.19%	-1.07%

Long-term* returns and volatility

Return (annualised)	10.91%	6.39%	2.24%
Return volatility (annualised)	8.72%	11.67%	16.42%

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

Unit Price \$3.3568

ASSET ALLOCATION (approximately):

New Zealand Equities	38.5%
Australian Equities	21.6%
International Equities	11.4%
Bonds	4.4%
Total Cash	24.1%
Short Equities	-2.1%

Net Asset Value of the Fund (approximately): 364.1m

Fund Performance



The Fund returned 0.45% in September, with a strong performance in Aussie offset by a rebound in the NZ\$.

September can be a quiet month for news flow in Australasian markets as it is outside the result reporting cycle for the vast majority of companies with March or June balance dates.

Regardless, the election was always likely to be the biggest local event. The result was widely expected in terms of Winston First holding “the balance of political responsibility” to borrow his self-serving felicitous phrase. Not so widely expected was the scale of the win hailed by both major parties. Labour enjoyed the biggest surge in popularity in history for any party in the last 2 months of a campaign and National’s 46% of the vote was a remarkable reward for Bill English’s ability and determination to inject substance in to the debate.

While many have interpreted the outcome as a vote for change we come to a different conclusion. The electorate is tightly clustered around the centre politically and any radical shift is likely to be punished. If Winston is to leave any sort of enduring legacy he will need to be perceived as a constructive force in the next Government.

Given the number of non-negotiable bottom lines he drew before the election and has redrawn since it is futile trying to predict what he ultimately decides. However, on balance, it seems inevitable that the status-quo of an economy boosted by high population growth and booming house prices is under threat whatever he does.

Lower growth is clearly negative for NZ equities trading near all-time high valuations (price/earnings) and for a market which has enjoyed strong international investor inflows supported by a ‘rock star’ economy status.

With the election lurking and geo-political tensions rising, we reduced our weighting to NZ equities during the month and lifted our exposure to bonds through tactical trading opportunities (that are now largely closed out) and the Precinct Properties convertible note issue.

Convertible notes are fixed interest income investments that either distribute cash or convert into ordinary shares of the issuer at expiry. In the case of Precinct, the note comprises three components of

value; 1) a 4-year bond with an interest rate of 4.8%, 2) a final conversion return (either in cash or discounted conversion into ordinary equity) of 2%, and 3) a call option which provides additional return should Precinct's shares trade above \$1.43. Considering Precinct's low gearing policy, we believe the note was priced relatively well as a vanilla bond, with the other two return elements providing additional valuation support.

New Zealand shares continue their quite amazing run. September marked the 9th consecutive month of positive returns for the benchmark NZ50 Gross Index – which comprises the country's 50 largest companies.

However, what lies within this seemingly unstoppable one-way bet is a large concentration of overall index return from a few higher risk large companies (Xero, A2 Milk, Fisher & Paykel Healthcare, and Air New Zealand). Excluding this group, the NZ Index return of +1.5% for September would have registered a very different result of down ~0.4%. If we look back 12-months the picture is much the same, with the NZ50G up ~8% against the broader market (excluding these 4 companies) down ~0.5%.

Fortunately, the fund has owned these stocks during much of their run, however with the bet having been stubbornly one-way, we have taken profits so that they now comprise only a small % of Fund value. The top 4 contributors to Fund performance in September were Sanford (+4%), A2 Milk (+16%), Xero (+18%) and Fisher and Paykel (+9%).

The A2 Milk share price hasn't needed news to fuel its stellar run but it got some when its manufacturer Synlait reported a strong result and guidance. This was buttressed by news of approval from the Chinese Food and Drug regulatory body allowing A2 to continue exporting its Chinese labelled infant formula. Fisher and Paykel was boosted by the suspension of 2 patent proceedings brought against it by its rival Resmed, and Xero continued its strong run after it held its annual conference for partners, book keepers and institutional investors which we attended in Melbourne. Xero released a number of new products at the event which they plan to monetise, and reiterated their forecast of cash-flow breakeven in FY18.

In New Zealand, it is tempting to draw thematic conclusions around growth vs value and yield. However, while those companies in the very small basket of big New Zealand winners have largely benefitted from good specific news, there is a large rump of the NZ share market which has lost a good deal of momentum.

A lot of these are companies with wide Australian ownership like Sky City, Sky TV, TradeMe, Z Energy, Auckland Airport and Fletcher Building which have all surprised to the downside on earnings, capex, operating environment or regulatory threat but their vulnerability was accentuated by the lack of valuation support.

Another group to lose momentum is the yield stocks - including Property stocks, Chorus, Spark etc. There is a global shift going on in bond markets with the arrival of QT (quantitative tightening) from the US Fed Reserve and a marked uptick in the evidence of near term inflationary pressures, particularly in Europe. It is too soon to be sure whether these pressures are transient or more long lasting but we are operating on the basis that bond yields have reached their nadir for now. However, such is the ongoing reach for yield we think it is quite possible for bond yields to retrace a bit without undermining the case for equities with yield.

In fact, a number of previously over-priced defensive income producing companies like Spark, TradeMe and Chorus have come back to levels where we have started nibbling and we are very comfortable to have a reasonable position in the Precinct Convertibles in the portfolio.

Our diversified Aussie portfolio had a particularly strong month in September, up 3% in A\$ against a flat result for the index. The bulk of the performance came from a group of stocks which were up by more than ~10% (including South32, Living Cell Technologies, GTN, Speedcast and Ellex Medical Lasers) and a larger holding in Incitec Pivot which was up 8%.

In the international portfolio, Gogo gave up August's gains on no news that we could find, but, outside of this holding, the portfolio had a respectable month.

The biggest single drag on performance for the month was a solid rally in the NZD, particularly against the \$A. We were surprised by the speed and strength of the move which we do not expect it to be sustained in the near term. The RBNZ is no longer in the mainstream of central bankers with its avowedly easy monetary policy stance and, as previously mentioned, we expect headline numbers like GDP growth rates to ease due to lower immigration. Accordingly, we have banked some modest profits on our partial A\$ hedge and reverted to holding our offshore investments unhedged.

TOP 10 HOLDINGS

Contact	3.7%
Precinct Convertible Notes	3.4%
Google	2.7%
Metlifecare	2.4%
EBOS	2.4%
Sanford	2.3%
Heartland	2.1%
Z Energy	2.0%
Mainfreight	2.0%
Amazon	1.8%

Aspiring Asset Management Limited

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