

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

	Aspiring Fund	NZ50G	ALL Ords Accumulation Index (rebased in NZ\$)
<u>Short-term returns</u>			
Month	0.87%	0.41%	-0.93%
Last 3 Months	3.18%	4.56%	1.88%
Last 12 Months	12.23%	17.91%	15.31%
Financial Year to Date	10.52%	12.41%	12.96%

Long-term\* returns and volatility

Return (annualised)	11.03%	7.39%	3.37%
Return volatility (annualised)	8.50%	11.28%	16.00%

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

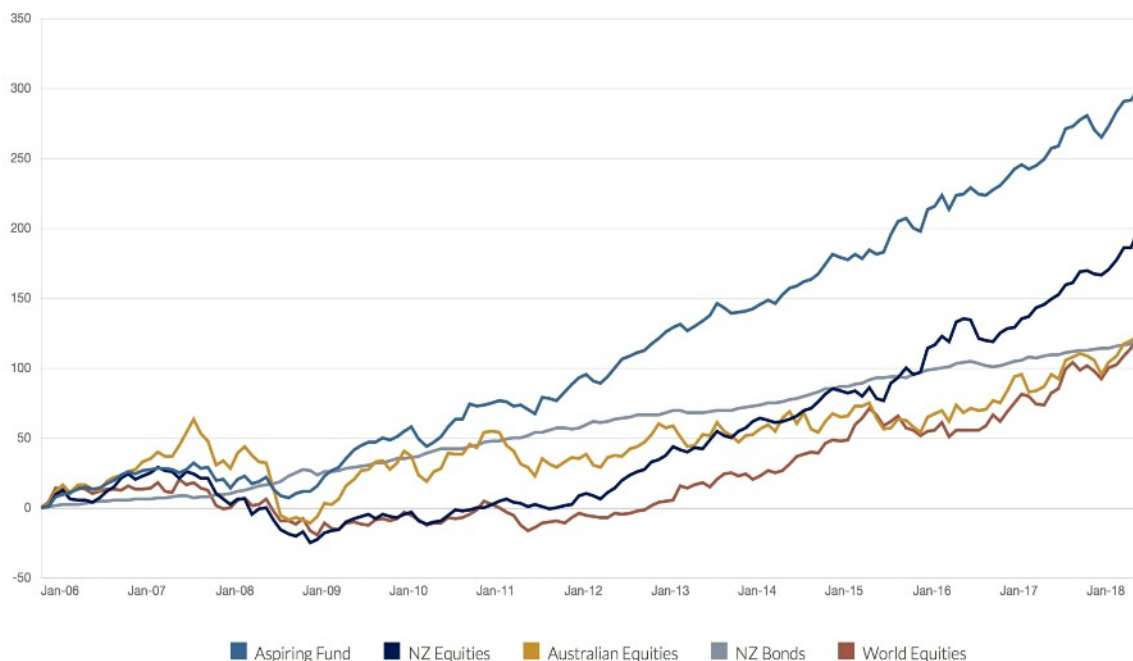
Unit Price \$3.77

**ASSET ALLOCATION (approximately):**

New Zealand Equities	37.4%
Australian Equities	21.2%
International Equities	17.3%
Bonds	3.5%
Total Cash	20.6%
Short Equities	-0.5%

**Net Asset Value of the Fund (approximately):** 421.3m

# 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.*

The Fund returned a pleasing 0.87% in September, thanks in large part to a strong performance from our NZ equity portfolio.

For the first time in months the performance of the New Zealand market was quite a lot stronger than the headline NZ50 number of 0.41%. Excluding large cap market darlings, a2 Milk, Ryman and Fisher and Paykel Healthcare (FPH), the market was up 2.24% with over 80% of the NZ50 constituents up more than 1%.

The index's mediocre performance was largely attributable to the 17% index weighting of a2 (down 11% for the month) and FPH (down 8%). Synlait Milk, a mid cap market darling, also subtracted 0.2% from the market performance with its 15% fall.

a2 was the biggest drag on the New Zealand portfolio despite being less than 2% of the Fund. Chinese regulatory uncertainty around product registration and poor governance in allowing the new CEO to sell all her recently allocated stock, weighed heavily on the company, as did some (difficult to interpret) data on exports of infant formula ex-Lyttleton. The market is justifiably cautious on the company but it has done little wrong operationally in recent years and we still ascribe a reasonable probability to it being worth more in a year's time.

Clients will have observed our general aversion to owning the extremely expensive large cap names which have dominated the NZ market's performance in recent months. We have always felt much more comfortable with the understandable valuations of the higher yield names in New Zealand, particularly as the yield is grossed up by imputation credits which have certain value for most of our clients.

In September we felt as though we were in step with the market for the first time in months. Yield names were sought across the board with the gentailers all returning 5%+. Other large cap yield

names, Spark, Chorus and Infratil posted similar numbers while the property stocks all beat the index performance, as did virtually all the mid and small caps with their blend of growth and yield.

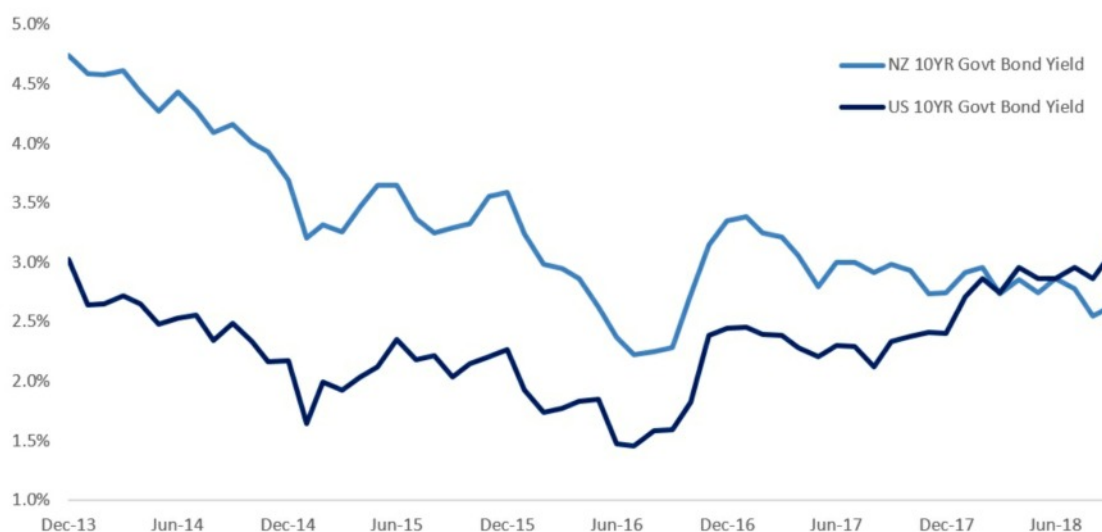
Two notable contributors to the portfolio were EBOS and Mainfreight which both returned 7%+ for the month despite starting valuations near the top end of fair value. We cannot shrug off the suspicion that they have both benefitted from the same sort of value-unaware buying which we believe has been evident in the MSCI stocks in recent months. It was fun to be on the right side of it for a change and we could not resist the temptation to realise some profits in both.

Everything we see locally suggests that the yields which are directly influenced by the RBNZ's OCR decisions will remain very low for as far as the eye can see. However, there are some signs that the longer end of the NZ curve might start to come under pressure.

The last 2 weeks of August and September saw a marked increase in retail bond issues with 7 announced and all allocated. The total size of these issues is not huge, except for the ASB issue which would have been attractive to institutions as well, but it represented a significant step-up in activity from the rest of 2018.

While the desire of corporates to diversify funding away from the banks would clearly have played a part in this, we suspect that it also says something about corporate credit spreads (can't narrow much more) and potential pressure from offshore bond markets.

Our sources in the retail bond market expect ongoing issuance over the balance of 2018 which should pressure yields on existing seasoned issues, and the following graph shows the New Zealand 10 year bond rate dipping below the US 10 year, which is the only time in modern markets that this has occurred.



All of this would make us cautious holders of long duration bonds in New Zealand and the absolute yield on the US 10 year is starting to make us wary of its potential impact on other asset prices.

Australia was a poor performing market in September with the ASX200 down 1.3%. Our portfolio return was only marginally negative, helped by our general overweight in oil stocks and a strong contribution from KFC operator Collins Foods which has enjoyed a resurgence of investor interest after a few months in the 'dog box'. We still think it looks good value relative to its NZ counterpart Restaurant Brands.

Our biggest headwind in the Australian portfolio was retirement village operator Aveo, who again got caught in the sentiment around another Royal Commission into the Aged Care sector (which could spill over to include the Retirement Sector). While a disappointing performer, the company's management

have announced a full review of the business (e.g. break-up/sale/capital management) and have welcomed any review which they are confident will validate their high operating standards.

However, the Australian market has a strong inclination to shoot first and not bother with questions afterwards, which may make Aveo a sleeper in the portfolio for a little while. We remain confident that a large amount of the nearly 50% discount to NTA will be realised over time.

Looking forward, the dominant performance of the Healthcare and Technology sectors, and some of the commodity space over the last few quarters has left an increasing number of sectors unloved. As a consequence, a number of more interesting opportunities are starting to screen well for the first time in a long while at reasonable prices.

Our international portfolio was flat for the month in what was a mixed month for global markets. Our best performer by some margin was Chinese battery and automobile manufacturer BYD Company (+20%) after presenting a strong result at the end of August and a very bullish outlook for electrical vehicle production.

While US markets sit around record highs and economic data remains strong and supportive of earnings, we are not as complacent as the US equity market. As mentioned earlier, bond yields and a Federal Reserve which appears to feel no responsibility for protecting asset prices are reasons for renewed caution, already justified by the unpredictable decisions of an administration enjoying the upside from the sugar-rush effects of a debt and tax cut fuelled economy.

## TOP 10 HOLDINGS

Amazon	3.6%
China MSCI ETF	3.2%
Contact	2.6%
Apple	2.4%
Precinct Convertible Notes	2.4%
Z Energy	2.4%
Metlifecare	2.4%
Sanford	2.2%
Google	2.1%
EBOS	1.9%

## Aspiring Asset Management Limited

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