



REPORT TO THE UNIT HOLDERS IN THE ASPIRING FUND FOR THE MONTH SEPTEMBER 2019

All returns are in NZ\$

	Returns			Return volatility	
	30 September 19	3 months	12 months	Since inception pa ⁱ	Since inception pa ⁱ
Aspiring Fund	1.30%	3.91%	4.30%	11.08%	8.32%
New Zealand Equities ⁱⁱ	1.57%	4.04%	16.84%	9.03%	11.17%
Australian Equities ⁱⁱⁱ	2.83%	5.85%	10.46%	6.74%	15.42%
World Equities ^{iv}	2.72%	7.69%	7.40%	6.59%	12.62%

ⁱ February 2006, ⁱⁱ NZX50 Gross, ⁱⁱⁱ ASX All Ordinaries Accumulated, ^{iv} MSCI World Equities Total Return

Unit Price

\$3.93

Asset Allocation (approximately):

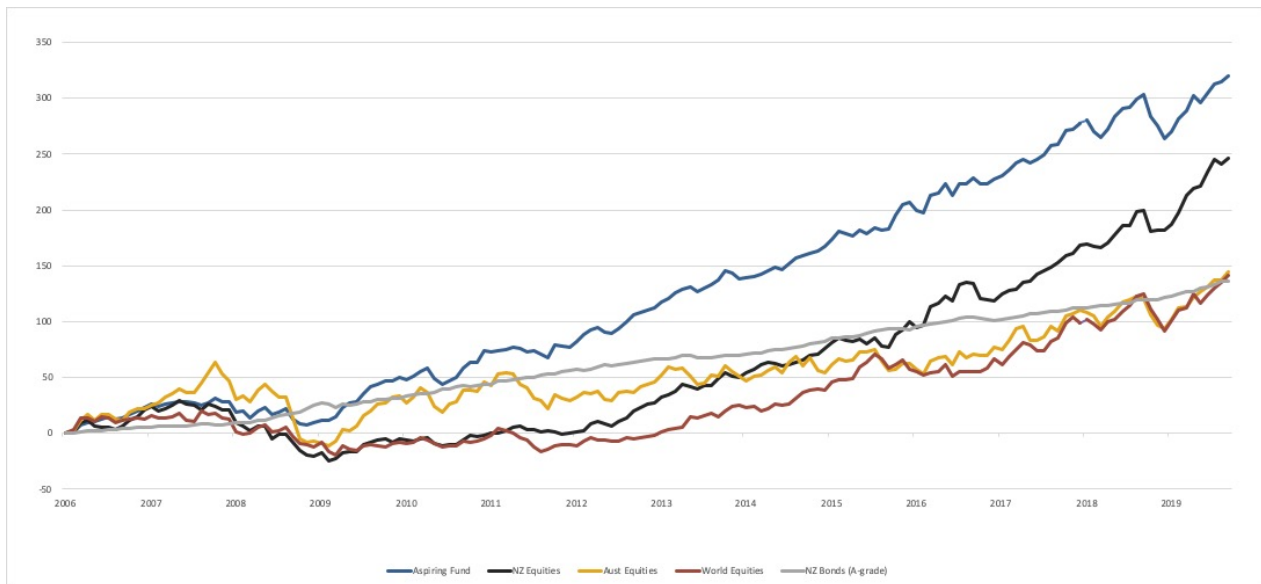
New Zealand Equities	38.5%
Australian Equities	16.8%
International Equities	26.6%
Bonds	3.9%
Total Cash	14.2%
Short Equities	-0.1%

Net Asset Value of the Fund (approximately):

\$432.9m

The fund's main direct currency exposures at month end were - NZD 50%, AUD 23%, USD 21% (~35% of USD exposure hedged)

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 recorded a 1.3% return in September, which continues a pleasing 2019 year to date performance (+15.5%) following a forgetful end to 2018.

Global equity markets performed well in the context of a challenging month of macro news flow – this included the Fed cutting rates as expected but taking a more hawkish stance than anticipated, trade war ebb and flow continuing ad nauseum, the same for the Brexit basket case, and impeachment proceedings overhanging Trump. Induced by interest rates hovering around all-time lows, equity markets showed encouraging resilience in the face of prevailing economic and political risks, although this thesis has been tested in the early days of October.

The Fund's allocation to international equities moved modestly higher during the month. We added to, and saw, a strong performance from our value-based positions, on the back of what was a rather dramatic market rotation out of momentum and into value stocks. The iShares USA Momentum and Value factor ETF's highlighted the difference, with in vogue growth / momentum names down -1.4%, and unloved / stable growth value names up 4.1%. In Australia, Goldman Sachs strategist Matthew Ross wrote in the middle of the month that their long-short Momentum factor had fallen 11%, the 4th largest correction in the past 20 years. Prior to the correction, their strong momentum stocks had traded as a group on a 28x PE, a 54% premium to their weak momentum counterparts.

The international portfolio's value-based investments returned a particularly strong 5% in NZ\$, while the growth portion of the international portfolio was down -0.6%. While it was pleasing to finally see demand for positions which we consider to be materially undervalued, one month does not make or break a trend. We are far from calling the end to investors seeking growth opportunities in the absence of it at a macro (market) level.

Our NZ portfolio had a decent month, despite not benefiting from another strong last day of the month where the NZ50 put on 0.8% of its 1.6% monthly return. Our best contributor was Infratil (+8%), as it closed some of the very large discount to our valuation, which is north of \$5.50 (Infratil closed September at \$4.92). We look forward to attending their Sydney investor day in October, which will focus on their high growth data centre business and the recently acquired Vodafone New Zealand.

We also had a decent win in dental business Abano (+22%) after it announced it was in discussions with two potential suitors, one for their struggling Australian division and the other for the entire group. Abano's operating structure and leverage, make the share price very sensitive to the outcome of the strategic process.

Our biggest headwind during the month was from a2 Milk (-8%). a2 hosted an investor day in China, where management communicated comfort with the market's very high revenue growth forecasts. However, the briefing did not stem investor unease around return levels as a2 steps up investment for growth. Ongoing price weakness continued despite news Aussie listed peer Bellamy had received a takeover offer from Chinese dairy heavyweight China Mengnui Dairy, with the Bellamy's stock price spiking 55% on the day of the announcement. The offer price valued the business at ~25x operating earnings. On the same metric, a2 Milk's share price would be about \$18.50, ~40% above where it finished the month. We took the opportunity to buy into weakness during the month, as the company's underlying price/earnings multiple is fast approaching that of the average NZ listed company.

Z-Energy was our other main negative contributor as it fell 11.7% after a surprise downgrade so soon after its August investor day. Much of Z's downgrade was put down to heavy discounting from competitors pre and post Z changing its Caltex brand's loyalty program, leaving customers on the old program up for grabs. We had more than halved our holding before the downgrade as yield focussed investors drove the price above our comfort levels. We should have been more aggressive, but yield has become such a potent influence on share price performance we became too greedy.

Our Australian portfolio had a solid month as that market bounced back from a tough August. We had a number of large wins across our smaller holdings, and key contributors were National Australia Bank (NAB) up 8.6%, and Nufarm (+17%), a crop protection and specialist seeds company. NAB's surge helped close much of the discount it traded on vs its Aussie Banking peers, while Nufarm was up 26% on the day of announcing the sale of its Latin American business. The sale removed a key investor concern around Nufarm's high level of gearing, with net debt falling below 1x operating earnings post the sale.

As noted, our international portfolio had a mixed month with our value-based positions offsetting a selloff in growth-oriented names. Alibaba was one of our key headwinds (-4.5%) as it remains under pressure from the ongoing US / China trade spat.

We attended the Alibaba Investor Forum in Hangzhou China during the month. The event provided an opportunity to hear from management, learn more about the business, and to see the Mainland China retail landscape firsthand. The scale (China retail spending has recently surpassed the US) and level of digitalisation is quite extraordinary, but the scope for ongoing market growth is Alibaba's key highlight (retail sales growth through Alibaba is currently accounting for 50% of China's total retail sales growth).

A significant growth opportunity for Alibaba lies in less developed areas (LDAs). Alibaba is currently adding 100m customers a year to its China e-commerce platform, with 70% of these additional customers coming from LDAs which have a population base of 900m. Alibaba's ~35% penetration in these areas, is less than half that of its penetration of China's top tier cities. Importantly, LDA customers spending levels start off small but increases 4-fold to the overall customer average in five years, implying multi-years of growth ahead.

Alibaba pointed out that they are currently under-monetising their core platform business, something the CFO noted was a key competitive advantage. Despite this, they are able to invest at scale in growth areas including Cloud (AliCloud now ranks #3 globally, and #2 in APAC) and drive industry change.

Tmall Global (Alibaba's Chinese marketplace for international products) has over 22,000 global brands (including a2 Milk), driving strong consumption growth of imported goods which in 2018 accounted for 2.2% of total China ecommerce, up from 0.5% in 2014.

Another growth area, and a risk to many old-world businesses, is the rise of the manufacturer to consumer (M2C) segment. Management detailed how AliExpress (platform for Chinese businesses to sell their goods to global consumers), supported by its own logistics network, is 'shortening' the traditional supply chain and the current margin take across it. The platform allows manufacturers to by-pass wholesalers, exporters/importers, and retailers to get their goods to the consumer. With ~9 million manufacturers and sellers already on Alibaba's platforms, material scope exists to grow the group's 130m customers outside China.

In what was a busy month for travelling, we were also across the other side of the Pacific in the US where we attended NZ technology business Push-Pay's annual investor day.

We also returned to Deutsche Bank's Technology Conference (which had a large number of corporate presentations including core Fund holding, Visa). Having attended the same event in 2016, we gained key insights around the evolution of marketing strategies, challenges of going online (converting to S.A.S) and especially the noticeable increase in the number of companies talking about Cloud migration (Cloud business AWS, is the dominant business within Fund holding Amazon).

Offshore corporate access in September has helped reaffirm the investment thesis for a number of Fund holdings. We continue to see long-term merit in the Fund being globally diversified in structural growth industries not available in Australasian Equities.

Top 10 Holdings

Spark	4.9%
TILT	3.6%
Infratil	3.4%
Contact	3.0%
A2 Milk	2.6%
Amazon	2.6%
Google	2.2%
Alibaba	2.2%
Cleanaway	1.9%
Visa	1.6%

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

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