ASPIRING
ASSET MANAGEMENT LTD

REPORT TO THE UNIT HOLDERS IN THE ASPIRING FUND FOR THE MONTH SEPTEMBER 2020

All returns are in NZ$	Returns				Return volatility
	30 Sept 2020	3 months	12 months	Since inception pa[i]	Since inception pa[i]
Aspiring Fund	**-0.73%**	**4.49%**	**5.92%**	**10.72%**	**9.31%**
New Zealand Equities[ii]	-1.59%	2.59%	7.52%	8.93%	11.74%
Australian Equities[iii]	-4.29%	2.50%	-8.02%	5.66%	16.64%
World Equities[iv]	-1.27%	5.11%	4.62%	6.45%	12.78%

[i] February 2006, [ii]NZX50 Gross, [iii] ASX All Ordinaries Accumulated, [iv] MSCI World Equities Total Return

Unit Price $4.1622

Asset Allocation (approximately):

New Zealand Equities	41.2%
Australian Equities	15.2%
International Equities	31.7%
Bonds	3.5%
Total Cash	8.3%
Short Equities	-3.8%

Net Asset Value of the Fund (approximately): $414.2m

The fund's main direct currency exposures at month end were - NZD 51%, AUD 16%, USD 24%

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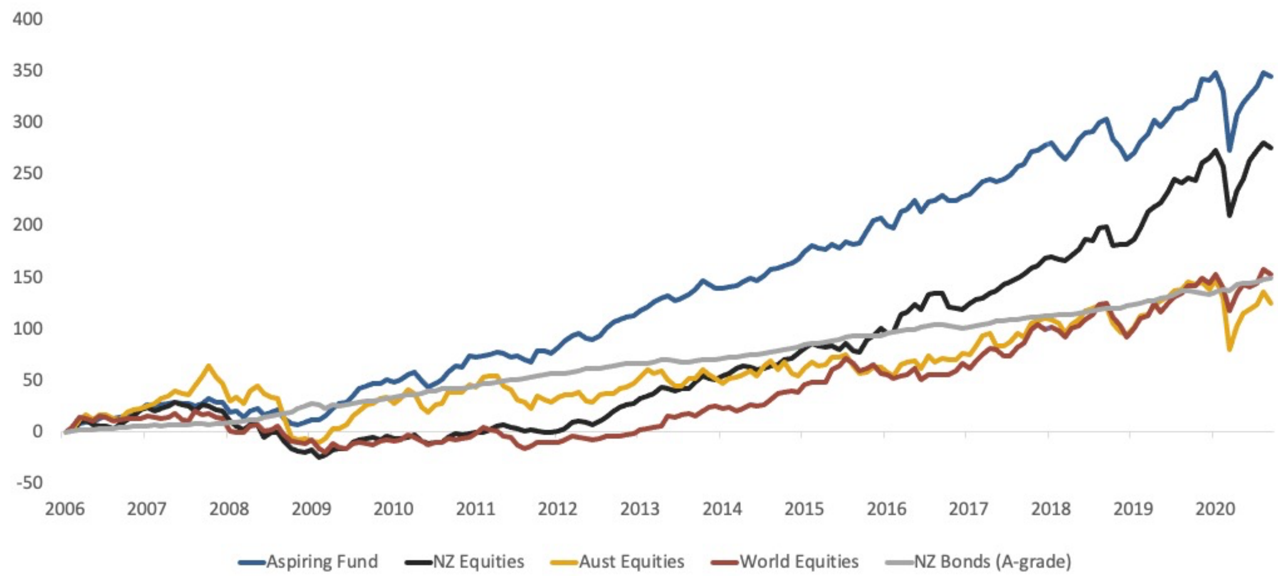
Performance



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 -0.73% in September.

While we don't celebrate negative months, it was mildly pleasing to retain the majority of the Fund's August gains in a very challenging month for risk assets globally. World Equities ended a five-month win streak, retreating by 3.5% (in USD) with all developed market sectors in the red.

A US Tech sell-off early in September set a negative tone for markets. The Nasdaq100 fell 5.2% in one session, its worst day since the March 16 sell-off. Cyclicals underperformed on worsening virus news. Europe is struggling to contain a second wave of COVID cases following their holiday season. Spain, France and UK were particularly hard hit with new case numbers surging to record highs in France, and restrictions being reintroduced across Europe and the US.

While a plethora of economic, political and geo-political concerns remain, low interest rates are the trump card for equity markets and are not likely to change anytime soon.

US Fed Chairman Powell commented during the month that the Fed expects to hold interest rates near zero until the labour market has reached maximum employment and inflation averages 2% for some time. Locally, the RBNZ continues to float the possibility of a negative Official Cash Rate (OCR), with economists now forecasting a negative rate as early as April next year.

We expect debt refinancing to be a key feature of household cashflow and corporate profit growth over the coming years. In September we saw Mercury issue $200m of 7-year bonds at 1.56% and Port of Tauranga raised $100m of 5-year bonds at a rate of 1.02%. To put the low cost of funding in context, the Port company could accretively invest the money raised in its neighbouring residential rental market.

While September is a reminder of volatility inherent in risk assets, the TINA (there is no alternative, to equities against low rates) thesis remains intact.

Moving to Fund performance, the NZ Portfolio (+2%) was the key highlight against a local market that had average stock returns of just over 1%. The benchmark NZ50 index fell 1.6%, weighed down by a2 Milk, falling 17.5%.

While a2 Milk remains one of our favoured local stocks, the benefits of more balanced portfolio diversification came through in September. Performance was again led by the Fund's larger NZ holdings; EBOS (+7.7%), Contact Energy (+6.4%), Sky City (+16.9%), and Auckland Airport (+9.9%).

Pleasingly, EBOS and Contact Energy, two of our high conviction defensive value calls, continue to advance and now approach levels we deem more reflective of fair value.

Contact outpaced Gentailer peers Meridian (+0.4%), Mercury (+0.8%) and Genesis (+1.0%), as the sector rose on news the Labour Party (post re-election) plans to seek agreement with Rio for prolonged operation of the Tiwai Aluminium Smelter. A deal would improve near-term cashflow certainty, and likely underpin renewed interest from income seeking investors. We note at the time of writing, Gentailer stocks have continued to advance.

Sky City's move came after both its full year earnings and first time earnings guidance for the 2021 financial year, beat market expectations. The company's share price has been highly influenced by the performance of offshore listed Casinos in 2020. Over the medium term, we believe Sky City remains positively leveraged to a return to a dividend income investment thesis as earnings recover back closer to pre-COVID levels.

Unlike Sky City, where domestic customers historically account for 85% of group earnings, Auckland Airport ultimately requires widespread adoption of a COVID vaccine. A profit recovery for the Airport not only needs their international borders and those of their connecting airports to be open, but it requires unrestricted visitor arrival movement (no quarantine stays) and profitability to return for key Airport retail operations.

Since adding Auckland Airport to the Fund in March and April when the company was valued at $8.0 billion, the stock has had quite a staggering rally. At the time of writing Auckland Airport is a $12.2 billion company, which prices it just 5% below where it was valued pre COVID (31-Dec-19). Back at a material premium to our valuation, we are reducing our Airport holding into share price strength.

a2 Milk (-17.5%) was the biggest headwind to the NZ portfolio performance as it issued a first half (six months to December-20) profit warning, citing weakness in infant formula sales through the Daigou channel. The stock has had a material pull back (-29%) from August highs, and when adjusting for its growing cash reserves and investments, the valuation of the company has given back all of its 2020 gains. Mindful of a recent wave of shareholder selling, and earnings predicated on a second half recovery, a2 Milk is firmly on our watchlist.

Our Australian Portfolio had a tough month, with Cleanaway (-19%) the largest Fund return detractor.

Cleanaway has long been the Fund's largest position in Australia, with the company's strong industry positioning and excellent management execution combining to provide a strong return over recent years. In September the stock was hit by a left field event which we and others could have never seen coming. Revelations emerged in the financial press that the CEO, Vik Bansal, had been probed by the board after allegations of bullying behaviour towards some executive staff, which resulted in his bonus remuneration being docked and him being put on notice by the board.

Despite the CEO's contrite response and undertaking to moderate his behaviour, clearly a number of local funds chose to exit on the news, driving the price down over the month. We took the opportunity to increase our holding, believing in the old adage “this too will pass” and that statements by both the board and Mr Bansal showed that the issue is being dealt with and that the outlook for the company has not changed.

The International Portfolio was down ~4% (in USD), slightly behind global equities.

Technology positions including Amazon (-8.8%), and Google (-10%) were key detractors to performance, alongside a ~6% fall in the Fund’s credit card company holdings (Visa, Mastercard) which were all caught up in a sell-off of US growth stocks. Within our collection of growth stocks, the key piece of company news came from Alibaba which held a three-day Annual Investor Event in Hangzhou (which we watched online, after attending last year). Alibaba management announced two of its high growth loss-making businesses, Alibaba Cloud and logistic platform Cainiao Network, have just turned to profitability.

Our best offshore performer was Grifols (+8.8%). Grifols partially retraced some of the ground lost in the previous month as the company gave a positive outlook on blood plasma collection levels in the all-important US market. Collection levels, having been impacted in the second quarter by Covid-19, are expected to be down around 10% in 2020 but the company forecasts collection volumes to increase nearly 30% in 2021. The fundamental outlook for the plasma derived therapy market remains strong with global demand typically outstripping supply.

Despite a more challenging valuation environment following a strong recovery in markets, low returns on cash and fixed interest have seen the Fund maintain a high exposure to Equities. Pleasingly we continue to evaluate and invest in new Fund positions and we remain focused on maintaining a high level of diversification.

Top 10 Holdings

Contact	4.1%
Infratil	4.0%
EBOS	4.0%
Tilt Renewables	3.2%
Alibaba	3.1%
Amazon	2.9%
Cleanaway	2.8%
Spark	2.6%
Mainfreight	2.5%
a2 Milk	2.1%

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

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