

REPORT TO THE UNIT HOLDERS IN THE ASPIRING FUND FOR THE MONTH ENDED 30TH APRIL 2009

	Aspiring Fund	NZG50	ALL Ords Accumulative Index (rebased in \$NZ)
Month April	6.70%	5.80%	12.60%
Quarter to date	6.70%	5.80%	12.60%
Financial YTD (from 1/04/08)	6.70%	5.80%	12.60%
Annualised Since PIE (1/10/07)	-2.23%	-24.40%	-22.40%

The Unit Price as at 1st May 2009 was \$1.150.

The performance for the month of April was 6.70% after all expenses.

Our asset allocation at the end of the month was approximately;

New Zealand equities	26.4%
Australian equities	20.0%
Hybrid Debt	30.3%
Cash	23.3%

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PERFORMANCE GRAPH



Comparisons between the unit price performance of the Aspiring Fund and Australian and New Zealand market indices prior to the introduction of the "PIE" regime are not particularly valid. In that period the fund paid full tax on all capital gains whereas the indices performance is without any allowance for tax. That the unit price of the fund matched the performance of the New Zealand index in a rising market prior to the introduction of the PIE regime suggests a level of out performance not picked up by the graph

PERFORMANCE

The Aspiring Fund returned 6.7% in the month of April. There were several contributing factors to this relatively robust performance, the most notable of which were;

- the decline in the New Zealand dollar against its Australian counterpart which boosted the value of the A\$ securities in the Fund's portfolio
- a very strong performance from our portfolio of hybrid debt securities
- a steady stream of opportunities to participate in new capital raisings at significant discounts on both sides of the Tasman
- the general strength in equity markets.

The most notable offset to this was our relatively high cash weighting.

While the performance for the month is satisfactory for unit holders we would still encourage them to focus on the longer term returns which have been better with less volatility than either of the indices of the markets we regard as our natural habitat.

Globally, share markets were very strong in April, continuing on the trend seen in March. The US market as measured by the S&P 500 was up 9.4%. London was up 8.1%, Japan 8.9%, France 12.6%, Hong Kong 14.3% and Germany 16.8%.

The volatility of the New Zealand market remains muted compared with that of overseas exchanges. Although we have significantly underperformed major global markets over the past two months New Zealand's -24% return over the past year compares favourably with the USA's -37%, Japan's -36%, Australia's -30%, England's -30% etc.

Returns for the New Zealand market in April were heavily influenced by strong gains by Telecom and Fletcher Building and the 51.8% rise in Lion Nathan's share price as a result of the Kirin takeover bid. Collectively, these three stocks accounted for 86% of the New Zealand market's 5.8% return for the month.

We owned some Fletcher Building, but as we have noted previously Telecom is a rare sight in our portfolio for valid long-term reasons and we have never owned Lion Nathan.

At the beginning of the month we added to the hybrid debt portfolio by buying a second ANZ US dollar-denominated debt instrument. Our first ANZ debt instrument at the purchase price yielded approximately 20% for an effective one-year period -- our second investment has a duration of approximately 4.75 years and yielded about 14.6% per annum at purchase.

Because these have both increased in value since we bought them our investment in ANZ securities makes up a reasonably large percentage of the portfolio. Approximately half of this is of very short duration and we are not concerned by this concentration -- in fact we receive regular bids on both at prices which would enable us to realise useful profits. However, the market yield on the shorter maturity is still over 10% which compares more than favourably with the 2.5% ANZ pay us on call money in New Zealand.

Our debt strategy has worked well for us but a general rerating of corporate debt, both at the premium and sub investment grade levels, means such outstanding opportunities are becoming harder to find.

The last two months have seen a significant shift in investment sentiment. Regardless of the long term efficacy of the various stimulus and rescue packages from Governments and central banks around the

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world the short term consequence has been a dramatic increase in risk appetite. While investors appear to have come to a view that global Armageddon has been averted, which may be true, we are still faced with deteriorating earnings, contracting credit and the next generation shackled with the government debt burden being taken on. However ultra-low cash rates and buoyant markets have pushed the opportunity cost of caution above many investors' pain threshold.

It will come as no surprise to our clients that we are somewhat sceptical about the quality of this rally. We do not believe that the market can enter a new true bull phase until corporate profitability begins to rise. Consequently, we remain cautious but open-minded to opportunities. After two strong months it would not be surprising to see global markets pause or retract.

Nevertheless, the diminished probability of financial Armageddon means the top down approach which has dominated our thinking for the last 18 months no longer seems appropriate and we will devote more energy to our traditional style of bottom-up stock picking. The concentration on our top-down view has served us well as it provided the intellectual basis for our risk averse approach over the past year. Obviously, we will not abandon it entirely but it is clear that the sustained stimulus packages mean that even if one factors in a hugely difficult global economy there is value available in underresearched small and medium capitalised companies.

COMMENTARY

Economically the dreadful news of early in the year (when, for example, Japanese exports fell 46% in January yoy) is being replaced by a less severe form of negative news. Manufacturing indexes have improved in many countries, mostly due to inventory rebuilding after stocks of raw material and other inputs reached unsustainably low levels in the panic that followed the collapse of Lehmans, AIG etc.

Investors are generally aware that this inventory rebuilding cycle will be temporary but there has certainly been a relief rally on the basis that global collapse looks less likely now than it did at the beginning of the year.

There has been a significant shift in investor sentiment. There is life in the global debt markets, with credit spreads having narrowed and new issuances increasing (as they have in New Zealand).

Investors seem more willing to take on risk as the cost of safety in terms of low short-term interest rates continues to increase.

Corporates are raising money relatively easily on the equity market, even when accompanied by reasonably significant bad news. A number of companies have taken the opportunity presented by the rally in markets to tap investors for "comfort capital".

In America the administration has been "stress testing" the major banks and early results have supposedly been positive, although cynics would have to question the thoroughness of this process. In any event, it appears to be giving the market confidence that the banking crisis in the country is under control.

In New Zealand the Reserve Bank cut interest rates 50 basis points to 2.5%, emphasised that rates will stay low for sometime and reversed a previous indication that 2.5% would be as easy as money would get. This action has been greeted positively by the market and also lowered the currency somewhat.

The fact that corporates are raising money so enthusiastically and the Reserve Bank, which puts a lot of effort into monitoring leading indicators, so cautious is not a good sign for company earnings.

The National Bank Business Outlook survey showed the majority of companies surveyed are expecting profits to fall in the next year. However they are also slightly more optimistic than the previous month,

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with improved intentions re employment and investment and a slightly more optimistic outlook about profitability.

This appears to be in reaction to an improvement in the global outlook although possibly April 1 tax cuts are having some sort of local effect.

Residential building permits showed a small improvement with March numbers being 25% below the previous year compared with February figures being 41% lower. The sector, however, remains extremely depressed and any improvement is off such a low base that one would not want to get too excited.

Both locally and globally it is clear that corporate earnings will be under pressure for some time. On top of this there is the sobering reflection that should economies start to grow governments will be in urgent need of reversing the extravagance stimulus currently being dished out to

- a) get their budgets in better balance and
- b) head inflation off at the pass.

Recovering from the global recession will be an arduous process.

We continue to see the possible range of economic outcomes over the next year as extremely wide. We thus are attempting to remain open-minded to money making opportunities whilst continuing to be biased towards caution.

Top 10 Holdings as at 30 April 2009

ANZ Hybrid Debt	13.6%
Sky City Aces	8.0%
Santos	4.2%
Cavotec	3.9%
The Warehouse	3.8%
Pipe Networks	3.6%
Fairfax Media Hybrid Debt	2.9%
Michael Hill	2.7%
Incitec Pivot	2.7%
Nufarm Hybrid Debt	2.6%

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