

REPORT TO THE UNIT HOLDERS IN THE ASPIRING FUND FOR THE MONTH ENDED 28 FEBRUARY 2009

	Aspiring Fund	NZG50	ALL Ords Accumulative Index (rebased in \$NZ)
Month February	-0.54%	-9.10%	-2.70%
Financial Year To Date	-2.00%	-27.30%	-30.30%
Annualised since PIE (1/10/07)	-9.10%	-31.10%	-29.00%

The Unit Price 1st March 2009 was \$1.0415

The performance for the month of February was -0.54% after all expenses

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

New Zealand Equities	18%
Australian Equities	23%
Corporate Credit	15%
Cash	44%

PERFORMANCE

February was another terrible month globally and locally. Further problems in the US and European banking systems, appalling manufacturing/export statistics out of Asia and poor and deteriorating corporate profitability saw markets around the world retreat.

The US market was off 11% and major markets in Europe fell 8-11%. Japan at -5% got some respite from a falling currency and the Australian All Ords virtually matched this with a 5.2% decline.

After a surprisingly resilient performance in January, the New Zealand market caught a lot more of the international mood in February, posting a 9.1% fall. A mixed reporting round and a consistent pattern of poor visibility which made virtually all outlook comments cautious to downright negative contributed to this performance.

Our cautious approach helped to minimise the damage to the portfolio as evidenced by the loss of only 0.54%. This number was helped by about 0.25% as a result of some bizarre price action at the month-end close of the New Zealand market so our March numbers may suffer from the unwind of this. Negative performance numbers are never pleasing but we feel as though we escaped a month of carnage with the equivalent of a scraped knee.

We managed to avoid the worst decliners in New Zealand, namely Fisher and Paykel Appliances (-61%) and Nuplex (-58%) which now face balance sheet pressures at a time when their future earnings outlook is murky. Nor did we own any Tourism Holdings (-32%), Cavalier (-30%), PGW (-29%) GPG (-28%) or Rakon (-27%) but some of our small caps (and smaller holdings) could not escape the draught.

Unfortunately, liquidity has dried up completely in many mid and small cap stocks so we have been unable to adjust our portfolio weightings in some stocks. In others, like Methven, Mainfreight and Cavotec, we feel that the price has fallen far enough to compensate for the deteriorating outlook they face. However, we are unlikely to add to any of these positions while liquidity and visibility remain so poor.

Still, part of the trick at the moment is simply making sure that you don't have 5%+ in a company with the performance of Fisher and Paykel Appliances, GPG or Nuplex. Stepping on such landmines can blow large holes in portfolios. We have not made it through the minefield unscathed but the small scale of our individual positions in those companies which have had earnings disappointments means the aggregate portfolio damage has been reasonably well contained.

Some of our bigger investments helped offset the general decline. The portfolio's largest position, the Sky City Aces fixed interest hybrid, gained 6% and Computershare and Wotif both had good profit results enabling them to outperform the market with a 3% gain for Wotif. While Computershare succumbed to the general market weakness late in the month we did manage to trade out of some of our holding at a useful profit immediately after the result.

During the month we rejigged our corporate debt holdings by selling out of the LQD holding in the US. It began to worry us due to its exposure to US bank bonds (27% of the portfolio). Although LQD holds only highly rated paper we became concerned that the spread to US treasuries had stopped tightening, a fact which seemed primarily attributable to the number of well-informed commentators suggesting that the likely nationalisation/reorganisation of many US banks could result in bondholders being required to take haircuts. However, the trade was still an effective way of boosting the return on a small part of our large cash weighting.

Ironically, we replaced this investment with a holding of an ANZ hybrid security issued in US\$ in the US with an effective maturity date of January, 2010. The paper has similar features to the Sky City Aces in that the issuer has the option to redeem these securities for cash or by the issue of shares at a slight discount to the then market price. We are confident that we can manage the risks around this process. The yield to maturity on this investment is around 20% and the risk really boils down to ANZ shares having a positive value on the effective maturity date.

The yield may seem too good to be true but the investment is available only to professional investors and the security trades infrequently over the counter rather than being listed on an exchange. This severely limits the universe of potential investors and we believe it highlights the value of an investment mandate sufficiently broad to enable consideration of these types of transactions. There are a number of similar issues by Australian banks we are investigating at the moment and we will continue to look for opportunities of this ilk which we see as offering superior risk reward characteristics compared with most vanilla equities. Indeed, we are attempting to accumulate another two listed fixed interest investments at the moment but liquidity constraints mean patience is needed.

Our current thinking is that, while these exceptional yields and opportunities exist, we will continue growing our exposure to these instruments with a target of about 25-30% of the portfolio.

In the equity market, we participated in one corporate sell-down and a couple of placements during the month. In each case we believed the entry price was sufficiently attractive to make the risk of capital loss minimal and this view was vindicated by all these being profitable trades.

In this environment you will note frequent changes in our portfolio as we stay alert to opportunities and to pitfalls.

The past 15 months has taught us many lessons, but foremost in our mind is that the "buy and hold" strategy favoured and recommended by many is not particularly effective in the current environment.

Our recent newsletters have all re-iterated the same basic theme and, while it might be becoming boring, it is unlikely to change much in the foreseeable future. We remain cautious, despite the apparent improvement in value which collapsing share prices should bring. However, there will be trading opportunities in equities and investment opportunities in debt – our large cash weighting gives us the option of participating in both.

COMMENTARY

February was another "bull killer" of a month, with startling economic statistics and the realisation that not only is most of the US banking system close to bankruptcy but that of Europe too. And in many European countries there is now genuine concern that the banks are simply too big for the governments to be able to save.

There is also growing evidence of plummeting world trade volumes. Perhaps the most dramatic statistic of the month was the 46% decline in Japanese exports in January -- sales to the US were off 53%, China a similar amount. Japanese car exports were down 69%- just as well as their sales are off by more than 40% year on year in the US.

The US contracted at an annualised rate of 6.2% in the December quarter last year and whatever the Chinese statistics say that economy too appears to be shrinking.

Clearly, consumers around the world are attempting to increase saving rates and this means deferring large ticket expenditure where possible.

There will be a time when this trend stabilises and sales of such items reach a new, lower plateau but until rising unemployment and fear for jobs is factored in to all aspects of economic behaviour we think it is too early to be aggressively countercyclical.

New Zealand export figures at +3% were, by comparison to the Japanese a fantastic outcome, and show the benefit of selling food rather than cars in such times.

The most recent Fonterra auction result, which showed an increase of 14% in US\$ terms (and 18% in NZ\$ terms) for whole milk powder is also encouraging. There appears to be a seasonal aspect and a degree of market timing in Fonterra's decision to stockpile milk powder and this suggests they and the country may benefit from this.

We are also encouraged by the Government's refusal to engage in the irresponsible and probably futile stimulus packages so popular in other countries. We expect the combination of fiscal discipline and improving soft commodity prices to provide support for the currency at around current levels.

However, our export figures were about the only bright spot in New Zealand's economic figures.

The National Bank confidence survey fell slightly across most indicators from December's very depressed levels. Manufacturing and service sector surveys by the BNZ exhibited similar drops.

New housing consents were at the lowest level since the survey started in 1965 and are down by approximately half over the past year.

All of this and more was on show in the reporting season where company executive's outlook comments give you the most up-to-date information on the economy.

Nuplex is in breach of a debt covenant and Fisher and Paykel Appliances, which warned of a poor six months to March and a blowout of debt, may meet the same fate.

These are two obvious candidates for a capital raising and we can see many others who may need to go down the same route. In the current environment any capital raising will need to be on terms which favour new investors at the expense of existing shareholders. The recent experience in Australia, which has seen a raft of such issues, is that the share prices nearly always converge on the discounted share price at which these placements are done. In fact, in many cases, like Qantas, Westfield, all the listed property trusts and most of the bank issues the price has fallen well under the placement prices.

Because we expect a constant menu of these opportunities we see much value in continuing to hold high levels of cash and little value in paying "retail" for existing equity opportunities.

We debate within the team whether markets are factoring in more than enough gloom given the huge falls to date - the current momentum of bad news suggests to us that the best tactic remains to be relatively cashed up and to use such resources to make the occasional guerrilla raid on markets when opportunities present.

At the same time we continue to build our high yielding fixed interest security portfolio that we believe will yield low risk equity-like returns.

Top 10 Holdings as at 28 February 2009

Cash	44.0%
ANZ Hybrid Debt	6.4%
Sky City Aces	5.9%
Computershare	3.9%
Santos	3.6%
Pipe Networks	3.3%
The Warehouse	2.9%
Methven	2.9%
Michael Hill	2.7%
Mainfreight	2.2%
Wotif	2.0%