

REPORT TO THE UNIT HOLDERS IN THE ASPIRING FUND FOR THE MONTH ENDED 28 FEBRUARY 2010

	Aspiring Fund	NZG50	ALL Ords Accumulative Index (rebased in \$NZ)
Month February	1.90%	-0.27%	3.57%
Quarter to Date	0.73%	-2.29%	-0.54%
Last 12 Months	35.70%	25.10%	47.80%
Financial Year To Date	31.10%	21.80%	43.40%
Annualised since PIE	7.30%	-11.75%	-6.10%

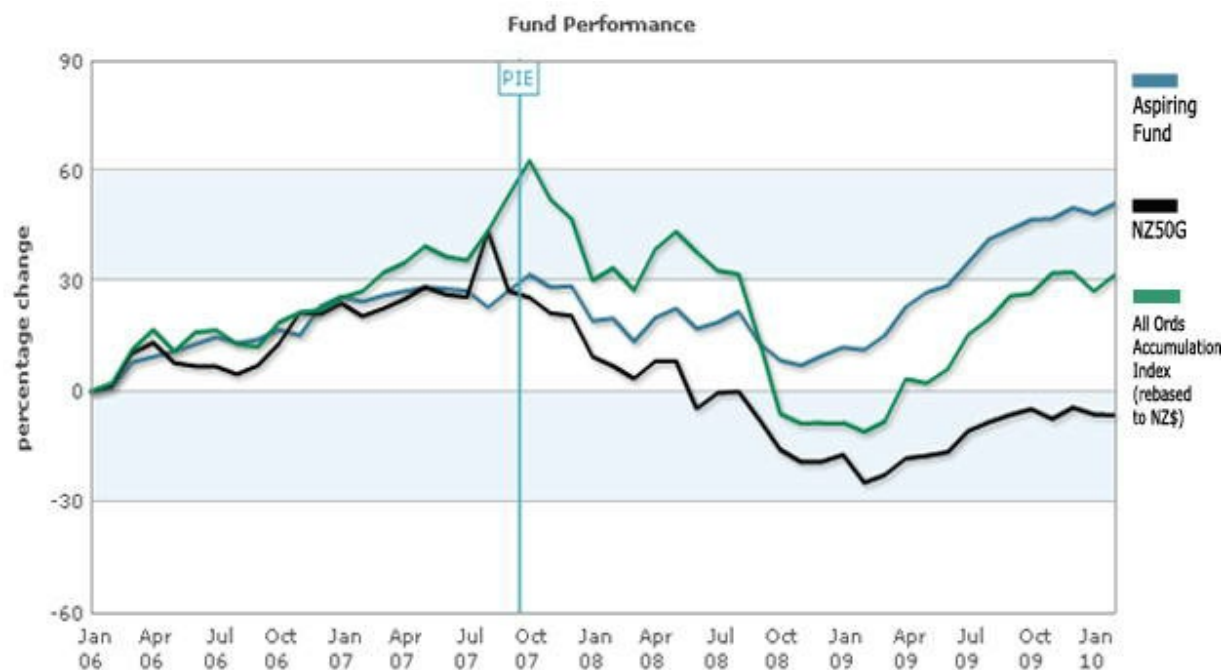
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The Unit Price 1st March 2010 was \$1.4131.

The performance for the month of February was 1.90% after all expenses.

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

New Zealand Equities	32.7%
Australian Equities	29.6%
Global Equities	1.8%
Corporate Credit	10.8%
Cash	25.1%



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

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PERFORMANCE

February saw mixed returns and choppiness on global sharemarkets as the world continued to grapple with the patchiness of the supposed US economic recovery and the issue of Greece- the most publicised demonstration of the sovereign debt/ fiscal irresponsibility issue which we expect to bedevil the developed world over the next few years.

The New Zealand market fell 0.3% over the month while the Australian market recouped some of its January losses. February is always an interesting month for the Australasian markets due to the plethora of corporate results and outlook comments and this year was no exception. With some hard data and detailed announcements about past trading and current and expected conditions there was plenty to occupy us during the month.

Among our top 10 holdings Pyne, Gould Corp, Cavotec, Tabcorp, Ansell, TPI, Adelaide Brighton and Downer EDI all reported while Tower Australia held an AGM which updated the market on current trading. Of these Downer was the only outright disappointment while Ansell was an offsetting positive surprise. We sold out of Downer completely on the back of their announcement and took advantage of the rally in Ansell's share price to bank some profits.

For most of our other major exposures the results and commentaries were pretty much as we expected although subsequent share price performance was quite varied. For example, TPI produced a result bang in line with our expectations but rallied from a pre-announcement level of 1.18 to finish the month at 1.365. Cavotec also rose by 10% from its pre-result level despite its actual earnings being slightly lower than our expectations while Adelaide Brighton fell 5% on in line earnings but muted outlook comments.

The portfolio also benefited from positive reactions to other results from companies where our holdings are material but fall below the level needed to become a top 10 holding. EBOS and Skellerup were two clear instances in New Zealand while APA, Spotless Group and Sedgeman were good winners for us in Australia.

In this month's report, you will note in our top 10 holdings that as well as Transpacific ordinary shares we own a reasonable chunk of preference shares which is effectively a subordinated debt instrument. We bought these at the time of the company's recapitalisation at prices well below the current market and their price reacted very positively to the result- they were up 14% for the month which is a big move for a debt instrument. They show up for the first time in this list due to that positive price reaction rather than any additional buying.

The biggest disappointment among our holdings was Freightways which is one of the best run companies we know but their result and outlook comments reinforced their status as a hostage to the struggling domestic economy.

However, the biggest brake on the portfolio's performance for the month was the 6.2% fall in Pyne, Gould Corp's share price. The news of a significant loss from an unauthorised loan was obviously a contributing factor to this but we were heartened by the company's result and outlook comments and still view this as a very good story for the longer term.

As we mentioned last month, with many of our illiquid and reasonably illiquid New Zealand holdings we simply have to wear the month to month gyrations in price, which frequently owe more to fund managers losing or gaining mandates than changes in the performance or prospects of the companies themselves.

We once again benefited from not owning any Telecom shares, which is our default position in that company most of the time. The fund benefits from being "index unaware" in that we do not concern ourselves with what is referred to as "tracking error" from the New Zealand (or Australian) market. We regularly report our performance against that of the New Zealand and Australian markets because, in the long run, we do not deserve investors' confidence or support unless we outperform a blend of these by a significant margin. Our approach means that there will inevitably be periods when we fail to do so which is why we emphasise the importance of our longer term performance rather than the monthly or quarterly numbers.

In addition to the transactions mentioned earlier we accumulated a significant stake in Kathmandu (at an average entry price about 10% lower than the IPO price), topped up our Tower Australia holding and took advantage of some trading opportunities thrown up by the aforementioned illiquidity of the New Zealand

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market.

We remain relatively agnostic about the short term direction of markets. We expect there to be significant volatility as investors fret about a number of concerns that still rattle around the globe (Greece this month, Spain and the UK next, the US economy in the second half of the year, Japan one day and maybe even the sustainability of the Chinese miracle).

For this reason we will probably continue to hold at most times slightly more than what we would consider a long-term average cash holding.

Whilst we see the option value of cash as high, to take advantage of such optionality we will have to be brave enough to spend it occasionally!

COMMENTARY

The result season confirmed a lot of what we knew in terms of economic trends around the globe, but brightly highlighted some of the issues.

The increased confidence of the relatively diverse Skellerup group relative to the glum AGM commentary after the first quarter illustrates that globally economic activity picked up from October onwards. To a large extent this has been about the inventory cycle reversing, with many companies being caught short of stock at the merest sign of a pickup. The continued upgrades of Nuplex paint a similar picture. Even the comments by technology hopeful Wellington Drive that it is unable to supply as much product as it would like due to a shortage of electronic components (let's face it, Hewlett-Packard will get its parts first) fit the pattern of a global supply chain playing catch-up.

The story of a strong Australia, moderate New Zealand economy was universal. From Sky City reporting a 8% turnover growth in Australia versus flat in New Zealand, to Nuplex, to Skellerup, to Mainfreight the message was very clear that Australia is very strong at many levels of its economy. The disappointing result by Freightways suggests a New Zealand economy flatlining.

Most of the recovery stories out of New Zealand have been about cost out, rather than revenue growth. Sky TV was a slightly different twist on this theme with profit improvement driven by yield enhancement rather than growth in customer numbers.

The question has to be asked as to how profits will grow once costs have been taken to the bone. One gets the feeling that earnings growth will be flatter than the broking community estimates in New Zealand while Australia is truly enjoying a V shaped recovery (16% earnings growth for 2011 according to Macquarie).

Profits have risen faster than EPS due to a significant number of equity raisings last year. This trend is almost over, with arguably many companies now overcapitalised.

Retail in New Zealand was somewhat better over Xmas which mainly reflects the retailers bringing their ordering patterns into line with demand, thus negating the need for drastic peak season and end of season discounting. But generally speaking, it seems the New Zealand consumer is feeling okay without being overenthusiastic.

The result of Hellaby Holdings AB Equipment division (a loss of \$1.7m after turnover fell 24% from already depressed levels) show that corporate New Zealand has been extremely tight with its capital expenditure. A number of capital equipment providers' results in Australia confirmed that this is also true in that country. The Cavotec result illustrated that Europe is truly dreadful in this regard - the turnover figures for Cavotec's June to December period out of Europe were terrible, group results only holding up due to significant growth in areas such as the airport division which is centred more out of the US and the Middle East.

For the fund going forward one issue we must grapple with is to what extent the economic and market out performance of Australia versus New Zealand will continue. There is a moderate tax advantage to us in investing in New Zealand, and we obviously enjoy some "home court advantage" but Australia is more tied in to the Chinese growth story, appears to be better managed economically, has a wider selection of companies to choose from, and simply has better scale. The market is generally also far more liquid. It is quite a worrying sign for the New Zealand market that liquidity of the midcap sector continues to dry up.

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We suspect that over time the marginal dollar will continue to be invested in Australia, although in the short run we tend to use the liquidity Australia offers when decreasing our equity exposure.

We have certainly benefited from our decision to increase our exposure to the Australian dollar as the cross rate has now fallen to levels not seen for a decade. Many commentators seem to view this as the bottom of the long term trading range for the currency but we are not so sure. There have been very few times in our collective memory when the economies' performance have diverged as much as they are now and this is reflected in the RBA hiking their equivalent of our OCR to 4% while our own Reserve Bank sits pat at 2.5%.

We are monitoring the cross rate but would need fresh information or a much bigger move in the currency to reduce our A\$ exposure which currently sits at 60% of the fund's assets.

TOP 10 HOLDINGS AS AT 28th FEBRUARY 2010

Pyne Gould Corp	6.0%
Transpacific industries	4.8%
Restaurant Brands	3.6%
Tower Australia	3.5%
Cavotec	3.5%
Methven	3.2%
Kathmandu	3.1%
Transpacific debt	2.9%
Ansell	2.9%
Sky TV debt	2.6%

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