ASPIRING ASSET
MANAGEMENT LTD

REPORT TO THE UNIT HOLDERS IN THE ASPIRING FUND FOR THE MONTH ENDED 31 JANUARY 2009

	Aspiring Fund	NZG50	ALL Ords Accumulative Index (rebased in $NZ)
Month January	1.98%	2.15%	-0.06%
Financial Year To Date	-1.48%	-20.06%	-28.34%
Annualised since PIE (1/10/07)	-9.25%	-27.62%	-31.78%

The Unit Price 1st February 2009 $1.0472.

The performance for the month of January was 1.98% after all expenses

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

New Zealand Equities	25.0%
Australian Equities	23.8%
Corporate Credit	10.9%
Cash	40.3%

PERFORMANCE

After a promising New Year rally global equity markets had another difficult month in January with the exception of New Zealand, whose market performance was difficult to reconcile with either the local or international economic and corporate news.

The US market ended the month down 8.7%, the Australian market was off 4.8 % in its local currency (but virtually unchanged in New Zealand dollars), the Japanese market fell 10% and European markets were down between 6 and 10%.

Unfortunately, the apparent strength of the New Zealand market was a mirage as the strong upward movement of Telecom during the month single-handedly contributed a 2.2% rise to the New Zealand index so the rest of the market was broadly flat. This still represents an outstanding relative performance and is partly explained by the positive influences of a lower dollar and interest rates and the absence of banks in our market. Globally, the banking sector had a terrible time during January with the ASX Financials Index decline of 8.8% being a relative outperformer on the global stage.

We are seldom owners of Telecom and our lack of a holding in January meant we did not benefit generally from the headline strength of the New Zealand market.

We did, however, make a positive return via some trading opportunities (discounted placements and oversold situations), reasonable stock selection and a general move into the high yielding debt market.

We should comment on a new investment which is now the largest holding in the portfolio -- Sky City Aces- a hybrid debt security issued by the listed New Zealand casino company, Sky City. After trawling the Australian corporate bond and hybrid securities market we found a small number of attractive opportunities of which the Sky City Aces is, we believe, the best.

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However, by their very nature, hybrid securities do not fit easily in to specialist equity or debt funds and most are priced at a margin over bank bill rates. The combination of forced selling, a lack of natural buyers and the RBA's aggressive easing at the short end of the curve has seen several of these securities offered out at prices we find compelling. For a number of reasons, many of which are quite technical, we believe Sky City ACES are the best of these.

Simplified, at current prices the securities offer an annual yield well above 20% until maturity in December 2010. There are a few complexities in that this date is officially referred to as a "reset" date but holders have the ability to elect to transfer their investment into shares at that date and we will be able to "hedge" this conversion into cash receipts at the par value of the instrument. By comparison a SKC 2010 debt instrument trading on the New Zealand exchange offers an 8.2% yield.

We believe that debt instruments offering equity-like returns are currently a very attractive place to invest.

We expect to find more opportunities in this asset class and to hold these securities until conversion, redemption or reset. Therefore our asset allocation breakdown below now has an additional asset class - corporate credit. Basically this investment class should be viewed as nearer cash than equities from a risk point of view. This exposure currently stands at around 11% (primarily Sky City ACES and our LQD holding).

COMMENTARY

At the time of writing BHP has just released its half year result. The commentary included the following comments;

- *we expect global economic growth to be weak over the short to medium term"*
- *"it is likely that these stimulus (Government) measures will take some time to have a positive flow through to economic activity"*
- *"there is a risk of increasing protectionism by governments which may hamper an global recovery"*
- *"our long-term outlook remains unchanged..... long term growth to be robust as [China] they continue on the path to urbanisation and industrialisation"*
- *"commodity price weakness and volatility will persist"*

None of this will be news to anyone, but even BHP acknowledged that the speed and magnitude of the slowdown caught management by surprise. When we contemplate some of the statistics coming out of Asia this is explainable;

The Wall Street Journal reports that South Korean exports in January fell 32.8% from the same time last year and that followed a 19% fall in November and a 17.9% fall in December.

Taiwan has been similarly battered and China's Minister of Agriculture estimates that 20 million migrant workers are heading back to their villages due to factory closures and job losses in exporting manufacturers.

However, Japan takes the prize for the worst economic statistics coming out of Asia. December industrial production came in down 9.6%, worse than the METI (the Japanese Ministry of Economy, Trade and Industry) forecast. It is now down almost 21% year over year. METI forecasts a further 4.7% decline in February. The inventory to production ratio soared again. Maybe METI will be correct.

If it is, Japan industrial production will have fallen 28% (non annualised) in four months. It will have fallen by a third in about a year. Nothing in the history of major nations compares. A 28% decline in four months would be more than half of the entire decline in U.S. industrial production over the 3 years and nine months of the U.S. Great Depression.

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The sad reality is that many Asian economies' strength and growth are totally reliant on their ability to export consumer goods to America and Europe and they are just now feeling the full force of the consumer strike unfolding in the developed world.

One contributing factor to the ferocity of this adjustment is the inventory reduction cycle rippling through all levels of industry from the retailer to the distributor to the manufacturer to the raw material supplier. At the bottom of the chain suppliers of basic inputs like BHP are experiencing drastic demand reduction.

This huge one-off inventory adjustment is exacerbating the more normal contraction in economic activity which will undoubtedly stabilise, albeit at much lower levels, in due course. An inevitable consequence will be that the outlook for most corporates will get worse before it gets better. February will see a large number of earnings reports -- few will be positive and just about all forward-looking statements will be extremely cautious, if not downright negative.

BHP alluded to the increase in protectionist sentiment spreading round the world at the moment. Obama's "buy American steel" is one manifestation but a more ominous development for New Zealand is the EU's intention to re-introduce subsidies for dairy production. At this stage no levels have been set and with basic input prices (maize etc) for European and US farmers still relatively high it is by no means certain that this will be devastating for New Zealand farmers. However, it is noteworthy that Whole Milk Powder prices are now back to 2004 levels in US$ terms -- this may say something about the state of global supply and demand right now.

That said, we suspect that being exporters of food commodities where demand is relatively stable will be a better place to be than being producers of metal commodities in the next 12 months. While we have missed a great opportunity to profit from the steep decline in the NZ$ against other equally undeserving currencies like the US$ and pound, we have done quite well by holding over 50% of our currency exposure in A$ in recent months. We suspect that the Kiwi may be nearing the end of its slide against the little Aussie battler and will probably reduce our exposure to the A$ on any further strength.

One interesting trend in January was the backing up of long-term US interest rates. The 10 year bond started the month at approximately 2.1% and finished at 2.85%, which is a huge move in the scheme of this instrument. During January, Bill Gross, the manager of the biggest bond fund in the world, observed that US treasuries offered return-free risk rather than the risk-free return traditionally associated with sovereign debt. We admire the epigram and echo the sentiment.

The back up in yields is an indication that the market is now starting to focus on who is going to buy the avalanche of supply of government bonds that is a direct result of the huge rescue and stimulatory packages being adopted by governments all over the world, particularly the US. With looming problems at home and clear signs of increasing tension between the US and Chinese Governments we suspect that Chinese appetite has diminished significantly in recent months. Absent their support, the Federal borrowing requirement will inevitably crowd out their private sector competition raising borrowing costs for everyone.

In New Zealand the demand for capital has been evident in a rash of further corporate bond issuance while Australian corporates have tapped their deeper capital markets with a flood of equity raisings- Westfield, Lend Lease, Qantas and Newcrest have raised a collective $5 billion odd in the last three days. All of this makes us increasingly conscious that cash might offer low current returns but the perpetual free option it gives us to convert it to equity in a discounted placement or debt at far higher rates is enormously valuable.

The press is already feasting on negativity and this will likely increase as profitability and employment news filters through.

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Normally, we would say that the increasing despair of the media is a pretty good buy signal but, to be frank, we're not so sure this time -- we still feel there is an asymmetric risk that the world economy turns out much worse rather than much better than people and markets are expecting generally.

This is why we are currently attracted to the more certain high returns of corporate debt than the possibility that equities are factoring in more than the appropriate amount of economic turmoil.

Although we may sound negative, there is a bright side to bear markets. Whereas in bull markets prices can move away from you, in the current market patience can be rewarded and there is plenty of time to buy stock in good-quality securities. We have seen this in the stake of Sky City Aces we have been able to accumulate.

We continue to believe that this bear market will produce the buying opportunity of a lifetime - the secret is in preserving capital to be able to participate fully when the risks and value are more quantifiable.

Top 10 Holdings as at 31 January 2009

Cash	40.3%
Sky City ACES	5.6%
Computershare	4.1%
LQD	4.0%
Wotif	3.9%
Methven	3.3%
Santos	3.2%
The Warehouse	3.0%
Michael Hill	2.8%
QBE	2.3%
Mainfreight	2.0%

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