

## REPORT TO THE UNIT HOLDERS IN THE ASPIRING FUND FOR THE MONTH ENDED 31 March 2010

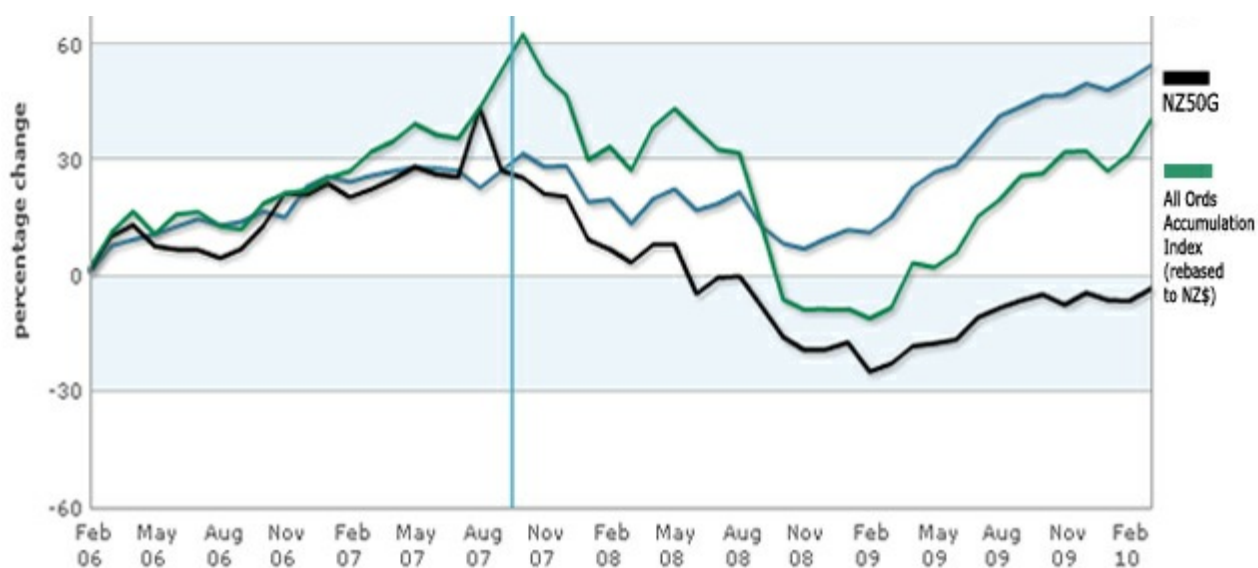
|                                   | Aspiring Fund | NZG50   | ALL Ords<br>Accumulative<br>Index<br>(rebased in \$NZ) |
|-----------------------------------|---------------|---------|--|
| Month March                       | 2.47%         | 3.55%   | 6.75%  |
| Quarter to Date                   | 3.22%         | 1.17%   | 6.18%  |
| Financial Year To Date            | 34.34%        | 26.16%  | 53.03%   |
| Annualised since PIE<br>(1/10/07) | 8.10%         | -10.14% | -3.41%   |

The Unit Price 1st April 2010 was \$1.4480.

The performance for the month of March was 2.47% after all expenses

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

|                      |       |
|----------------------|-------|
| New Zealand Equities | 33.8% |
| Australian Equities  | 34.6% |
| Global Equities      | 1.7%  |
| Hybrid Debt          | 10.4% |
| Cash                 | 19.5% |



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

The quarter and financial year ended with another strong month as the world took comfort from signs of recovery in the US and continued accommodating stances from governments and central banks.

The purported rescue of Greece also helped, but there is considerable room for doubt about the substance behind the undertakings made. A recent story in the New York Times highlights the difficulties. Germany, which has gone through the politically difficult process of raising its official retirement age to 67, is expected to sanction and assist in the bailout of Greece where there are at least 580 job categories deemed hazardous enough to merit retirement on full pension at the age of 50 for women or 55 for men. Jobs in this category include hairdressing- exposure to chemicals, radio and TV presenters- exposure to bacteria on their microphones and musicians playing wind instruments who have to deal with gastric reflux from all that puffing and blowing. It is difficult to imagine, but Greece may well have exceeded New Zealand in developing a strong and widespread sense of entitlement to state largesse without any corresponding sense of responsibility for funding it.

The Aspiring Fund's 2.47% return for the month was less than might have been expected given the amalgam of Australian and New Zealand market returns. The major reason for this was that we were underweight the best performers in Australia which tended to be concentrated in the leaders and resource stocks while our zero weighting in Contact and Fletcher Building, two large caps which provided over 30% of the NZ market's total return for the month, also did not help.

The quarterly performance of 3.2% was reasonably close to the average performance of the New Zealand and Australian markets, with our cash and fixed interest weightings holding the fund back in what was overall a buoyant quarter.

Looking longer term it has been an extraordinary 12 months from what was close to the bottom of the market at the end of March last year.

Back then the preconditions for a strong rally were set simply in terms of valuation ratios and the level of fear. An unexpectedly strong Australian economy and continued government stimulus has helped turbocharge the rally that resulted to extraordinary levels. Given our cautious approach to risk for much of the year, the 34% return for the Fund was probably not bad even if the Australian market made substantially greater gains in New Zealand dollar terms.

It is 2.5 years since the PIE regime was introduced -- a period which encompassed a savage bear market and one of the strongest rallies ever seen. Normally, actuaries would say to wait at least five years before judging a fund manager but this truncated time period has packed in the trials and tribulations of a couple of decades.

The fund's record through that 30 month period of substantially outperforming both the Australian and New Zealand markets suggests our pragmatic approach worked well in those conditions. However our perpetual bias towards risk aversion in a world we still regard as unusually uncertain means that we may well underperform markets if the current bullishness continues!

The portfolio did not change much during last month. We are nervous about the premium being paid for many of the higher growth stocks in the market and our buying tended to be concentrated in stocks where valuations are more easily justified by current earnings like Tower Australia, Adelaide Brighton, Trans Pacific and Restaurant Brands among our larger holdings.

We have also continued looking around for neglected securities and over the month we built up a small position in a debt security issued by Prime Infrastructure Networks (the old Babcock & Brown Infrastructure). It's an unusual debt security issued by an Australian company but listed on the NZX. With security ranking with senior bank debt and the company having been recapitalised by the injection of 1.5 billion in fresh equity late last year we have been happy to invest in this security at a yield of 13%, a far better rate than can be gained from New Zealand corporate debt of inferior quality.

We have been able to buy the security at good relative value probably because it is a strange orphan being listed on a market away from its country of origin. While the investment is small because it was constrained by the availability of the bond it is now trading at 11.5% - a very satisfactory risk-adjusted return.

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We are continually on the lookout for these opportunities with asymmetric risk return characteristics. It is not always easy to identify them at the time -obviously virtually anything in any market offered very good risk-adjusted returns in March last year. but we didn't manage to take full advantage of it.. However, we do seem to find one or two of these a month and they deliver good marginal benefits to the Fund.

The New Zealand dollar has continued to lose ground against the Australian, driven by divergent economic growth rates which are driving interest rate differentials wider. Australia again raised its interest rates in early April, whereas New Zealand is unlikely to make a move before June. On a long-term view the Kiwi dollar is now trading near the bottom of its historic trading range against the A\$ and in early April we have started to trim our 60% exposure to the A\$.

#### COMMENTARY

We feel we have become somewhat stale in our comments about the global economy and the imbalances we see. Our Cassandra-like rants are out of tune with markets while they are benefiting from very low official interest rates and we recognise this. Consequently, while we remain cautious about how the world will emerge from all this, we will tend to shorten our commentary section from that previously written unless we have something fresh to say.

The fact that we were caught short of Australian resource stocks illustrates that we are not as positive about the world as many others.

Economic statistics out of the US do point to a gradual recovery but this is predicated on continued government stimulus and easy money which can't last forever. It will be interesting to see how economies can be weaned off the opiates to which they are now addicted.

Valuations tend to be relatively full in many markets (Japan is the obvious exception) which means it is unlikely that the bull market of March continues unabated. Markets will probably be somewhat choppier than the rest of the year.

On the other hand, valuations are not so high as to scare us away from markets. Arguably New Zealand is even looking reasonable value after lagging global markets for so long.

In the middle ground, we will continue to noodle away with caution, trying to find undervalued companies and value-for-money debt securities where appropriate. Our bias will probably be to "panic early" should the world situation deteriorate, but at the moment we seem to find stocks which are cheap enough to buy although this is offset by our long-established tendency to take profits too early on some holdings.

#### Top 10 Holdings

|                                |      |
|--------------------------------|------|
| Pyne Gould Corp                | 6.1% |
| Transpacific Industries        | 5.1% |
| Tower Australia                | 4.6% |
| Restaurant Brands              | 4.2% |
| Cavotec                        | 3.2% |
| Adelaide Brighton              | 3.1% |
| Ansell                         | 2.9% |
| Methven                        | 2.8% |
| Kathmandu                      | 2.6% |
| Transpacific Preference Shares | 2.5% |

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