

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

	Aspiring Fund	NZG50	ALL Ords Accumulative Index (rebased in \$NZ)
Month May	3.19%	0.90%	-1.17%
Quarter to date	10.09%	6.71%	11.28%
Financial YTD (from 1/04/08)	10.09%	6.71%	11.28%
Annualised Since PIE (1/10/07)	-0.26%	-22.50%	-21.60%

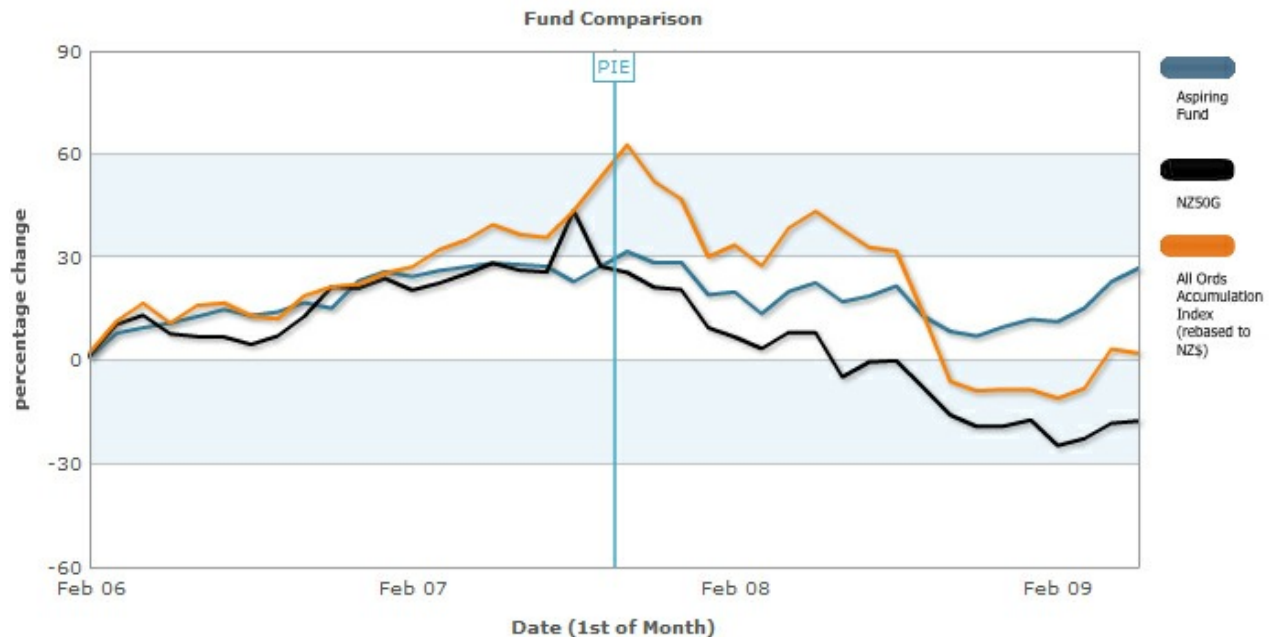
The Unit Price as at 1st June 2009 was \$1.1868.

The performance for the month of May was 3.19% after all expenses.

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

New Zealand equities	28%
Australian equities	25%
Hybrid Debt	26%
Cash	21%

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

Our caution over the past three months has seen us significantly out of step with a period of ebullience in global equity markets and it has been a pleasant surprise to find that this caution has not had more impact on the Fund's return over the period. We are aware that many investors, politicians and central bankers have spotted 'green shoots' everywhere and our inability to interpret the data as optimistically as these experts seems almost churlish or curmudgeonly.

While the strength and duration of this rally has caught us by surprise, our "mistaken" asset allocation has had a limited cost to the fund in terms of performance.

The following table, using data supplied by Forsyth Barr, summarises the performance of various markets (measured in New Zealand dollar terms) for the three months since the rally began in March.

Returns in NZD		
Value as at 31-May-09	3 Month Return	
NZX 50G Index	2,764.17	+9.6%
Australia ASX 200 Accum.	26,011.84	+13.4%
US S&P 500	919.14	-2.2%
US Dow Jones	8,500.33	-5.9%
US Nasdaq	1,774.33	+0.7%
London FTSE 100	4,417.94	+2.0%
German DAX 30	4,940.82	+12.2%
France CAC 40	3,277.65	+5.9%
Japan Nikkei	9,522.50	+0.9%
Hong Kong Hang Seng	18,171.00	+10.9%

Over the same period the Aspiring Fund returned 14.1%.

One very notable feature of this table is the extent to which currency movements have influenced total returns. The NZ\$ appreciated by about 28% against the US\$ over the 3 months which explains why the apparently stellar recent performance of the US market has been negative in NZ\$ terms. The A\$ performed nearly as well with a 25% gain against the US\$ over the same timeframe.

Undoubtedly, the strength of many US share prices can be attributed to the boost their global companies will get from a lower currency, whilst our exporting companies and economy as a whole will be held back by a rising currency. We have long held the view that the aggressively easy fiscal and monetary policy being pursued by the USA would ultimately debase their currency and that both the A\$ and the NZ\$ would have to strengthen as a result.

As a rule, we do not hedge the currency exposure arising from our Australian equity portfolio unless we believe the cross rate is near the extreme of its trading range. We did elect to start hedging when the currency reached 0.775 against the A\$ and we also hedged the US\$ exposure arising from our first tranche of US\$ denominated ANZ paper at a spot rate of 0.495. These decisions were a source of considerable added value to the Fund. Unfortunately, we attempted to finesse the hedging on our second tranche of US\$ ANZ paper and failed dismally. This turned a potentially brilliant investment in to a mediocre one.

From current levels we are less confident about the direction of short term currency movements. However, we have been impressed by the fiscal discipline displayed by the current Government and we expect this to result in a persistently uncomfortable currency for exporters.

With an average weighting of about 50% in equities during this period we should by rights not have done as well as we have. However the 30% weighting in corporate bonds and hybrid debt has produced equity-like returns, even in the face of rising global bond yields.

We believe that this re-rating of our corporate debt has more or less run its course. We are reluctant to sell these securities though as all of them still offer yields to maturity significantly above the cash rate and we still hold about 20% of the Fund in cash. However the potential for capital gains from securities yielding between 7 and 10% is clearly less than when they were yielding 20% or so. At the risk of boring you, we again warn investors that if equity markets continue to rally hard the Aspiring Fund will almost certainly lag the market in the short term.

During May we continued to profit from discounted placements and rights issues -- very simple money making opportunities requiring limited skill and a similar amount of risk. However, investors should be aware that these opportunities will very rarely be available to individual investors as they tend to be confined to professional investors such as the Fund. There were several small opportunities in Australia and a few sub-underwriting opportunities in New Zealand as well as a strategic investor's sell down in Methven which enabled us to top up our holding at the opportunistic price of \$1.12.

We also bought into selected property stocks during the last round of capital raisings which have seen their balance sheets put on an appropriate or conservative footing. Given the pricing of property stocks we think these shares are as good a place as any to hide in the coming period of further earnings contraction.

The portfolio has continued to avoid any meaningful sinkholes to date. Our tendency to keep exposures to any one company relatively low means we are unlikely to ever shoot the lights out with our performance but the corollary to this is that we are unlikely to be blown up by a single bad decision.

Our message remains boringly the same -- we will continue to be careful, opportunistic, pragmatic and hopefully quick on our feet. This may seem inconsistent with the increasing emphasis on bottom-up stock picking we alluded to in last month's newsletter as this tends to imply a longer term commitment to the stocks selected. However, we are selectively doing so. Methven and Cavotec are 2 examples of stocks where we have been sufficiently encouraged by company specific news to rebuild our core holdings.

Commentary

It was an interesting month globally as huge megatrends took hold.

The decline of the US dollar quickened as markets passed judgement on the use of "quantitative easing" and other policies which can only result in currency debasement.

Long interest rates globally rose sharply -- 10 year US Treasury bonds are now at 3.6% compared with just over 2% in December (but still below the levels of around 3.8% in November). The optimists interpret this as a leading indicator of future world growth and inflation but we just see it as a logical reaction to the avalanche of government debt which needs to be issued in the US and around the world to fund extravagant deficits. Inflation is probably inevitable some time but we think deflation is more likely in the short term. Households globally are reducing consumption and attempting to increase saving- an entirely rational reaction to collapsing asset prices and rising unemployment. However, prudent household behaviour carries an inevitable transitional cost to economies geared towards excessive debt- funded consumption which includes most of the English-speaking world.

The weakness in the US dollar has flowed into the price of some global commodities such as oil which has increased to \$US 66 a barrel despite muted global economies.

The US dollar is a "currency of convenience" for many commodities so US dollar weakness can cause the price to rise to effectively maintain the same global level. Our portfolio contains a graphic example. We own a small position in a gold fund in Australia. The price of the fund tracks the gold price very closely and the US\$ price of gold is now at exactly the same level as when we bought into the fund. Unfortunately, the A\$ price is nearly 20% below our cost meaning our investment is underwater by a similar amount.

There were mildly positive global economic news in some areas such as housing sales (UK and US), retail sales (Germany and the UK) and industrial production (Japan +5.2% in April over March).

We view these "green shoots" as being somewhat nebulous. Any improvements in housing figures -- either pricing or volume -- have globally all been off very weak bases, and are a relatively short-term reaction to lower short-term interest rates. With unemployment continuing to rise around the world and rent to house price ratios falling we expect more pressures in this area.

There are some signs of increasing industrial production globally with China apparently leading the charge. We believe it is still too early to know whether such figures are merely a function of the large and volatile inventory adjustment process the world has been going through. Undoubtedly, in some areas inventory got unsustainably low and we have seen a pickup in production as a result. We suspect many companies will see a short rise in sales only to experience a second dip downwards.

Locally, the majority of March year reporting companies produced acceptable to good results in the circumstances. For us, the standout was Methven which, in keeping its earnings static and its earnings per share to an approximate 20% decline, has proved what we have always suspected, that this is one of the most talented management teams in the market.

The budget was the big economic news locally and a projected deficit of 4.5% of GDP in 2010 suggests that we have one of the more sensible governments in the world. The projected Australian deficit for next year is similar to ours, but it appears as if the UK number will be approximately 12% of GDP and the US and Japan in the range of 8-9% of GDP.

The imbalances caused by these huge global deficits and the consequent debt mountains they are producing look to us to be as scary as the global financial crisis itself -- the side-effects of the cure may be worse than the condition. About the most optimistic conclusion we can come to is that the need for future tax increases or expenditure cuts will severely mute the next economic recovery.

Top 10 Holdings at 31 May 2009

ANZ Hybrid	12.0%
Sky City Aces	7.4%
Santos	5.7%
Pipe Networks Ltd	4.7%
Cavotec	3.8%
Methven Ltd	3.7%
Dexus Property	3.5%
Fairfax debt	3.3%
The Warehouse	3.1%
Nufarm debt	2.4%

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