

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

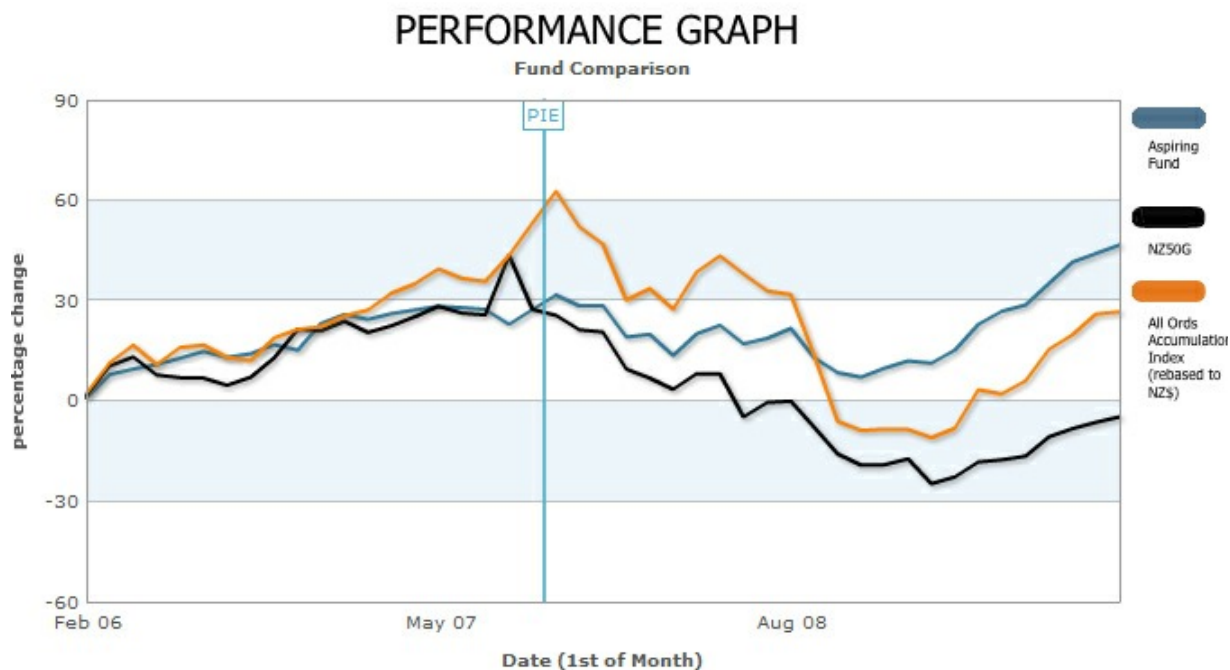
	Aspiring Fund	NZG50	ALL Ords Accumulative Index (rebased in \$NZ)
Month October	1.83%	1.73%	0.53%
Quarter to Date	1.83%	1.73%	0.53%
Financial Year To Date	27.31%	24.14%	37.89%
Last 12 Months	35.25%	14.00%	34.76%
Annualised since PIE <small>(1/10/07)</small>	7.00%	-12.72%	-8.75%

The Unit Price 1st November 2009 was \$1.3723.

The performance for the month of October was 1.83% after all expenses

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

New Zealand Equities	33.0%
Australian Equities	37.8%
Corporate Credit	15.1%
Global Equities	1.8%
Cash	12.3%



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

For the 10th time in the last 11 months and the 8th month in a row the fund recorded a positive monthly performance in a world that became somewhat more nervous about the long-term future as evidenced by the mixed returns from global markets for the period.

The mixed performance from global markets in October coincided with more investors and commentators joining the band of sceptics who have trouble identifying green shoots which will survive the hangover when the fiscal and monetary party being conducted globally comes to an end.

Some of the best evidence for the change in mood came in the US where the S&P 500 declined by 2% despite another generally good earnings season. Unfortunately the market correctly identified that the positive surprises came from cost-cutting and US dollar weakness rather than any pickup in demand. Australia and all major European markets all reported negative returns in their own currencies- not surprising given their stellar performances over the previous 3 quarters..

New Zealand, though, recorded its eighth straight monthly gain. We have trailed other markets' stellar increases this year but there is a certain tortoise versus hare element to our economy's steady climb out of recession without the aid of huge government stimulus programmes.

We talked last month of taking a more conservative stance but our equity weighting ended the month broadly similar to that seen in September. Some explanation is required.

Firstly, we added a new core holding during the month in the form of Pyne Gould Corporation, which, at 6% of the fund, is now our largest holding. This purchase obviously required financing and soaked up a reasonable percentage of the proceeds of our earlier selling.

To reduce our net exposure to the equity market we held a number of "short positions" during the month in liquid Australian equities. We are not a hedge fund, but we will use such shortselling at the margin as a means to a) make money when we see overpriced shares and b) control our net exposure to the market, especially when we are concerned about market levels and short-term direction. We closed out most of these positions prior to the end of the month following a period of significant weakness in the Australian market. This shortselling added approximately 0.2% to our returns for the month and again emphasises the value of having a flexible mandate.

More on the Pyne Gould Corporation investment which we currently view as a long-term core holding for the fund: Many unit holders will know that Aspiring director Stephen Montgomery has been a member of the PGC board for a number of years. He will stand down as part of a wider programme of board changes which will take effect when shareholders have approved the appointment of the new board members. He took no part in the decision-making on behalf of the Fund.

After investigation and discussions with management we concluded that the recapitalisation of this company gave one of the best opportunities we have seen in the New Zealand market for some time.

PGC's major business, Marac, has been struck by bad property loans as previous management drifted off course, but we believe the finance company will eventually return to making the 20% return on shareholders funds achieved for the most of the past decade.

Indeed, one could argue the outlook for the business is even stronger than it has been historically, with most finance company competition dead or crippled - and certainly most of those surviving are likely to struggle to meet new Reserve Bank capital criteria pencilled in for midway through next year. One could also run the argument that bank behaviour in the face of current turbulent times is opening up opportunities for Marac. The options to grow this business are many, either organically or via acquisitions, although for a variety of reasons we believe it will take 18-24 months for Marac to get profitability up to historic levels again. When it does so we would expect the PGC share price to be considerably higher than where it stands today.

The second largest PGC business, Perpetual Trust, is of a similar quality to Marac in terms of the returns it makes on capital employed including the goodwill on the balance sheet associated with the business.

One can debate the merits of the new funds management operation, the holding in Pyne Gould Wrightsons and the value of the distressed property loans taken on to the parent balance sheet, but the reality is that the long-term attractiveness of these two core and established portions of PGC when measured against the opportunity to buy in at 25% discount to net asset value made this a compelling investment.

There were not a lot of other huge highlights or low lights in the portfolio during the month, our normal position of not holding Telecom was probably the largest single factor in assisting relative returns. We battled against a tough market in Australia, assisted in part by the shortselling mentioned above.

COMMENTARY

There is a strong element of a stuck record in our views on the future.

We can see nothing but long term harm coming from the fiscal and monetary policies being pursued by most developed world governments and central banks. We have a problem which has been developing for 3 decades as a direct consequence of debt-funded consumption with the debt funding willingly supplied by the developing world. Responses which seek to maintain consumption and asset prices at unsustainable levels and directly penalise savers by setting interest rates at artificially low levels may postpone the day of reckoning but they will not avert it.

Recognition of this is evident in much household behaviour with savings rates rising and debt being paid down- particularly in the United States but, unfortunately, it is not an easy message to sell politically and there is scant evidence anywhere of politicians with greater interest in the long term well being of their country than the short term well being of themselves.

Regrettably New Zealand does not seem to be an exception. We have applauded Bill English's refusal to engage in self-defeating and unsustainable short term stimulus measures but we are appalled by his refusal to grasp the nettle of unsustainable long-term fiscal problems like the cost of National Super. If ever a political party had the opportunity and mandate to show genuine leadership and courage this was it but we will all live to regret his miserable and craven cowardice in maintaining the eligibility age at 65. It pains us deeply to acknowledge that, once again, Australia has shown leadership and vision beyond the scope of our economic architects.

These concerns are all medium term and, in the short term, Keynes' famous "animal spirits" are exerting far more influence on financial markets.

The challenge for fund managers like us is managing the risk inherent in being moderately fully invested to take advantage of the short term optimism engendered by policies we expect to have disastrous long term consequences. So far we have managed to participate in the post-February rally, whilst remaining fairly "cashed up" (we regard our corporate credit and bond positions as being nearer cash than equity). We have also paid close attention to our overall portfolio liquidity as we paid a high price for the illiquidity of some of our positions in small cap stocks in 2008.

Chuck Prince, the ex-CEO of Citibank, defended the bank's behaviour during the madness which engulfed US financial markets for most of the last decade by saying "as long as the music is playing you've got to get up and dance". Unfortunately for him (and disastrously for his shareholders) Citibank had as much chance as an elephant of leaving quietly when the music stopped whereas our Fund's activities and positions are mouse-like in size. Effectively we need a lot less than a day's average liquidity to make material changes to our asset allocation - another of the many advantages of being small.

The fund is up by more than 30% this year and we will almost certainly give up some of this performance if markets start to focus on the issues which concern us. A significant correction would be inevitable at that stage but we will still be better off for having adopted a pragmatic approach to market behaviour than if we had allowed our long term bearishness to dominate our thinking.

There are signs that growth is recovering or likely to recover in many parts of the world. The IMF, for example, is now forecasting world growth in 2010 of 3.1%, up from its 1.9% forecast in April. New Zealand has officially come out of recession with a 0.1% growth rate in the June quarter and indicators mostly around the property and residential building market would suggest that growth.

Whilst there are many positive indicators both locally and globally the gap between what companies are actually experiencing now and what they expect for the future continues to widen to such a degree that a large leap of faith is needed to believe the optimistic forecasters. A quote from the recent Treasury October economic outlook mirrors the BNZ material we reprinted at length last month:

"In contrast to these forward looking indicators, firms' experience of activity, employment and investment in the September quarter all remained deeply negative. This has created a divergence between the survey's measures of activity experienced and expectations that are the widest on record for a number of measures."

The Reserve Bank, in its October statement, certainly showed enough doubt about the likelihood and strength of a recovery to promise us at least another eight more months of easy money.

The recent Freightways update of a 5% decline in September quarter revenues is a good indicator that industrial economic activity is still falling.

Bloomberg ran a story on October 29 headlined "Bears meet their Waterloo" after the US recorded a 3.5% GDP growth rate for the September quarter which the market celebrated with a 2.5% rise on the day. The next day the market gave up all those gains and more and has struggled ever since. Insider selling is swamping insider buying by over 10 to 1 in the United States- almost as reliable an indicator as headlines like the Bloomberg one that the market is topy.

About half the GDP growth came from the "cash for clunkers" program, which effectively just brought forward car purchases. The other half was mostly due to inventory rebuilding, a reversal of the overenthusiastic destocking in the first half of the year.

The level of shortselling of shares in both the US and Australia has increased markedly over recent months (from 14% to 19% of ASX turnover according to Goldman Sachs JBWere).

Generally, we would suspect that such shortselling is carried out by more sophisticated investors.

Some see the lift in share and other asset prices over the past six months as a natural reaction to a recovering global economy, while others, more worried about long-term issues, view current asset prices as close to "bubble" levels.

To quote a wonderful piece of rhetoric from David Roche of Independent Strategy:

"Bubbles mostly burst for reasons unforeseen by oracles, shredded by their own lack of logic on a day indistinguishable from others at its dawning."

With many global markets having had a down month during October (and locally with the failure of the Myer float in Australia) we feel the unbridled optimism of some investors has been harnessed somewhat, which is healthy.

We will continue to be cautious, unsure of how the conflicting forces of improving short term growth and deteriorating long term Government finances will play out. However, there is a rash of new issuance coming to the New Zealand market in both recaps like PGC and PGW or new floats like Kathmandu and at least 2 others we are not allowed to disclose. Some of these will undoubtedly prove attractive due to the inevitable price discount necessary to ensure an IPO's success.

Top 10 Holdings at 31 October 2009

Pyne Gould Corp	6.3%
ANZ Tier 1 Debt	6.0%
Transpacific Industries	5.9%
Tabcorp Holdings	4.1%
Ansell	4.0%
Methven	3.4%
Adelaide Brighton	3.2%
Cavotec	3.1%
Fairfax Finance	3.0%
Freightways	2.9%

Aspiring Asset Management Ltd

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