

REPORT TO THE UNIT HOLDERS IN THE ASPIRING FUND FOR THE MONTH ENDED 30 SEPTEMBER 2009

	Aspiring Fund	NZG50	ALL Ords Accumulative Index (rebased in \$NZ)
Month September	1.78%	2.04%	5.23%
Quarter to Date	11.90%	13.05%	18.82%
Financial Year To Date	25.00%	22.30%	37.17%
Last 12 Months	27.50%	2.30%	10.40%
Annualised since PIE (1/10/07)	6.33%	-13.95%	-9.34%

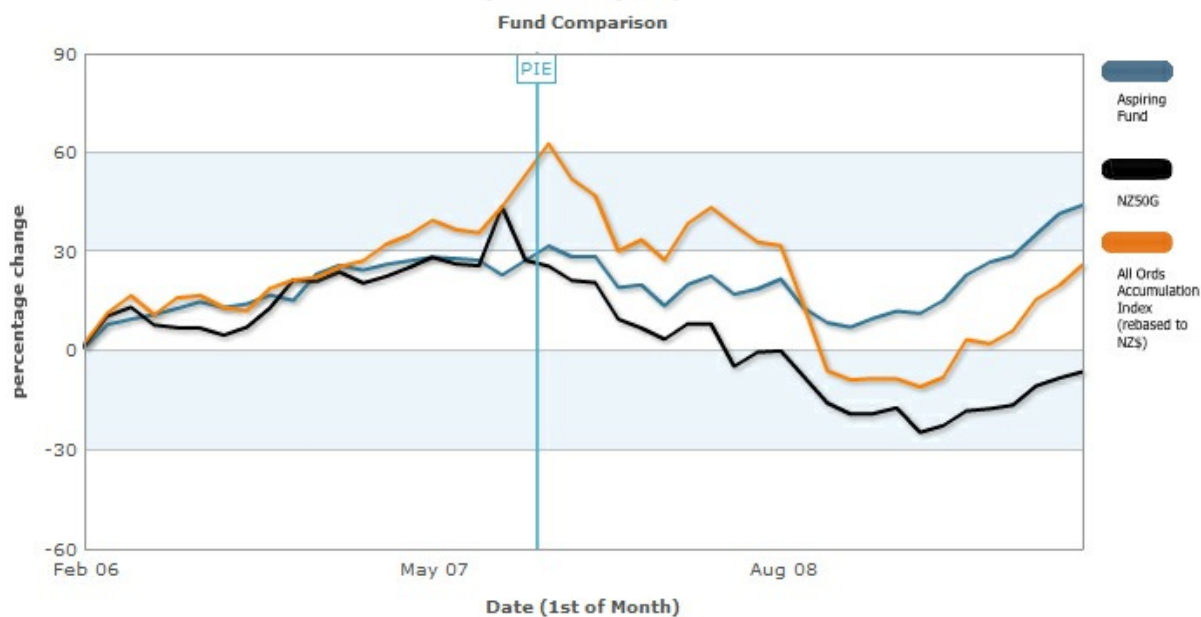
The Unit Price 1st October 2009 was \$1.3476.

The performance for the month of September was 1.78% after all expenses

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

New Zealand Equities	28.3%
Australian Equities	44.4%
Global Equities	1.7%
Hybrid Debt	15.3%
Cash	10.3%

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

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August was another strong month for global equities; remarkably the fifth in a row, as investors' appetite for risk increased and fear receded.

Ironically, the increasing global confidence has tended to make us more apprehensive as valuations have become increasingly stretched unless we can be certain that a sustainable global recovery is under way. While such an outcome cannot be ruled out, we attribute a fairly low probability to it for the reasons we have articulated virtually every month since the onset of the global financial crisis. However, consistent with the neutral stance signalled in last month's newsletter we "stayed at the party" throughout August, and the performance for the month shows that we have benefited handsomely by doing so. The fund's performance was even better in light of an equity weighting which averaged around 70% throughout the month. Our style and cautious approach to asset allocation is such that we should probably outperform markets in poor conditions and underperform them in boom times -- any market-beating performance in an up month is a gratefully accepted bonus.

This performance was based on a large number of small wins rather than any one big position delivering excess profits. We participated in a large number of recapitalisations in Australia and, while our individual allocations tended to be modest, all of these contributed positively to the Fund's performance. We also benefited from a positive market reaction to the result announcements from virtually all of the companies we own during the month. Our residual hybrid debt exposures in Australia also performed strongly as the market re-rated their prospects on the back of successful capital raisings.

As signalled in previous newsletters we are refocusing on bottom up stockpicking and reducing the influence that global macroeconomic factors have had on stock selection over the past couple of years. This worked particularly well during August and new additions to our top 10 holdings like TPI, Ansell and Adelaide Brighton are all examples of holdings built up through this process. The global overview will continue to drive any asset allocation shifts.

It was no accident that the new names appearing in our top 10 holdings were all Australian-based companies. We are continuing to push more money into Australia. The intrinsic strength of the economy, likelihood of monetary tightening well ahead of New Zealand, better liquidity and greater diversity of companies are all factors in this. We expect that the divergent economic growth rates will ultimately see the cross rate move strongly in favour of the A\$ but, for August, the NZ\$ rallied about 2.7% against the A\$. We hold our Australian exposures unhedged so this had a correspondingly negative effect on portfolio performance for the month.

We also ventured back in to the US equity market in a very small way during August by putting 1.8% of the Fund in to Microsoft. We believe that the US market has tended to re-rate the lower quality cyclicals and left behind some of the higher quality global companies. Such global companies have an intrinsic hedge against the decline of the US dollar and are reasonably heavily exposed to high growth emerging markets. Microsoft has a product upgrade program that appeals to us. We will monitor our success as global stock pickers before putting too much money into such areas.

In terms of our total exposure we now have approximately 63% of our money offshore with about 8% in US\$ assets and 55% in A\$ assets. We have been justifiably bearish on the US\$ for some time and we remain long-term bears but the NZ\$ has had an extraordinary run against it and we feel some short term diversification out of the two Antipodean currencies is warranted. The level of complacency in global equity, currency and bond markets has contributed to valuations which seem out of line with the reality of the challenges still facing the global economy and banking system. Any increase in risk aversion is likely to result in short term US\$ strength.

As a result of this view, on 1 September, we liquidated approximately 10% of the equities in the portfolio. That we were able to do so reflects the increased liquidity we have deliberately engineered into the fund in the past 18 months.

We do not necessarily believe that the equity party that began with such gusto in March has run its course. However, the divergence between economic and market performance has become extended and we think the short term risk of a meaningful correction is high.

Also, we sense there will be more recapitalisation opportunities in both New Zealand and Australia in the next few months and we will use our strong cash weighting to actively participate in these normally moneymaking deals, probably in place of greater vanilla equity exposure.

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Calendar year-to-date the Fund is up 28.9%- a lot better than any of our expectations at the start of the year. We are prepared to forego some upside in order to protect these hard-fought gains.

COMMENTARY

The month was dominated by the reporting season out of Australia and New Zealand.

In New Zealand the results were evenly mixed between disappointment and positive surprises but the commentaries for 2010 were almost universally downbeat (and this, after the majority of companies have already reported 20% + declines in earnings in 2009)

Broker Forsyth Barr reported that although the overs and unders of the season were evenly matched it downgraded 17 companies and upgraded 11 in terms of 2010 profits -- one assumes this asymmetry is coming from company guidance. Some downgrades have been savage, and the upgrades more moderate.

We have now heard commentators talking about green shoots turning into saplings and the NBNZ business confidence figures continue to rise, but our listed companies remain cautious. The following are some selected quotes from the reporting season:

Hellaby Holdings

Looking ahead, Mr Williamson said that the company was unable to predict when economic conditions would sustainably improve . "For the first two months of the current year, market conditions have remained difficult in the agricultural, equipment and retail sectors. We are yet to encounter the so-called 'green shoots' in our industry sectors."

Cavalier Corporation

Our outlook for the next financial year (2009/10) is for the residential sector to remain relatively flat and for further softening in the commercial sector.

Freightways

Until New Zealand experiences a sustained recovery in the economy, performance of the express package & business mail division is expected to continue to track behind the prior year.

Sky TV

Fellet said advertising revenue was down 17 per cent for the fourth quarter (cf 10% over the year) and he saw no sign of recovery since the start of the 2009/2010 financial year.

Some companies such as Hellaby and Cavalier are expecting profit recoveries from cost-cutting, but cost-cutting can only drive profitability improvement for a short time in the absence of revenue growth. There is some sign of a future pickup in the residential building area, fuelled by low interest rates and immigration. July residential building consents were down only 15% from the year earlier which is an improvement on recent months (typically -30%).

The productive export sector is struggling with a high dollar as illustrated by the results of Delegats which, although reported an excellent profit result for the June period, warned of a decline next year due at least in part to the lagged effect of the rise in the currency. The same effect will be being felt by beef and lamb farmers who have all had a reasonable year by their standards, but face more difficult times ahead if the currency stays up.

In Australia the result season was relatively upbeat, with revenues more resilient than in New Zealand, in part due to greater government stimulus in that country and, probably more significantly, simply due to the stronger underlying dynamics of the economy.

According to data compiled by Credit Suisse 25% of companies outperformed profit expectations and

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11% underperformed. Price reaction to the outperformance -- and even in some cases companies simply making expected numbers -- was often extreme.

Overall, the market was up 9.5% during the six weeks of the reporting season. According to Credit Suisse profit expectations for 2010 and 2011 have increased by 2.6% and 3.7% respectively over the course of the profit season. However, forecasts for these two years were reduced by about 6% in the three months leading up to the profit season as companies "signalled" in one way or another that conditions were tough.

Implicit in the numbers above is that multiples have expanded, perhaps as investors have become more confident of the analysts' forecast being met.

Interestingly, Credit Suisse estimates consensus 2010 profit growth at -2% and 2011 at 27%. The forecasting of huge growth two years out is a long-held broker habit that seldom reflects reality, although the optimists could be vindicated under the assumption of strong economic growth. These forecasts are dependent on a pickup in the resource sector, both in terms of its own earnings and the business it feeds into many service organisations. A positive view on Australia depends on continued strength in China, which is a story for another day (we have doubts that Chinese growth is as much as currently claimed officially and that high levels of growth can be sustained).

At the least we believe markets have headed into fair value territory based on relatively optimistic assumptions, building into prices a strength and speed of recovery which makes us a little bit uncomfortable.

Top 10 Holdings at 31 August 2009

ANZ Hybrid	6.4%
Trans Pacific Industries	5.5%
BHP	4.1%
Cavotec	3.6%
Adelaide Brighton	3.6%
Methven Ltd	3.4%
Santos	3.2%
Fairfax debt	3.2%
Ansell	2.9%
Sky TV	2.7%

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