Lifetime Income Limited
Monthly Portfolio Report
As at 31 May 2019
Wholesale Investor

lifetime
RETIREMENT INCOME

Market Commentary

Global equities suffered a sharp drop in May, ending the market's four-month winning streak. The impact of new tariffs finally began to seep into economic data, with many leading indicators falling below estimates. The S&P 500 index finished 6.4% below the April close, while the Japan Nikkei and the Euro Stoxx 50 were down 7.4% and 5.1% respectively.

The universal decline of all major indices in May was a fair reflection of how sentiment has shifted. The reescalation in trade tensions caught investors by surprise after the markets had rallied in March and April on expectations of a deal. Instead, the rhetoric grew more caustic, and confidence in the global economic outlook subsequently took a knock.

In the US, a muted inflation rate combined with an unexpected fall in manufacturing activity and retail sales means President Donald Trump may now get what he wants: lower interest rates. The rate hike last December is now being widely criticised as a mistake, but the potential for a more dovish Federal Reserve (Fed) going forward may give support to equities.

There wasn't much cheer at a corporate level in May, either. Analysts on Wall Street have been revising down full-year estimates while supposedly hot IPOs like Uber failed to meet earlier price expectations.

In Asia Pacific, China's central bank PBOC and the banking regulator were forced to bailout a regional bank because of poor asset quality. While this is the first regulatory takeover in more than two decades, the world's second-biggest economy has hundreds of regional banks, many of which could come under pressure should the economic growth continue to slow. It's a risk we will continue to monitor closely.

While the old mantra of "sell in May and go away" is likely to be doing the rounds again, we see the market risk-reward as more balanced. Our investment approach - which focuses on diversification, high-quality companies and long-term growth themes - has proven effective in riding out short-term volatility in markets.

This document tells you how the Lifetime Income Fund (**Fund**) has performed and what fees were charged. The document will help you to compare the Fund with other funds. Lifetime Asset Management Limited (**Lifetime**) prepared this update in accordance with the Financial Markets Conduct Act 2013. This information is not audited and may be updated.

Portfolio Commentary

The Cash Fund rose 0.26% before fees and taxes in May, outperforming its benchmark the S&P/NZX Bank Bill 90-day total return index.

Prior to May, it seemed President Trump was all talk regarding tariffs. But now the market has had to price in the what if he is deadly serious potential. Instead of expecting a slowdown, the market began to set its mind towards a global recession as real-world examples of the effects of tariffs became more evident. US Interest rates consequently plummeted. Indeed, after a grinding cycle of US interest rate hikes, now more than 2 interest rate cuts are being priced into the market.

As was expected back home, the RBNZ pulled the trigger on May 8th cutting its Official Cash Rate (OCR) from 1.75% to 1.5%. At first, the cut seemed like more of an insurance policy, as it couldn't really be justified by the relatively strong state of the New Zealand economy. However, with the economy of our second largest trading partner, Australian, weakening and the global tariff debacle, that insurance cut proved prescient.

Lifetime VIP Balanced Fund

The Kiwi Wealth Fixed Income PIE matched its benchmark in May. Whilst there was a drag from our relative underweight to longer maturity bonds whose interest rates fell (and therefore price rose), New Zealand company bonds did particularly well amidst a desperate search for yield.

The Kiwi Wealth Growth Fund (Growth PIE) fell 4.77% after tax and fees during the month, 0.2% ahead of the benchmark which fell 4.97%. Our underlying equity strategies had mixed performances with Global Thematic outperforming, Core Global in-line and Global Quantitative running behind. The alternatives investments, which are a diversifier to equity risk, were another positive contributor to relative performance.

Lifetime International Companies Fund

Global Quantitative trailed the benchmark by 104 basis points. Holdings in Financials were the main headwind for the month as the rally in treasury yields weighed on the banks. Not all Financials holdings were affected however, with Australian health insurer Medibank Private benefiting from the surprise Scott Morrison victory in the Australian elections, and European insurers Munich Re and AXA also outperforming. Technology was another source of underperformance, primarily due to losses in US chip companies as the Whitehouse restricted trade with Huawei. On the positive side, holdings in social gaming developer Zynga and Canadian wireless operator Rogers Communication performed well.

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