Lifetime Income Limited
Monthly Portfolio Report
As at 30 June 2019
Wholesale Investor

Market Commentary

June saw a counterintuitive alignment where both stocks and bonds rallied simultaneously. The venerable Dow Jones Industrial Average recorded its best June since 1938. Meanwhile, interest rates on bonds plummeted (i.e. prices went up), and the global outstanding of negative-yielding debt (yes, this is possible) climbed above $13 trillion. In fact, almost all asset prices soared, with oil, gold and other commodities also charging ahead.

The culprit? The U.S. Federal Reserve and other central banks around the world finally coming to the party with the willingness to cut rates, just as President Trump's persistence on tariffs was starting to show up in economic data and eat away at business confidence.

Central banks usually signal interest rate cuts when they have a grim outlook on economic growth, but the markets took the bad news as good, embracing the liquidity that comes with monetary stimulus. Think of this as the market on a sugar high, as opposed to having a wholesome meal to sustain it throughout the long term. The low-interest rate environment further underpinned the stock market's strength by making investors hunt high and low for any slither of extra return they could find, lifting risk appetites - as save-havens like government bonds provided little, and, in the case of some countries, negative returns.

There was some welcome news as the month closed, with President Trump achieving a temporary truce over the trade-war with Chinese President Xi Jinping, at the G20 summit in Japan. However, it's anyone's guess how long this truce will last. Experience tells us not to place too much hope in hands with rampant twitter fingers.

Can this calm continue? That depends on the back of the hard evidence provided by the earnings season, which will kick off in the next few weeks. There's a good chance that proof of the global geopolitical tensions that increased during the first half of the year could finally rear its ugly head, materialising the prospect of weaker growth.

With all the uncertainty out there, it's worthwhile reiterating that we continue to focus on investing in high-quality companies over a broad range of sectors and geographies. Although the effects of trade-tensions may become more tangible through company earnings releases, we are confident we are well positioned to face the resulting headwinds.

Portfolio Commentary

The Cash Fund rose 0.22% before fees and taxes in June, ahead of its benchmark the S&P/NZX Bank Bill 90-day total return index.

Global interest rates continued to decline in June. The US Federal Reserve has come to the party with the market now factoring in up to three 25 basis point interest cuts to their overnight rate (Currently 2.375%) in the next year. The clear culprit is the Tariff War which is bleeding into broadly weaker economic numbers and lower business confidence. This is a global trend, as talk of unwinding quantitative easing (aka QE or money printing) in Europe has been reversed with the European Central Bank hinting at more if needed and even more negative short-term yields. Ironically, much like the stock markets, company bonds have rallied in a desperate global search for returns.

New Zealand cannot be immune from these moves – and it has not been. While first quarter NZ GDP came in a bit stronger, aided by stronger than expected export commodity prices, things are weakening at the margin here too. The Reserve Bank left its Overnight Cash Rate (OCR) at 1.5% in June after cutting by 25 basis points in May. However, it's odds-on that there will be another cut in August with maybe another to follow in the next 12 months.

Lifetime VIP Balanced Fund

The Kiwi Wealth Fixed Income PIE returned 0.50% in June slightly underperforming its benchmark which rose 0.64%. Whilst there was a drag from our relative underweight to longer maturity bonds whose interest rates fell (and therefore prices rose) this was largely compensated for by a strong rally in company bonds.

The Kiwi Wealth Growth Fund (Growth PIE) rose 4.55% after tax and fees during the month, 0.19% ahead of the benchmark which rose 4.36%. Global Quantitative finished the month slightly behind its benchmark, while Global Thematic had a strong June in both absolute and relative terms. Our alternative investments made a small positive contribution to relative performance.

Lifetime International Companies Fund

Global Quantitative finished the month 0.2% behind the benchmark with gains in Financials led by Blackrock, Hong Kong Exchange and Ping An not quite offsetting a drag from Healthcare companies both in the US (Eli Lilly) and abroad (H. Lundbeck). The strategy has been hampered recently by its preference for cheaper "value" companies which have tended to perform strongly over the long term, however the recent impacts of technology and low

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