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

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RETIREMENT INCOME

Market Commentary

Ahead of the Northern Hemisphere summer slowdown, July proved to be busier than anticipated with a host of themes keeping the team busy. While the bellwether S&P 500 index only closed up 0.5% for the month, it touched record highs on a number of days in July. Coupled with continued strength in the USD (the US$ index closed up 1.7% for July), the US was a clear bright spot globally. Much of this was due to a flight to safety as the US economy remains in relatively better health than many of its global counterparts. A late assist from the Federal Reserve which lowered its benchmark interest rate by 25 bps with aggressive cuts ruled out also serving to give the dollar a late boost.

Outside of the US things were slightly murkier. Trade war tensions showed no signs of easing which is a clear hindrance on growth and is increasingly cited by companies as a risk factor/impediment to growth. Emerging markets continued to underperform. The ECB have indicated the likelihood of more easing/stimulus later this year to prop up a stagnating economy. It has been less than a year since the ECB formally ended Quantitative Easing (essentially the buying of government/corporate bonds to add liquidity and lower interest rates). This is a concern that we will need to monitor closely. Across the channel, Brexit got worse with the appointment of Boris Johnson and his mandate to leave the EU come what may by October 31st. Sterling was down nearly 4% in July and the stagnation in the UK economy continues. Certain market prognosticators list the chances of a "hard" Brexit at up to 30% but this is not our base case.

It is easy to get lost in negative news but one important bright spot in July was corporate earnings releases that were better than the market expected with guidance for the remainder of the year/2020 solid. The team will continue to closely monitor these and other themes as they develop.

Portfolio Commentary

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

If June was a month where the world felt like it was sliding into a black hole, July was more of a mixed bag. Economic data has been weaker worldwide, particularly industrial production which has been hit by trade concerns. However, company earnings have been a bit better than expected. Brexit remains a big old mess and few in the markets believe that new PM Boris Johnson can solve it easily. The US Federal Reserve was widely expected to cut interest rates on Aug 1st (and, at time of writing it did just that) but, like the ECB (European Central Bank) held back from ultra-aggressive moves. Interest rates moved up a little in the US as the doomsday scenarios failed to play out (yet?).

New Zealand interest rates declined a shade, largely a factor of an increasingly dovish Australian Central Bank and by dint of our overnight rate, the OCR (Official Cash Rate) at 1.5% being now considered high yielding! Our economy does appear to be weakening a bit with logs, construction and tourism more sluggish than expected albeit offset by huge demand for protein from a China beset by pig disease. End of month pricing expected the OCR to decline to ~1.0% by February 2020 with now a 100% chance of a 25-basis point cut on August 7th.

Lifetime VIP Balanced Fund

The Kiwi Wealth Fixed Interest Fund (Fixed Income PIE) returned 0.52% in July matching its benchmark which rose 0.5%. Whilst there was a drag from our relative underweight to longer maturity bonds whose interest rates fell (and therefore prices rose) this was offset by strength in company bonds and our position on the US interest rate curve.

The Kiwi Wealth Growth Fund (Growth PIE) rose 1.77% after tax and fees, 0.44% ahead of the benchmark which rose 1.33%. Our underlying equity strategies had mixed performances and outperformed in aggregate. The alternatives assets, which are a diversifier to equity risk, were another positive contributor to relative performance and gaining in part from holding government bonds.

Lifetime International Companies Fund

Global Quantitative was behind benchmark by 42 basis points. Stocks in the industrials sector were some of the weaker performers, including machinery manufacturer Sandvik and rail freight operator CSX. On the positive side of the ledger Starbucks, Twitter and A2 Milk were strong performers.

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