Lifetime Income Limited
Monthly Portfolio Report
as at 31 May 2020
Wholesale Investor

Market Commentary

US equity markets continued to rally in May, aided by cautious optimism over various levels of reopening of the economy and easing restrictions, with the S&P 500 bouncing 36% off its March lows, and finishing the month just 10% below its all-time high set in February. New Zealand led the world in moving to our Alert Level 2 in May allowing for a great degree of freedom and increased economic activity. Many other countries also either eased lockdown restrictions / announced plans to reopen their respective economies / borders in some fashion. Alongside this strong equity performance, markets saw much lower volatility with the VIX index (a measure of volatility) decreasing nearly 20% over the month and the wild daily price swings for share markets seen in March and early April absent in May. Despite the relatively rosy picture painted by stocks, economic data for May presented a much bleaker picture. While US Composite PMI rose to 36.4 from April lows, nonfarm payrolls dropped by 20.5 million (the April figure that is reported in May), whilst the unemployment rate increased from 4.4% to 14.7%. CPI YoY decreased from 1.5% to 0.3% and Retail Sales MoM declined 16.4% compared to an expected decrease of 12%. Markets continue to look through these challenging economic numbers focussing on various permutations of a “V” or “U” shaped recovery.

Framing much of the optimism over a potential recovery from coronavirus induced woes is the potential for a vaccine and initial signs of success. Moderna (a large US biotech company) was the most notable example of this, announcing that an early stage human trial for its coronavirus vaccine successfully produced covid-19 antibodies in participants. The biotech company said a large clinical trial to determine its effectiveness would follow in July. Markets are also taking great comfort that virtually every major biotech/pharmaceutical/university laboratory is working in a reasonably collaborative manner to find a vaccine. Markets were also buoyed by the continued theme of stimulus/support from central banks globally. In Japan, Prime Minister Shinzo Abe announced further stimulus that equates to an incredible 40% of Japan’s GDP to combat the coronavirus slowdown. Notably, China’s central bank in May announced that it will step up counter-cyclical adjustments to support the economy and make monetary policy more flexible to fend off financial risks. Government bond yields have largely digested the raft of rate cuts and stimulus packages and the huge amounts of liquidity being pumped into global fixed income markets have served to stabilise yields which were much steadier in May than in prior months.

Lastly, May brought increased tension in the on/off cold war between China and the United States. Tensions with China were renewed after President Donald Trump threatened trade tariffs as a result of China’s perceived role in the spread of the coronavirus. Further tension arose when it was announced that The White House may block a government retirement fund from investing in Chinese equities considered a national security risk. President Trump also said he is “looking at” Chinese companies that trade on the NYSE and Nasdaq exchanges but do not follow U.S. accounting rules. Finally, The Trump administration also moved to block shipments of semiconductors to Huawei Technologies from global chipmakers. Markets are largely ignoring this back and forth for now but we expect this theme to intensify in the run-up the US election in November.

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Kiwi Investment Management Wholesale Funds

Lifetime Fixed Interest Trust

	Units	Unit Price	Market Value	%
Cash Fund	195,146.13	1.0422	203,381.30	100
Total			**203,381.30**	100

The Cash Fund returned 0.17% before fees and taxes in May, beating its benchmark the S&P/NZX Bank Bill 90-Day Index, which returned 0.03%. The New Zealand bond market was whipped around by a variety of forces in the month of May. Coming into the month, the RBNZ's QE Programme was buying $1.35 billion a week of NZ Government bonds and they had committed to buying $33 billion of bonds ($30 billion NZ Government) and ($3 billion of LGFA) over the next 12 months. As expected, the RBNZ increased this to $60 billion of NZ Government bonds when the Monetary Policy Statement (MPS) was released mid-month, though they went a little further by stating that they would also like to see additional interest rates curve flattening. This caused a significant rally in government bonds on the day; however, this was a one-day phenomenon as the 2020 budget released by The Treasury the following day forecasted a higher amount of government bond issuance than the market expected over the next few years.

As the month progressed, and the country moved to Level 2 (with a move to Level 1 now looking like a reality much quicker than expected), the market grew increasingly sceptical that the RBNZ would continue to suppress rates so aggressively. The RBNZ duly pumped the breaks in the closing days of May, announcing that it planned to slightly taper its government bond-buying on May 22nd to $1.075 billion. This caused NZ Government Bond yields to rise at months end, with the yield on a 10-year interpolated government bond finishing up at 0.79%.

Fund and Portfolio Returns*

	Month %	3 Months %	Year %	3-Year % pa
Cash Fund	0.17	0.41	2.34	n/a
Benchmark return**	0.03	0.24	1.33	n/a
Portfolio return	0.17	0.41	2.33	n/a
Benchmark return	0.03	0.24	1.33	n/a

**The above returns are calculated on a time weighted basis. Returns for Funds and their respective benchmarks are calculated gross of foreign tax credits, whilst returns for Portfolio and its benchmark are calculated, net of foreign tax credits.*
***S&P/NZX Bank Bill 90-Day Index*

Monthly Transactions

Event	Date	Description	Currency	Quantity	Price	Amount
Sell	**11 May**	**Cash Fund**	**NZD**	24.38	1.0410	25.38
Expenses	**13 May**	**Management Fee**	**NZD**	-25.38	-	-25.38

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Kiwi Investment Management Wholesale Funds

Kiwi Invest. NZ's smart money.

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Monthly Summary

Description	MTD	YTD
Beginning Value	203,055.40	0.00
Net Contributions	0.00	198,606.70
Total Investment Gain/Loss	351.28	5,081.35
Income	0.00	0.00
Management Fees Paid	-25.38	-306.75
Other Expenses	0.00	0.00
Ending Value	203,381.30	203,381.30

Lifetime VIP Balanced Fund

	Units	Unit Price	Market Value	%
Fixed Interest Fund	2,326,911.86	1.3681	3,183,448.12	45
Growth Fund	2,679,745.47	1.4484	3,881,343.34	55
Total			**7,064,791.46**	**100**

The Fixed Interest Fund returned 1.00% before fees and taxes in May, beating the S&P/NZX New Zealand Government Bond Index, which returned 0.18%. Share markets and company bonds around the world rallied again in May, continuing to be fuelled by unprecedented monetary and fiscal stimulus from central banks and governments in lockstep with the commencement of efforts to reopen economies following prolonged lockdowns. However, this risk-on sentiment did not translate into the usual selloff in safe-haven government bonds. The yield on the U.S. 10year government bond remained virtually unchanged since March, stuck in a trading range of 0.60% - 0.70%. Back home, the New Zealand bond market was whipped around by a variety of forces. Coming into the month the RBNZ's QE Programme was buying $1.35 billion a week of NZ Government bonds and they had committed to buying $33 billion of bonds over the next 12 months. As expected, the RBNZ increased this to $60 billion of NZ Government bonds when the Monetary Policy Statement (MPS) was released midmonth, though they went a little further by stating that they would also like to see additional interest rates curve flattening. This caused a significant rally in government bonds on the day; however, this was a one-day phenomenon as the 2020 budget released by The Treasury the following day forecasted a higher amount of government bond issuance than the market expected over the next few years. As the month progressed, and the country moved to Level 2 (with a move to Level 1 now looking like a reality much quicker than expected), the market grew increasingly sceptical that the RBNZ would continue to suppress rates so aggressively. The RBNZ duly pumped the breaks in the closing days of May, announcing that it planned to slightly taper its government bond-buying on May 22nd to $1.075 billion. This caused NZ Government Bond yields to rise at months end, with the yield on a 10-year interpolated government bond finishing up at 0.79%. We remain unenthused about the value proposition of company bonds, and still prefer to focus on high-quality government and quasi-government bonds, as we believe that these still offer the strongest risk adjusted returns in the current environment. Consequently, we added to positions in LGFA (AA+), Housing New Zealand (AA+) and Australian Government (AA+). Although being very safe investments, this is not a set-and-forget market by any means. For example, by taking advantage of the rally in NZ government bonds around the MPS mid-month, and knowing the RBNZ was likely to pump the breaks, we took profit on our purchase of New Zealand government bonds in April and proactively moved onto the Australian curve swapping out longer dated New Zealand government bonds and in to longer dated Australian government bonds. This allowed the Fund to pick up meaningful additional yield and served to protect our downside in the process. Despite the reluctance to add company bonds, the Core Fixed Income Fund added a small corporate position in May, adding to the Fund's holding in Spark (A-) where we felt the value proposition made sense.

Global equity markets bounced back further in May, with the MSCI ACWI returning 4.30% in local US dollar terms. This was partly fuelled by increased optimism due to the gradual easing of lockdown measures across the world, as well as promising results from the initial Covid-19 vaccine trials. While the infection rates across many developed countries has improved, risks remain, particularly amongst emerging countries. In the meantime, world governments continues to roll out stimulus as the economic toll from the shutdowns begins to emerge across various data releases. The Growth Fund returned 3.99% on a gross of tax and fees basis for the month ended May, slightly behind its benchmark which rose 4.17%. All three of the underlying equity strategies contributed positively, while the alternative assets underperformed equities broadly, as markets continued to bounce back.

Portfolio wise, we continue to stick to our tested and proven strategies, by having conviction in quality companies while maintaining a well-diversified portfolio of liquid assets. We reduced the Fund's allocation to alternatives in May to lock in some of the earlier gains, and there were no other significant changes. The effective equity exposure stands at ~92.0% as of month end

Fund and Portfolio Returns*

	Month %	3 Months %	Year %	3-Year % pa
Fixed Interest Fund	1.00	2.37	7.05	5.81
Benchmark return**	0.18	2.80	7.38	6.00
Growth Fund	3.99	2.90	12.13	9.86
Benchmark return***	4.17	-0.06	8.23	8.37
Portfolio return	2.60	2.58	9.54	n/a
Benchmark return	2.37	1.45	8.23	n/a

**The above returns are calculated on a time weighted basis. Returns for Funds and their respective benchmarks are calculated gross of foreign tax credits, whilst returns for Portfolio and its benchmark are calculated, net of foreign tax credits.*
***S&P/NZX New Zealand Government Bond Index in NZ dollars*
****MSCI All Country World Index, 50% hedged to NZ dollar*

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Kiwi Investment Management Wholesale Funds

Monthly Transactions

Event	Date	Description	Currency	Quantity	Price	Amount
Sell	12 May	Fixed Interest PIE	NZD	477.28	1.3625	650.30
Sell	12 May	Growth PIE	NZD	1,074.25	1.4056	1,508.79
Expenses	13 May	Management Fee	NZD	-1,508.79	-	-1,508.79
Expenses	13 May	Management Fee	NZD	-650.30	-	-650.30
Sell	26 May	Fixed Interest PIE	NZD	6,554.03	1.3732	9,000.00
Sell	26 May	Growth PIE	NZD	7,747.63	1.4202	11,000.00
Withdrawals	27 May	Growth PIE	NZD	-11,000.00	-	-11,000.00
Withdrawals	27 May	Fixed Interest PIE	NZD	-9,000.00	-	-9,000.00

Monthly Summary

Description	MTD	YTD
Beginning Value	6,907,575.79	0.00
Net Contributions	-20,000.00	6,541,085.81
Total Investment Gain/Loss	179,374.76	550,480.32
Income	0.00	0.00
Management Fees Paid	-2,159.09	-26,774.67
Other Expenses	0.00	0.00
Ending Value	7,064,791.46	7,064,791.46

Lifetime International Companies Fund

Portfolio Value

	Units	Unit Price	Market Value	%
Global Quantitative Fund – Hedged	1,679,596.08	1.0428	1,751,482.79	69
Global Quantitative Fund – Unhedged	723,695.09	1.1070	801,130.47	31
Total			2,552,613.26	100

The Global Quantitative Fund returned 4.48% in May, 0.46% ahead of the MSCI ACWI benchmark as markets continued to rally in anticipation of a recovery from the global recession brought on by COVID-19 and in recognition of some extraordinary central bank stimulus. Crude oil was the standout performer with a near 90% bounce in WTI prices, although this did not translate to performance in the Energy sector with Tech and Industrials leading. China moved onto the back foot as tensions rose in Hong Kong. Our best sector was Discretionary where home improvement (Lowe's) and outdoor apparel (Deckers) performed strongly, followed closely by eBay which continues to see strong demand for online shopping. Materials also caught an uplift with Axalta Coatings seeing strong demand for paint products. Our worst sector was Communications where a continued rally in Facebook against our underweight dragged. We caught both ends of the online payments market, missing out on a strong PayPal rally but catching the even stronger uplift in its European peer Adyen. Our top-down positioning targets higher quality sectors more suited to the current crisis like Tech and Healthcare, although a brightening outlook from low levels has seen us increase exposure to cyclicals. Stock selection favours companies with attractive metrics across earnings quality, capital efficiency, valuations, sentiment and sustainability. Over the month, we've increased our allocation to Materials and Tech (LafargeHolcim, Microsoft) while trimming Financials and Industrials (Royal Bank of Canada, ASSA ABLOY). Healthcare and Tech remain favoured sectors, while Energy and Financials are out of favour.

Fund and Portfolio Returns*

	Month %	3 Months %	Year %	3-Year % pa
Global Quantitative Fund – Hedged	4.69	0.43	3.50	n/a
Benchmark return**	4.31	-0.46	4.72	n/a
Global Quantitative Fund – Unhedged	4.48	1.18	10.22	n/a
Benchmark return***	4.02	0.27	11.55	n/a
Portfolio return	4.60	0.50	5.02	n/a
Benchmark return	4.22	-0.21	6.85	n/a

**The above returns are calculated on a time weighted basis. Returns for Funds and their respective benchmarks are calculated gross of foreign tax credits, whilst returns for Portfolio and its benchmark are calculated, net of foreign tax credits.*
***MSCI All Country World Index 100% hedged to NZ dollar*
****MSCI All Country World Index in NZ dollars*

Monthly Transactions

Event	Date	Description	Currency	Quantity	Price	Amount
Sell	**11 May**	**Global Quant Fund - Hedged**	**NZD**	728.79	1.0019	730.17
Sell	**11 May**	**Global Quant Fund - Unhedged**	**NZD**	317.58	1.0788	342.61
Withdrawals	**13 May**	**Management Fee**	**NZD**	-730.17	-	-730.17
Withdrawals	**13 May**	**Management Fee**	**NZD**	-342.61	-	-342.61

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Kiwi Investment Management Wholesale Funds

Monthly Summary

Description	MTD	YTD
Beginning Value	2,441,656.72	0.00
Net Contributions	0.00	2,488,891.12
Total Investment Gain/Loss	112,029.32	78,723.50
Income	0.00	0.00
Management Fees Paid	-1,072.78	-15,001.36
Other Expenses	0.00	0.00
Ending Value	2,552,613.26	2,552,613.26

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