Lifetime Income Limited
Monthly Portfolio Report
as at 30 June 2020
Wholesale Investor

Market Commentary

Equity markets showed signs of stability in June following a few months of heightened volatility. The currency-hedged MSCI All Country index returned 2.8%, with Europe leading the gains (+6.0%). US equities lagged the rest of the world, as troublesome daily new cases offset some of the optimism from re-opening the economy.

While data releases continue to track below their pre-Covid-19 levels, key metrics in the US show meaningful improvement on a monthly basis. The employment report was very encouraging with non-farm payrolls returning to positive territory, adding 2.5 million jobs following a loss of 20 million jobs in the prior month. The recovery in restaurant and construction jobs was particularly strong, reversing nearly half of the decline in the Covid-19 lockdowns. Robust retail sales and manufacturing sentiment suggested that re-opening has boosted demand significantly. Consumer confidence also recorded one of the highest monthly gains in a decade.

The key message that emerged from the FOMC's June meeting was that the Committee remains cautious about the economic outlook and the distribution of policy outcomes is skewed almost entirely to be more accommodative. Chairman Powell reiterated the dovish position through 1) interest rates will remain near-zero and likely through to 2022; 2) current asset purchases (quantitative easing) set the floor and the pace can be increased if needed; 3) yield curve control on government bonds which was used once before during World War II could be the next unconventional policy option. The US central bank now expects a 6.5% decline of GDP in 2020, but a sharp recovery afterwards with 5% and 3.5% growth in 2021 and 2022, respectively.

Taking advantage of the Federal Reserve (Fed) support, High-Yield (junk) issuers sold over US$57 billion of corporate bonds in June, surpassing the prior monthly record in September 2013. The rush into credit comes as the Fed began purchasing both investment-grade and high-yield corporate bond ETFs as part of the quantitative easing program announced in March. Among the High-Yield issuers, there are plenty of companies (e.g. Royal Caribbean Cruises) that are facing a degree of solvency distress as the pandemic has crushed their industries.

With new Covid-19 cases again on the rise and more hot spots emerging, it is not surprising to see some nervousness in the last few trading days in June. Market bears have also zoomed-in on the latest geopolitical developments between the US and China, and the looming US presidential election. Given the critical point in the pandemic's trajectory, another spike in volatility over the coming months would not be a surprise.

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Kiwi Investment Management Wholesale Funds

Lifetime Fixed Interest Trust

	Units	Unit Price	Market Value	%
Cash Fund	195,120.92	1.0438	203,667.22	100
Total			**203,667.22**	**100**

The Cash Fund returned 0.15% before fees and taxes in June, beating its benchmark the S&P/NZX Bank Bill 90-Day Index which returned 0.01%.

Yields continued to get dragged down, as bank deposit spreads tightened along with credit spreads more generally. The NZ financial system has gone from one extreme to another since March, where markets basically froze up. Currently the system is flushed with cash with the Reserve Bank buying $60 billion of government bonds, while commercial banks have seen a lack of demand for loans like mortgages since the COVID-19 lockdown. The combined effect means banks do not need as many deposits and therefore are less willing to offer these at such attractive yields. Currently one major NZ bank is even offering wholesale deposit rates close to where we can buy New Zealand Treasury Bills, which you almost never see.

Fund and Portfolio Returns*

	Month %	3 Months %	Year %	3-Year % pa
Cash Fund	0.15	0.56	2.27	n/a
Benchmark return**	0.01	0.11	1.20	n/a
Portfolio return	0.15	0.56	2.27	n/a
Benchmark return	0.01	0.11	1.20	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 June**	**Cash Fund**	**NZD**	25.21	1.0424	26.28
Expenses	**17 June**	**Management Fee**	**NZD**	-26.28	-	-26.28

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Kiwi Investment Management Wholesale Funds

Monthly Summary

Description	MTD	YTD
Beginning Value	203,381.30	220,803.43
Net Contributions	0.00	-21,456.00
Total Investment Gain/Loss	312.20	4,636.29
Income	0.00	0.00
Management Fees Paid	-26.28	-316.50
Other Expenses	0.00	0.00
Ending Value	203,667.22	203,667.22

Lifetime VIP Balanced Fund

	Units	Unit Price	Market Value	%
Fixed Interest Fund	2,326,408.83	1.3703	3,187,878.02	45
Growth Fund	2,678,606.28	1.4568	3,902,193.62	55
Total			**7,090,071.64**	**100**

Fixed Interest Fund

The Fixed Interest Fund returned 0.16% before fees and taxes in June, outperforming its benchmark which returned -0.64%. The positive relative performance reflected an underweight to longer maturity New Zealand Government bonds whose yields rose (and hence prices fell) as the Reserve Bank edged away from its bond buying regime. Relative performance was also helped by a strong rally in company bonds with the US Federal Reserve indicating ongoing support for company bonds.

We continued to focus on quality and liquidity in June. We purchased bonds of Inter-American Development Bank IADB (AAA), Finnish state housing provider, Munifin (AA+) and Norwegian state housing provider, KBN (AAA). With strong Reserve Bank liquidity sloshing around the markets, banks are unlikely to need to issue bonds again this year to fund their activities. Consequently, their bonds have become very expensive. We therefore switched out of 2024 maturity Westpac (AA+) bonds into higher yielding term deposits. Likewise, the Fed's intervention is making US company bonds look highly expensive, but they can be bought more cheaply in currencies like Aussie dollars where we purchased bonds of telecom behemoth, Verizon (BBB+). But the main event for June was reversing somewhat out of the position in Australian Government bonds (AA+) back into New Zealand Government bonds (AA+) taking profits as the two countries' yields began to converge.

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Kiwi Investment Management Wholesale Funds

Growth Fund

It was a strong 2nd quarter finish for equity and bond markets. There were further signs of stability in June, as risk assets continue to be resilient. While economic data releases continue to track below their pre-COVID-19 levels, key metrics in the US show meaningful improvements on a monthly basis. It was also not surprising to see an uptick in volatility towards the end of the month given the ongoing escalating tension between the US and China as well as the resurgence of COVID-19 hotspots across America.

The Growth Fund returned 0.60% on a gross of tax and fees basis for the month ended June, behind its benchmark which rose 1.07%. Two of the three underlying equity strategies contributed negatively this month. The alternative assets underperformed equities broadly as markets continue to hold up.

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. There were no significant changes to the Growth Fund during June and the effective equity exposure sits at ~96.5%.

Fund and Portfolio Returns*

	Month %	3 Months %	Year %	3-Year % pa
Fixed Interest Fund	0.16	3.81	6.44	5.90
Benchmark return**	-0.64	2.25	5.68	6.03
Growth Fund	0.60	12.93	7.67	10.39
Benchmark return***	1.07	13.99	4.62	9.16
Portfolio return	0.39	8.58	6.86	n/a
Benchmark return	0.30	8.61	5.46	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*

Monthly Transactions

Event	Date	Description	Currency	Quantity	Price	Amount
Sell	**16 June**	**Fixed Interest PIE**	**NZD**	503.04	1.3666	686.86
Sell	**16 June**	**Growth PIE**	**NZD**	1,139.19	1.4286	1,626.90
Expenses	**17 June**	**Management Fee**	**NZD**	-1,626.90	-	-1,626.90
Expenses	**17 June**	**Management Fee**	**NZD**	-686.86	-	-686.86

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Kiwi Investment Management Wholesale Funds

Monthly Summary

Description	MTD	YTD
Beginning Value	7,064,791.46	7,230,919.91
Net Contributions	0.00	-594,074.38
Total Investment Gain/Loss	27,593.94	481,466.44
Income	0.00	0.00
Management Fees Paid	-2,313.76	-28,240.33
Other Expenses	0.00	0.00
Ending Value	7,090,071.64	7,090,071.64

Lifetime International Companies Fund

Portfolio Value

	Units	Unit Price	Market Value	%
Global Quantitative Fund – Hedged	1,678,828.70	1.0678	1,792,653.28	69
Global Quantitative Fund – Unhedged	723,347.85	1.0964	793,078.58	31
Total			**2,585,731.86**	**100**

The Global Quantitative Fund returned -0.95% in June, 0.26% behind the MSCI ACWI benchmark as continued optimism drove both global markets and the NZ dollar higher. More risky segments such as Emerging Markets and Europe led the market higher, while the US and Defensives lagged. Sector-wise, Technology and Discretionary were standouts while Utilities and Healthcare lagged. Crude oil continued its bounce, gaining a further 10% for the month. Staples and Utilities were our best sectors, with holdings in a2 Milk and AES and underweights in Walmart and NextEra proving profitable. Our worst sector was Discretionary where underweights in Tesla and Amazon caused a drag. Taiwanese semis producer MediaTek was our best position gaining 21% on the benchmark while NortonLifeLock was our worst at 16% behind.

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 select cyclicals, particularly Discretionary and Industrials. 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 Industrials, Financials and Discretionary (Ferguson, DBS Group, McDonald's) while trimming Staples and Tech (Costco, Keyence). Healthcare, Discretionary and Tech are favoured sectors, while Energy and Financials are out of favour.

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Kiwi Invest. NZ's smart money.

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Fund and Portfolio Returns*

	Month %	3 Months %	Year %	3-Year % pa
Global Quantitative Fund – Hedged	2.41	18.29	0.21	n/a
Benchmark return**	2.84	18.10	1.92	n/a
Global Quantitative Fund – Unhedged	-0.95	9.92	5.73	n/a
Benchmark return***	-0.69	9.95	7.08	n/a
Portfolio return	1.34	15.50	1.37	n/a
Benchmark return	1.78	15.63	3.57	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 June**	**Global Quant Fund - Hedged**	**NZD**	767.38	1.0394	797.61
Sell	**11 June**	**Global Quant Fund - Unhedged**	**NZD**	347.24	1.0654	369.95
Expenses	**17 June**	**Management Fee**	**NZD**	-797.61	-	-797.61
Expenses	**17 June**	**Management Fee**	**NZD**	-369.95	-	-369.95

Monthly Summary

Description	MTD	YTD
Beginning Value	2,552,613.26	2,889,626.15
Net Contributions	0.00	-341,342.55
Total Investment Gain/Loss	34,286.16	52,839.70
Income	0.00	0.00
Management Fees Paid	-1,167.56	-15,391.44
Other Expenses	0.00	0.00
Ending Value	2,585,731.86	2,585,731.86

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