Kiwi Invest. NZ's smart money.

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

Market Commentary

July saw the pace of daily new infections increase sharply across the US, as well as in Japan, Spain and Australia. Global cases closed in on the 18 million mark (starting the month at 10.5 million), with the US alone approaching 5 million cases. This outbreak in the US was initially centred in the North-eastern states, but throughout the month infections began to rise rapidly across the rest of the country. As a result, many states started to partly reverse or pause their reopening. Compounding the United States' woes, second-quarter GDP came in at -32.9% (annualised), the worst quarterly figure reported since WW2, and trade tensions with China continued to escalate rapidly. All of this resulted in a rare month where the USD underperformed quite significantly versus other major currencies.

In spite of this, US stock markets continued to rally higher, with the S&P 500 finishing the month up 5.6%. What was more in focus for markets in July was second-quarter company earnings releases, the first to capture the full scope of the effects of COVID-19. Surprisingly, earnings have been overall largely positive, with most companies beating (admittedly in some cases reduced) estimates, and by a greater value than expected – this was led by the big tech names of Amazon, Apple and Facebook surpassing even the highest predictions. More importantly, of those who chose to give us a taste of the future, guidance has generally risen, albeit modestly.

Another market news flow favourite, positive progress on vaccine trials, continued to roll in. The team at the University of Oxford revealed their vaccine produced the desired immune responses without any adverse reactions. That was in a Phase II trial of over one thousand volunteers and has since moved on to Phase III. Another vaccine front runner, US biotechnology giant Moderna, experienced a boost in its stock price after its RNA based vaccine showed an antibody response, and have now also begun a Phase III trial intended to include 30,000 participants.

Regardless of when we get a vaccine, or the stock market's seeming indifference towards rising case numbers, the real economic effects of COVID-19 are still on the horizon, likely to require even more swift and sizable support from central banks and governments. Central banks took something of a back seat over the past month, having already flooded the market with cash and slamming their rates close to zero. The narrative has shifted to governments to provide further support to pick up the slack. Congress debated how much unemployment benefits should be extended and whether supplementary stimulus cheques should be provided. This hasn't proven easy to get over the line, but we are confident it will. Across the Atlantic, the highly anticipated EU Recovery Fund was finally approved following a marathon negotiation that lasted over 72 hours. The agreed proposal will allow the European Commission to borrow up to €750 billion (NZD ~1.4 trillion).

The disconnect grew wider in July, with economic conditions telling one story, but markets another. Unprecedented central bank and government support, along with the scientists working tirelessly on a vaccine, are doing an excellent job at keeping the market upbeat in the face of the biggest shock to the economy in living memory. With these opposing forces in balance, we are disciplined in watching for opportunities. Contact your AFA with any concerns etc.

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Kiwi Investment Management Wholesale Funds

Lifetime Fixed Interest Trust

	Units	Unit Price	Market Value	%
Cash Fund	195,096.53	1.0451	203,895.38	100.00
Total			**203,895.38**	**100.00**

The Cash Fund returned 0.12% before fees and taxes in July, beating its benchmark the S&P/NZX Bank Bill 90-Day Index which returned 0.03%.

The trend continued from last month with yields on bank deposits dropping along with credit spreads more generally. In addition to the banking system being flushed with cash, there is more evidence coming out that banks are being more conservative when it comes to their lending. The RBNZ put out their Credit Conditions Survey in mid-July that stated within it, "banks noted further tightening of lending standards are likely." If banks further tighten up their lending criteria this will mean they will require less deposits to fund them. Unfortunately for investors this scenario combined with ultra-low interest rates means that yields on cash are going to remain low for quite some time.

Fund and Portfolio Returns*

	Month %	3 Months %	Year %	3-Year % pa
Cash Fund	0.12	0.45	2.13	n/a
Benchmark return**	0.03	0.07	1.07	n/a
Portfolio return	0.12	0.45	2.13	n/a
Benchmark return	0.03	0.07	1.07	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*

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Kiwi Investment Management Wholesale Funds

Monthly Transactions

Event	Date	Description	Currency	Quantity	Price	Amount
Sell	14 July	Cash Fund	NZD	24.39	1.0443	25.47
Expenses	16 July	Management Fee	NZD	-25.47	-	-25.47

Monthly Summary

Description	MTD	YTD
Beginning Value	203,667.22	206,323.20
Net Contributions	0.00	-6,456.00
Total Investment Gain/Loss	253.63	4,342.55
Income	0.00	0.00
Management Fees Paid	-25.47	-314.37
Other Expenses	0.00	0.00
Ending Value	203,895.38	203,895.38

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Lifetime VIP Balanced Fund

	Units	Unit Price	Market Value	%
Fixed Interest Fund	2,284,851.76	1.3814	3,156,294.22	44.37
Growth Fund	2,630,512.69	1.5045	3,957,606.35	55.63
Total			**7,113,900.57**	**100.00**

Fixed Interest Fund

The Fixed Interest Fund returned 0.81% before fees and taxes in July slightly under-performing its benchmark which returned 0.94%. Performance was driven by an overall lower average maturity profile in longer-dated New Zealand government bonds which performed more strongly. This was offset by a position skewed to the longest (and therefore best performing) maturity New Zealand government bonds and continuing tightening credit.

Interest rates fell quite heavily over the month in New Zealand helped along by lower interest rates globally as the COVID-19 pandemic continued to intensify. The New Zealand economy has been snapping right back, and international investors have been lapping up our government bonds. A new $4.5 billion 2041 maturity syndication performed particularly well aided by the news that the government has $12 billion of unused dry powder from the budget for use in the event of a second round of infection. However, it's fair to say that we are not immune from global weakness, and of course, we are impacted directly from the loss of international tourists and students. Additionally, the imminent end of the wage subsidy is looming over the employment market. So, it's not surprising that there have been signs of softening towards the end of the month. That sentiment drove the interest rate on a 10-year New Zealand government bond down 17 basis points to 0.73% over the month, much in line with its US peer.

With the Fed distorting the credit markets to extremely expensive levels, we only dipped our toes into company bonds in July, purchasing Aussie-denominated bonds of US telecom giant, Verizon (BBB+). We also added Transpower (AA-) and Local Government Authority Bonds (LGFA) (AA+) in Kiwi dollars. However, the major event of the month was our purchase of the new 20-year maturity New Zealand Government bonds (AA+) which were priced attractively as often new maturity issues are.

Growth Fund

Global markets shrugged off the pandemic's onslaught across economies. Despite the worsening of cases in the US and Australia, both risky and safe-haven assets have rallied. The NZ dollar hedged MSCI ACWI Index returned 3.86% for the month. Large tech reported better than expected results in the recent quarterly earnings season which propped up the US indices, while Europe lagged due to economic recovery data falling short of expectations. Against the backdrop of escalating tensions between US and China, news on the vaccine development front continues to look promising.

The Growth Fund returned 3.31% on a gross of tax and fees basis for the month ended July, outperforming its benchmark which rose 2.82%. Both the underlying Global Thematic and Global Quantitative strategies contributed positively, while the Core Global strategy was a slight drag. 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 July and the effective equity exposure sits at 96%.

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Fund and Portfolio Returns*

	Month %	3 Months %	Year %	3-Year % pa
Fixed Interest Fund	0.81	1.99	6.48	5.95
Benchmark return**	0.94	0.48	5.91	6.22
Growth Fund	3.31	8.07	9.07	11.19
Benchmark return***	2.82	8.26	5.94	9.76
Portfolio return	2.17	5.23	7.65	n/a
Benchmark return	1.98	4.71	6.30	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	07 Jul	Kiwi Wealth Fixed Interest PIE	NZD	41,073.38	1.3695	56,250.00
Sell	07 Jul	Kiwi Wealth Growth PIE	NZD	46,999.49	1.4638	68,750.00
Withdrawals	08 Jul	New Zealand Dollar	NZD	-68,750.00	-	-68,750.00
Withdrawals	08 Jul	New Zealand Dollar	NZD	-56,250.00	-	-56,250.00
Sell	14 Jul	Kiwi Wealth Fixed Interest PIE	NZD	483.69	1.3712	663.23
Sell	14 Jul	Kiwi Wealth Growth PIE	NZD	1,094.09	1.4824	1,620.62
Expenses	16 Jul	Management Fee	NZD	-1,620.62	-	-1,620.62
Expenses	16 Jul	Management Fee	NZD	-663.23	-	-663.23

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Kiwi Investment Management Wholesale Funds

Monthly Summary

Description	MTD	YTD
Beginning Value	7,090,071.64	7,227,260.69
Net Contributions	-125,000.00	-615,174.38
Total Investment Gain/Loss	151,112.78	530,015.35
Income	0.00	0.00
Management Fees Paid	-2,283.85	-28,201.09
Other Expenses	0.00	0.00
Ending Value	7,113,900.57	7,113,900.57

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Kiwi Investment Management Wholesale Funds

Lifetime International Companies Fund

Portfolio Value

	Units	Unit Price	Market Value	%
Global Quantitative Fund – Hedged	1,671,699.34	1.1155	1,864,780.61	69.77
Global Quantitative Fund – Unhedged	720,320.65	1.1216	807,911.64	30.23
Total			**2,672,692.25**	**100.00**

The Global Quantitative Fund returned 2.33% in July, 0.54% ahead of the MSCI ACWI benchmark as global markets and the NZ dollar continued to pick up on positive vaccine news and better-than-expected earnings, despite confirmation of the dire economic situation. Emerging Markets led the market higher while Japan and Hong Kong were notable laggards. Consumer Discretionary and Materials were the standout sectors, with Energy and Financials lagging despite WTI crude gaining slightly. Treasuries rallied 11 basis points, pointing to a tick down in the economic outlook.

Financials and Staples were our best sectors, with a number of small contributors adding up in Financials (T. Rowe Price, 3i Group, Gjensidige) and Church & Dwight leading the way in Staples as demand for personal and household care held strong. Our worst sector was Healthcare where Cigna and an underweight in Pfizer dragged. Best individual performers were driven by Intel's next generation chip delay, with holdings in Taiwanese semis (TSMC and United Micro) gaining strongly, helped further by an underweight in Intel. Worst performer for the month was an underweight in Tesla which continued its recent rally.

Our top-down positioning targets sectors more suited to the current crisis like Tech and Healthcare, and increasingly Discretionary and Industrials; Energy and Financials remain out of favour. Stock selection favours companies with strong earnings quality, capital efficiency, valuations, sentiment and sustainability. Over the month, we've increased our allocation to Materials and Industrials (CCL Industries, Rockwell Automation) while trimming Healthcare and Energy (Merck, INPEX).

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Kiwi Investment Management Wholesale Funds

Fund and Portfolio Returns*

	Month %	3 Months %	Year %	3-Year % pa
Global Quantitative Fund – Hedged	4.49	12.03	4.24	n/a
Benchmark return**	3.86	11.41	4.84	n/a
Global Quantitative Fund – Unhedged	2.33	5.89	6.42	n/a
Benchmark return***	1.79	5.15	6.73	n/a
Portfolio return	3.80	10.02	4.40	n/a
Benchmark return	3.24	9.51	5.54	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	**06 Jul**	**Global Quant Fund - Hedged**	**NZD**	6,383.95	1.0965	7,000.00
Sell	**06 Jul**	**Global Quant Fund - Unhedged**	**NZD**	2,702.70	1.1100	3,000.00
Withdrawals	**08 Jul**	**New Zealand Dollar**	**NZD**	-7,000.00	-	-7,000.00
Withdrawals	**08 Jul**	**New Zealand Dollar**	**NZD**	-3,000.00	-	-3,000.00
Sell	**14 Jul**	**Global Quant Fund - Hedged**	**NZD**	745.41	1.1012	820.85
Sell	**14 Jul**	**Global Quant Fund - Unhedged**	**NZD**	324.50	1.1186	362.99
Expenses	**16 Jul**	**Management Fee**	**NZD**	-820.85	-	-820.85
Expenses	**16 Jul**	**Management Fee**	**NZD**	-362.99	-	-362.99

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Kiwi Investment Management Wholesale Funds

Monthly Summary

Description	MTD	YTD
Beginning Value	2,585,731.86	2,889,470.22
Net Contributions	-10,000.00	-329,342.55
Total Investment Gain/Loss	98,144.23	127,829.82
Income	0.00	0.00
Management Fees Paid	-1,183.84	-15,265.24
Other Expenses	0.00	0.00
Ending Value	2,672,692.25	2,672,692.25

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Kiwi Investment Management Wholesale Funds