Kiwi Invest. NZ's smart money.

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

Market Commentary

Equity markets continued their steady climb with many global markets reaching all-time highs. The currency hedged MSCI All Country index returned 5.7% for the month. Economic data overseas showed signs of improvement, although much of it driven by massive government support.

US markets were buoyed by signs that the latest cycle of Covid-19 numbers may be peaking and is looking past the threat of any worsening, as the US heads into winter and the flu season rolls around. Some of the positive market sentiment came on the back of growing optimism around a vaccine, although the efficacy and practicalities of distribution remain very much uncertain.

Economic data in the US exceeded expectations, with the housing market benefiting from record low mortgage rates and employment numbers gradually improving. Democrats and Republicans remain far apart on approving the next round of fiscal stimulus. The stalemate was exacerbated when President Trump issued an Executive Order in an attempt to circumvent Congress. The US market continues to rally despite the political gridlock, with the S&P 500 posting its best August since 1986, up 7.0%. Equities were driven higher by the soaring value of tech-related companies, as well as a very accommodative interest rate environment.

In late August at the Jackson Hole Economic Symposium, the US Federal Reserve Chair Jerome Powell doubled down on the Fed's dovish position. The Fed Chair announced a shift away from pre-emptively raising interest rates to combat higher expected inflation. This move would allow the Fed to let inflation run moderately above 2% for a period of time, thus signalling that interest rates would stay low for the foreseeable future. Powell also stated they would factor in the level of employment and not take steps to cool the labour market "unless there is clear evidence of inflationary pressure".

New Zealand equity markets rebounded from pressure brought about by the level 3 lockdown of Auckland. The local share market also battled through numerous shutdowns as a result of cyber-attacks on the NZX website to finish at an all-time high on 28 August, before losing some ground on concerns over the strengthening NZD. The NZD strengthened over the month following an initial dip as the RBNZ boosted the existing quantitative easing program from NZ$60 billion to NZ$100 billion and indicated that more preparation was in progress for negative interest rates.

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Kiwi Investment Management Wholesale Funds

Portfolio Commentary

Lifetime Fixed Interest Trust

	Units	Unit Price	Market Value	%
Cash Fund	195,071.33	1.0466	204,161.65	100
Total			**204,161.65**	**100**

The Cash Fund returned 0.14% before fees and taxes in August, beating its benchmark the S&P/NZX Bank Bill 90-Day Index which returned 0.06%.

Downward pressure on interest rates continued to build over the month, with it becoming even more apparent at the RBNZ's MPS (Monetary Policy Statement) release on August 12th that the bank is looking to implement more unconventional monetary policies. The RBNZ also talked up the prospect of taking the Official Cash Rate (OCR) to a negative interest rate next year coupled with commencing a Funding for Lending Programme for commercial banks. This facility would allow the RBNZ to lend to banks at the OCR rate (or thereabouts), which would provide cheap funds and allow banks to make cheaper loans (mortgages etc) to their customers. All of this means interest rates are going to be lower for longer and risks to further OCR rate cuts remain. It is clear from the RBNZ's statement that they are going to err on the side of caution, and they will not be afraid to use more tools to meet their dual inflation and employment mandate.

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Lifetime VIP Balanced Fund

	Units	Unit Price	Market Value	%
Fixed Interest Fund	2,284,362.69	1.3928	3,181,660.35	43.49
Growth Fund	2,629,429.79	1.5721	4,133,726.58	56.51
Total			**7,315,386.93**	**100.00**

Fixed Interest Fund

The Kiwi Wealth Fixed Interest Fund (Fixed Interest PIE) returned 0.56% after fees and taxes in August, slightly outperforming its benchmark. The outperformance can mostly be attributed to corporate and semi-government bonds spreads (extra yield a non-government issuer pays versus a government bond) tightening relative to NZ Government Bonds over the month.

We continued to focus on high-quality credits over August, as we continue to be very selective about the types of names and companies we want to own. We added to Transpower (AA-), Local Government Authority bonds (LGFA) (AA+), Rentenbank (AAA), International Finance Corporation (IFC) (AAA) and New Zealand Government bonds (AA+).

We also increased the average maturity within the fund over the month by about a quarter of a year, as it became increasingly clear that the RBNZ was going to keep interest rates very low for a longer period. The RBNZ's Monetary Policy Statement (MPS) release on August 12th not only indicated that they were seriously looking to drop the Official Cash Rate (OCR) into negative territory but also included another significant augmentation of their LSAP programme. Low rates for longer is a global trend, as later in the month the US Federal Reserve said they are adapting their policy to allow inflation to run at a higher rate than previously stated before they would look to tighten monetary policy. We have the most conviction at the moment that short to intermediate-term interest rates (out to 7 years) will remain low, and have therefore over weighted the portfolio to these maturities.

Growth Fund

The Kiwi Wealth Growth Fund (Growth PIE) returned 4.28% after tax and fees in August, 0.68% behind the MSCI All Country benchmark. The Global Thematic and Global Quantitative strategies contributed negatively to relative performance this month, while Core Global outperformed. The Kiwi dollar strengthened against the US greenback further which was a headwind for returns in foreign currency.

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Kiwi Investment Management Wholesale Funds

Lifetime International Companies Fund

	Units	Unit Price	Market Value	%
Global Quantitative Fund – Hedged	1,680,665.72	1.1716	1,969,067.95	70.42
Global Quantitative Fund – Unhedged	710,437.67	1.1645	827,304.67	29.58
Total			**2,796,372.62**	**100.00**

The Global Quantitative fund returned 3.87% in August, 0.76% behind the MSCI AC benchmark in yet another big month for large cap growth stocks. The market rally is still largely driven by TINA (There Is No Alternative to equities), as central banks reaffirmed their commitment to keep interest rates low. However, some aspects of the market point to lower quality gains, particularly the amount of retail money entering the market through online platforms, the positive impact of two high profile stock splits (Tesla, Apple) and the narrowness of the market leadership. Energy was our best sector for the month with our underweight to the sector and a good month for Canadian infrastructure company Keyera proving beneficial. However, this was outweighed by underperformance in the Technology and Discretionary sectors where we did not sufficiently capture the narrow list of names that outperformed for the month (particularly Salesforce and Tesla). Our Asian Technology holdings also gave back recent strong gains (MediaTek, Samsung).

Our top-down positioning targets higher quality sectors more suited to the current environment like Technology and increasingly 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 Technology (Visa, Mastercard, Trend Micro) while trimming Financials (Bank of America, QBE Insurance). Discretionary, Industrials, Technology and Healthcare are in favour, while Energy and Financials remain out of favour.

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Kiwi Investment Management Wholesale Funds