

Market Commentary

After a steady climb higher over recent months, equity markets took a breather in September as investors gauged the prospect of a second wave of COVID-19 infections in the Northern hemisphere alongside mixed views on the timeline of a potential vaccine. The MSCI All Country index (NZD hedged) fell 2.8% over the month, with all the major markets showing weakness except for Japan.

Even technology giants like Apple (-10.3% in September), Amazon (-8.8%) and Microsoft (-6.7%) finally succumbed to profit-taking after their incredible runs in the year to date.

While equity markets were weak, there was nothing particularly new or unexpected in September's news flow. But with share prices starting the month 66% above their March lows, a pullback was always on the cards, especially as we head towards the US presidential elections in early November.

The Democrat nominee, Joe Biden, is currently the favourite to win the White House, which would have puts and takes for equity markets. Higher corporate taxes and increased regulations would likely weigh on certain sectors, but heavier spending on green energy and infrastructure could offset. In our view, the greatest risk of the election is a prolonged period of uncertainty over a disputed result, which could shake confidence in an already tenuous economic recovery.

The pandemic is the other significant risk weighing on investor sentiment, with infection rates on the rise again in Europe, and US cases stubbornly high. Even though patient outcomes have greatly improved, it is becoming increasingly clear that until an effective vaccine becomes widely available, economic activity will struggle to return to normal.

Nevertheless, low interest rates should continue to support share prices. The US 10-year yield barely moved in September, finishing the month at a miserly 0.68%. We see little evidence of inflation or economic strength that would cause central banks to tighten monetary conditions, and while COVID-19 continues to cast a shadow over consumer confidence, the low interest rate environment is likely to persist.

However, if the Democrats win the White House and an effective vaccine is found, the situation could change rapidly, especially if markets reset inflation expectations. Regardless, our large, liquid investments mean we can swiftly reconfigure the portfolio to suit any climate. As this challenging year has already proven, maintaining a focus on the long term is crucial, as opportunities can manifest in even the most trying economic conditions.

Lifetime Fixed Interest Trust

	Units	Unit Price	Market Value	%
Cash Fund	195,046.13	1.0478	204,369.34	100.00
Total			204,369.34	100.00

The Cash Fund returned 0.11% before fees and taxes in September, beating its benchmark the S&P/NZX Bank Bill 90-Day Index which returned 0.02%.

At the Official Cash Rate decision on September 23rd, the Reserve Bank of New Zealand (RBNZ) indicated that the Funding for Lending Programme for commercial banks would be ready before calendar year end and could be implemented before a negative OCR. As previously stated, 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. It is possible therefore that bank deposit rates may drop significantly before January.

We continued to invest in 6-month bank deposits over September knowing that these bank deposit rates could drop from over 1% now to around 0.5% once the RBNZ implements the Funding for Lending Programme. This is around where Australian deposit rates currently are after the Reserve Bank of Australia implemented their version of this programme earlier in the year.

Fund and Portfolio Returns*

	Month %	3 Months %	Year %	3-Year % pa
Cash Fund	0.11	0.38	1.95	n/a
Benchmark return**	0.02	0.08	0.87	n/a
Portfolio return	0.11	0.38	1.94	n/a
Benchmark return	0.02	0.08	0.87	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



NZ's
smart
money.

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

Monthly Transactions

Event	Date	Description	Currency	Quantity	Price	Amount
Sell	11 Sep	Cash Fund	NZD	25.20	1.0468	26.38
Expenses	16 Sep	Management Fee	NZD	-26.38	-	-26.38

Monthly Summary

Description	MTD	YTD
Beginning Value	204,161.65	207,176.92
Net Contributions	0.00	-6,456.00
Total Investment Gain/Loss	234.07	3,962.04
Income	0.00	0.00
Management Fees Paid	-26.38	-313.62
Other Expenses	0.00	0.00
Ending Value	204,369.34	204,369.34

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Kiwi Investment Management Wholesale Funds

Lifetime VIP Balanced Fund

	Units	Unit Price	Market Value	%
Fixed Interest Fund	2,266,103.77	1.4009	3,174,584.77	43.95
Growth Fund	2,609,031.91	1.5520	4,049,217.53	56.05
Total			7,223,802.30	100.00

Fixed Interest Fund

The Fixed Interest Fund returned 0.58% before fees and taxes in September underperforming its benchmark which returned 0.86%. The underperformance can mostly be attributed to trying to keep up with a relentless Reserve Bank-led crunch on interest rates. Also, corporate bonds spreads (extra yield a company pays versus a government bond) widened relative to NZ Government Bonds over the month.

We continued to focus on high quality credits over September, as we remain very selective about the types of names and companies we want to own. We added **Housing New Zealand (AA+)**, **Asian Development Bank (AAA)**, **International Bank of Reconstruction and Development (AAA)** and Norwegian State Housing Authority, **KBN (AAA)**. The New Zealand company bond market began to heat up in September and we purchased **Port of Tauranga (A-)** and **Mercury (BBB+)** new issues. Overseas we began to add a few names like **AT&T (BBB)** and **Nestle (AA-)** and we hope to add more if high quality company credit spreads continue to widen. Given the RBNZ's tack, we've been big proponents of the New Zealand bond market for a while which has paid off. However, we did dip our toes in the Australian State market, establishing a position in New South Wales bonds which we saw as very cheap relative to New Zealand Government Bonds.

Growth Fund

After a steady climb over recent months, equity markets took a breather in September as investors gauged the prospect of a second wave of Covid-19 infections across the Northern hemisphere, alongside mixed views on the timelines of a potential vaccine. The MSCI ACWI 50% hedged to NZ dollar Index fell -1.88% and weakness was seen across most markets apart from Japan. Large cap Technology stocks weren't immune and succumbed to profit-taking after their incredible run in the year to date. That being said, record low interest rates continue to provide price support.

The Growth Fund returned -1.18% on a gross of tax and fees basis for the month ended September, outperforming its benchmark which returned -1.88%. Both underlying Global Thematic and Global Quantitative strategies contributed positively to relative performance this month, while Core Global and the alternative assets were drags. The Kiwi dollar weakened against the US greenback this month which was a tailwind for foreign currency returns.

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 September and the effective equity exposure sits at ~96%.

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Kiwi Investment Management Wholesale Funds

Fund and Portfolio Returns*

	Month %	3 Months %	Year %	3-Year % pa
Fixed Interest Fund	0.58	2.23	6.22	6.20
Benchmark return**	0.86	2.63	5.42	6.62
Growth Fund	-1.18	6.81	10.70	10.99
Benchmark return***	-1.88	6.11	6.62	9.30
Portfolio return	-0.47	4.60	8.33	n/a
Benchmark return	-0.65	4.57	6.47	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	CCY	Quantity	Price	Amount
Sell	02 Sep	Fixed Interest PIE	NZD	17,769.96	1.3928	24,750.00
Sell	02 Sep	Growth PIE	NZD	19,256.89	1.5721	30,250.00
Withdrawals	03 Sep	New Zealand Dollar	NZD	-30,250.00	-	-30,250.00
Withdrawals	03 Sep	New Zealand Dollar	NZD	-24,750.00	-	-24,750.00
Sell	15 Sep	Fixed Interest PIE	NZD	488.96	1.3971	682.96
Sell	15 Sep	Growth PIE	NZD	1,140.99	1.5404	1,757.58
Expenses	16 Sep	Management Fee	NZD	-1,757.58	-	-1,757.58
Expenses	16 Sep	Management Fee	NZD	-682.96	-	-682.96

Monthly Summary

Description	MTD	YTD
Beginning Value	7,315,386.93	7,348,276.50
Net Contributions	-55,000.00	-670,174.38
Total Investment Gain/Loss	-34,144.09	573,895.82
Income	0.00	0.00
Management Fees Paid	-2,440.54	-28,195.64
Other Expenses	0.00	0.00
Ending Value	7,223,802.30	7,223,802.30

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Kiwi Investment Management Wholesale Funds

Lifetime International Companies Fund

	Units	Unit Price	Market Value	%
Global Quantitative Fund – Hedged	1,659,437.47	1.1433	1,897,234.85	70.05
Global Quantitative Fund – Unhedged	701,344.37	1.1567	811,245.03	29.95
Total			2,708,479.88	100.00

The Global Quantitative Fund returned -0.64% in September, 0.36% ahead of the MSCI ACWI in NZ dollars benchmark as most sectors ended the month lower although a fall in the NZ dollar improved the picture somewhat in the unhedged class. September saw a change in fortune for the large-cap growth/momentum names that have been leading the market's recovery from the Coronavirus Crash with concerns around inflated valuations and investor crowding coming to bear. Energy sold-off heavily, with the WTI falling below \$40 a barrel at one point as global demand softened and Gulf Coast activity resumed after Hurricanes Laura and Marco. Industrials and Utilities were the market leading sectors.

Outperformance was driven by our focus on Asian tech names (United Microelectronics, Samsung) and our underweight in Banks (avoiding names like Citigroup and Bank of America) and Energy (Exxon, Chevron, BP all experienced large declines). Health Care was the biggest drag on performance with Illumina and Henry Schein the worst positions. Our top-down positioning targets higher quality sectors more suited to the current environment like Technology and Industrials. Stock selection favours companies with attractive metrics across earnings quality, capital efficiency, valuations, sentiment and sustainability. Over the month, we increased our allocation to Financials (E.SUN Financial, China Life Insurance) and Industrials (Deutsche Post), trimming Health Care (Abbvie, Illumina) and Staples (a2 Milk). Industrials, Technology and Discretionary remain our favoured sectors. Health Care has been reduced to neutral while Financials and Energy remain our largest underweights.

Fund and Portfolio Returns*

	Month %	3 Months %	Year %	3-Year % pa
Global Quantitative Fund – Hedged	-2.38	7.16	8.36	n/a
Benchmark return**	-2.75	6.78	7.68	n/a
Global Quantitative Fund – Unhedged	-0.64	5.58	5.82	n/a
Benchmark return***	-1.00	5.43	5.30	n/a
Portfolio return	-1.88	6.61	7.10	n/a
Benchmark return	-2.22	6.38	7.08	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

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Kiwi Investment Management Wholesale Funds

Monthly Transactions

Event	Date	Description	CCY	Quantity	Price	Amount
Sell	07 Sep	Global Quantitative Fund- Hedged	NZD	20,423.76	1.1516	23,520.00
Sell	07 Sep	Global Quantitative Fund- Unhedged	NZD	8,746.96	1.1524	10,080.00
Withdrawals	09 Sep	New Zealand Dollar	NZD	-23,520.00	-	-23,520.00
Withdrawals	09 Sep	New Zealand Dollar	NZD	-10,080.00	-	-10,080.00
Sell	11 Sep	Global Quantitative Fund- Hedged	NZD	804.49	1.1403	917.36
Sell	11 Sep	Global Quantitative Fund- Unhedged	NZD	346.34	1.1437	396.11
Expenses	16 Sep	Management Fee	NZD	-917.36	-	-917.36
Expenses	16 Sep	Management Fee	NZD	-396.11	-	-396.11

Monthly Summary

Description	MTD	YTD
Beginning Value	2,796,372.62	2,849,684.48
Net Contributions	-33,600.00	-322,942.55
Total Investment Gain/Loss	-52,979.27	196,867.99
Income	0.00	0.00
Management Fees Paid	-1,313.47	-15,130.04
Other Expenses	0.00	0.00
Ending Value	2,708,479.88	2,708,479.88