Lifetime Income Limited
Monthly Portfolio Report
as at 30 November2020
Wholesale Investor

Kiwi Invest. NZ's smart money.

Market Commentary

November was a great month for stock markets (though not the NZ bond market!), in particular for more economically sensitive areas of the US stock market "value" stocks. The rotation from growth to value stocks benefited shares of companies that are likely to gain in value from an economic recovery as opposed to those that benefited from the stay-at-home trend. Energy stocks were up markedly with higher oil prices. Financials, industrials and materials also rose. This saw the Dow Jones Industrials Index surge to all-time highs crossing the 30,000 level for the first time in history before finishing the month slightly below this peak (but still recording an 11.8% gain for its best monthly performance since January 1987). The Eurozone, UK, Asia and Japan also saw significant increases in their respective indices as global equities enjoyed a purple patch.

The major catalyst driving the value rotation has been the incredibly positive vaccine news that was released in November, with 3 different potential vaccines releasing results, and efficacy numbers as high as 95%. In turn, this positive data helped alleviate fears that society will have to learn to live with the virus on a more permanent basis and offers the hope of a much quicker return to normal than had been anticipated only a month ago. That said, many countries will continue to be ravaged by COVID-19 through the Northern Hemisphere winter but there is now real hope of a way forward. The other major catalyst behind the moves was the US election, where, while it took a bit longer than normal to get a final result, the heavily contested scenario that had been a source of concern for investors didn't arise, with the General Services Administration having now moved to begin the formal transition process to President-Elect Biden.

The shock financial markets news in New Zealand in November was the public faceoff between the Minister of Finance and the Governor of the RBNZ over the RBNZ's perceived role (via accommodative monetary policy) in fuelling the housing frenzy currently. The public nature of the discussions certainly spurred market participants into action as the probability of the OCR turning negative was taken off the table. This saw the yield on the 10-year government bond increase by 32 bps for the month.

Offshore, Government bond yields were also volatile during the month. The US 10-year Treasury yield was 3 bps lower at 0.84%, but saw large daily changes around the US election and news on vaccines. Corporate bonds performed well, with global investment grade producing a total return of 2.1% and high yield 4.1% (Source: ICE BofAML, local currency total returns).

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Kiwi Investment Management Wholesale Funds

Portfolio Commentary

Lifetime Fixed Interest Trust

	Units	Unit Price	Market Value	%
Cash Fund	194,996.55	1.0502	204,785.38	100.00
Total			**204,785.38**	**100.00**

The Cash Fund returned 0.11% before fees and taxes in November, beating its benchmark the S&P/NZX Bank Bill 90-Day Index which returned 0.03%.

After months of "we are not bluffing" rhetoric on their pursuit of negative interest rates, the Reserve Bank of New Zealand (RBNZ) unexpectedly acknowledged that the NZ economy was doing better than expected. The icing on the cake was an exchange of letters between Finance Minister Grant Robertson and RBNZ Governor Adrian Orr. Robertson has asked the Reserve Bank to consider taking house prices into account in its setting of monetary policy while Orr has demurred batting the responsibility back to the government. The NZ Money Market responded by greatly reducing the chances that the official cash rate (OCR) will be cut to a negative rate next year.

Given this change of tack by the RBNZ we no longer expect that the RBNZ will cut the OCR to a negative rate next year. Bank deposit rates may still fall further as the RBNZ has now confirmed that the Funding for Lending Programme for banks will launch on December 7th. This will give banks access to 3-year loans at the OCR rate.

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Lifetime VIP Balanced Fund

	Units	Unit Price	Market Value	%
Fixed Interest Fund	2,265,139.88	1.3886	3,145,373.24	42.73
Growth Fund	2,606,883.23	1.6169	4,215,069.49	57.27
Total			**7,360,442.73**	**100.00**

Fixed Interest Fund

The Fixed Interest Fund returned -1.08% before fees and taxes in November outperforming its benchmark which returned -1.79%. The outperformance can largely be attributed to having lower maturity bonds than the benchmark at a time when longer maturity interest rates spiked. Performance also benefitted from credit spreads decreasing in the face of the vaccine news.

Having taken some chips off the table in October, November was quite quiet. We were net sellers of long-dated maturities, selling more 2028 and 2031 NZ Government (rated AA+) bonds while buying the new 10-year World Bank (AAA) issue. Right now, we are focusing on shorter maturities (albeit there may be some yearend anomalies that might be worth pursuing in longer maturity bonds). We like shorter bonds because, even if not going negative, it's still quite likely that the Official Cash Rate (OCR) will remain very low for the foreseeable future. There may even be an Aussie-like cut to 0.1% given the unwelcome rise of the NZD vs. US$ above 70c. We purchased new Chorus (BBB) 7-year bonds, having gained comfort that the buildout of the unique national fibre network is behind them after the NZ bond sell-off. We also added short maturity bonds of Meridian (BBB+) and Z-Energy (NR).

Growth Fund

The Growth Fund (Growth PIE) returned 6.03% after tax and fees in November, 2.27% behind the MSCI All Country benchmark which returned 8.30%. The Quantitative and Thematic equity strategies contributed negatively to relative performance this month, but Core Global provided some upside. In addition, the alternative assets outperformed cash, but underperformed equities. The Kiwi dollar strengthened against the US greenback last month, which is a negative for foreign currency returns.

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Kiwi Investment Management Wholesale Funds

Lifetime International Companies Fund

	Units	Unit Price	Market Value	%
Global Quantitative Fund – Hedged	1,646,467.84	1.2308	2,026,472.63	71.17
Global Quantitative Fund – Unhedged	695,645.74	1.1798	820,722.84	28.83
Total			**2,847,195.47**	**100.00**

The Global Quantitative fund returned 3.73% in November, 1.93% behind the MSCI AC benchmark as breakthrough vaccine results provided a massive boost to down-and-out segments of the market. The Pfizer/BioNTech announcement on 9 November that preliminary trial results showed 90% effectiveness took the market by surprise and led to the biggest daily momentum crash and junk rally on record. The biggest sector beneficiary of the announcement was Energy, which spiked 12% higher on the day as the market priced in a 2021 demand rebound. Our lag to benchmark was evident across a number of sectors where the lockdown/recovery theme was at play and had created a wide junk/quality split matching the K-shaped recovery narrative. Our worst sectors were Financials and Technology where our underweight to Banks (JP Morgan, Citigroup) and focus on Tech businesses that were proving robust to lockdown conditions (NortonLifeLock, Nintendo) suffered relative to benchmark. Our best sectors were underweights in Real Estate and Utilities, and our best position was Macy's, which ripped 42% higher for the month.

Our top-down positioning targets higher quality companies and sectors seen as more suited to the current environment. Stock selection favours companies with attractive metrics across earnings quality, capital efficiency, valuations, sentiment and sustainability. Over the month, we reduced our underweights in Financials and Energy (Bank of Montreal, EOG Resources), and reduced allocation to Staples (Church & Dwight) and Discretionary (Alibaba). Technology, Industrials and Materials are our favoured sectors while Energy and Utilities are our largest underweights.

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