Lifetime Income Limited Monthly Portfolio Report as at 31 January 2021 Wholesale Investor

Market Commentary

Stock markets kicked off 2021 with a strong start. Risk sentiment was high for most of January as the global roll-out of vaccines ramped up. Meanwhile, promising fourth-quarter earnings reports and the indication of further fiscal stimulus helped the market overlook concerns about Covid-19, including the new, more contagious variants. However, the MSCI All-Country index fell 0.18, giving up most of its gains towards the end of the month.

Expectations of further stimulus went through the roof at the start of the month after a surprise sweep in the Georgia Senate run-off elections secured the Democrats control of the Congress. This paved the way, giving the Biden administration more freedom to pursue their supportive policy agenda. Not wasting any time, just one week after the result, the Biden administration unveiled a US$1.9 trillion COVID-19 relief package. Republicans did attempt to water down this figure later in the month, but the Democrats have more legislative cards up their sleeve. Nonetheless, the delay and possible haircut dented sentiment.

Also hampering sentiment in the last week of the month was an unusual sell-off, caused by hedge funds being forced to sell down large positions in order to cover losses. These losses were inflicted by an "army" of retail investors targeting Wall Street's elite, banding together on the online forum Reddit, and using memes across social media to pump up the prices of companies the hedge funds had shorted (bet against). The most notable company being struggling videogame retailer, GameStop, which soared 400% last week during the peak of the mania.

As reality set in on the logistical headache of administering vaccines, a relatively slow roll-out gradually started to dominate headlines. This was especially the case in the Eurozone, which also faced a number of supply issues. The US had its share of disappointment, with only ~26 million Americans inoculated at the time of writing, woefully missing projections made at the end of last year. The UK, however, did impress as their roll-out of vaccines picked up momentum.

Despite ending January on a volatile note, we remain upbeat about the direction in where things are headed. Vaccination efforts from places like the UK and Israel show promise, and the rest of the world will eventually get the ball rolling. The US has upped its game and is now achieving a rate of ~1.3 million doses per day. We also received more positive news from Novavax, and Johnson and Johnson's single-shot candidate, adding to the vaccine arsenal. These factors, along with generally positive reads from company reports, improving economic data and a much more supportive White House, gives us some optimism for the path ahead.

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Kiwi Investment Management Wholesale Funds

Portfolio Commentary

Lifetime Fixed Interest Trust

	Units	Unit Price	Market Value	%
Cash Fund	194,946.98	1.0524	205,162.20	100.00
Total			205,162.20	**100.00**

The Cash Fund returned 0.10% before fees and taxes in January, beating its benchmark the S&P/NZX Bank Bill 90-Day Index which returned 0.02%.

Not much movement in bank deposits rates over the month, but we did notice they were still a touch lower as some banks continued to reduce their retail mortgage rates. It is becoming clear now that interest will not go negative in this cycle and thus deposit rates may not go too much lower than they are currently given the pace of the post COVID-19 economic recovery.

Lifetime VIP Balanced Fund

	Units	Unit Price	Market Value	%
Fixed Interest Fund	2,248,564.87	1.3798	3,102,569.80	41.92
Growth Fund	2,588,778.67	1.6602	4,297,890.36	58.08
Total			**7,400,460.16**	**100.00**

Fixed Interest Fund

The Fixed Interest Fund returned -0.36% before fees and taxes in January outperforming its benchmark which returned -0.50%. The outperformance can largely be attributed to having a lower maturity than the benchmark at a time when longer maturity interest rates increased. For the most part, government bond yields rose early in the month (prices fell). In the US (in addition to a host of other news), we watched the Democrats secure control of the Congress which served to raise expectations of more fiscal stimulus as President Biden tabled a further US$1.9 trillion of potential stimulus. This served to stoke the flames of expected inflation as the US 10-year government bond yield increased by 15 basis points (bps) to finish the month at 1.07%. On the corporate bond side, investment grade credit saw negative total returns amidst a wave of new issuance. US credit outperformed US Treasuries, while the euro and sterling markets traded in line with government bonds. Global high yield credit markets made moderate positive returns (mostly income), while high yield primary kicked off 2021 with $51 bn priced in January, the third busiest month on record and the busiest January ever. In what is usually a month where NZ Government Bonds perform well as investors return from summer holidays, New Zealand's longer-term interest rates followed the US with the NZ 10-year government bond closing the month up 14 bps to 1.13%.

January was a reasonably active month in terms of activity despite the market taking its time to roll back into the office and then having half days for Wellington and Auckland anniversaries thrown in. We sold some shorter maturity Kauri issuers KFW (AAA) and Asian Development Bank (AAA) that had tightened in considerably and purchased longer maturity Asian Development Bank (AAA) bonds. We bought a small amount of a number of New Zealand corporates – Chorus (BBB), Meridian (BBB+), Wellington International Airport (BBB), Z Energy (NR), Contact Energy (BBB) as the New Zealand corporate bond market remained cheap vs. offshore credit markets. We also decided to further reduce our long end bond position by selling some of our NZGB 2041s and continued to remain prudent by investing in TDs, that are not price sensitive to a rise in interest rates.

Growth Fund

The Kiwi Wealth Growth Fund (Growth PIE) returned -0.29% before tax and fees in January, 0.05% ahead of the MSCI All Country benchmark which returned -0.34%. Of the main underlying equity strategies, all three contributed positively to the relative performance outcome this month, however the alternative assets which make up a small part of the portfolio underperformed equities and cash. The Kiwi dollar strengthened against most of the G10 pairs last month which was a headwind for returns denominated in foreign currency.

Lifetime International Companies Fund

	Units	Unit Price	Market Value	%
Global Quantitative Fund – Hedged	1,628,665.30	1.2894	2,100,001.03	71.59
Global Quantitative Fund – Unhedged	687,714.31	1.2119	833,440.98	28.41
Total			**2,933,442.01**	**100.00**

The Global Quantitative fund returned 0.11% in January, 0.27% ahead of the MSCI AC benchmark as the pro-cyclical rotation of recent months continued into January driven by vaccine optimism and increased expectations around stimulus in the US before tailing off in the last week of the month as vaccine production difficulties emerged and daily Covid deaths reached record levels. The top performers were again cyclical with Emerging Markets, Small Caps and Energy all ahead of the tape. Our top sectors for the month were Consumer Discretionary (Ford Motor Company, Macy's) and Financials (China Merchants Bank, Bank OZK). Ford and Macy's were beneficiaries of the increasing economic optimism of recent months although both ended the month down from their highs. Our poorest performing sector was Materials (Berry Global Group, Linde). 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 increased allocations to IT (Visa, Qorvo), Discretionary (TJX) and Health Care (HCA Healthcare, Eli Lilly), and reduced allocation to Industrials (General Electric, Thomson Reuters), Financials (Investor AB) and Staples (Associated British Foods). Technology, Materials and Discretionary are our most favoured sectors while Energy and Financials are our largest underweights.

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