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Lifetime Income Limited Monthly Portfolio Report as at 28 February 2021 Wholesale Investor

Market Commentary

February was a month of two halves for equity markets, with a positive first half followed by days of violent selloff in the second half. The MSCI All Country Index (unhedged) managed to hold on to a modest gain of 1.5% as Europe and Japan offset weakness in Australasia and US large-cap.

Beneath the positive headline return, global equity markets went through an aggressive style and sector rotations away from secular growth themes to value and cyclical companies. Energy (particularly Oil and Gas) was the best performing sector while Technology was the worst.

The month kicked off with a bullish wrap to the fourth quarter 2020 earnings season, which saw companies in aggregate delivered positive ~3% earnings growth verses -11% expected by Wall Street. Economic data in the US also exceeded expectations for the most part, with both Retail Sales and Industrial Production showing meaningful improvement thanks to the US$900bn fiscal stimulus passed late last year. The combination of fiscal expansion, monetary policy support, and a very strong, synchronised economic rebound prompted investors to speculate that inflation could be racing ahead of forecasts and an earlier than expected tapering to pandemic support is inevitable. This led to multiple days of sharp drawdowns late in the month coupled with sovereign bond yields rising, particularly the long bonds like the US 10-year Treasury yield.

At home, New Zealand equities (-6.9%) underperformed global shares as several of the larger names in the index, such as Fisher & Paykel Healthcare, A2 Milk and the gentailers, struggled. This was partially offset by a solid increase in re-opening stocks, such as Vista, Australian banks, and Skellerup, which reported stand-out H1 2021 results. The NZD strengthened over the month as the RBNZ held OCR at 0.25%. Although not being completely ruled out, the likelihood of a negative OCR in the near-term has drastically diminished.

While market volatility can be unsettling, the sharp rebound following the Covid-19 selloff last March is a good reminder to all of us that staying the course is often the best way to avoid sell low and buy high. With more stimulus cheques now on the horizon (~US$1.9 trillion as proposed by the Biden administration) and a dovish Federal Reserve that is committed to the easing policies, we remain cautiously optimistic on the market's ability to generate shareholder return this year.

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Kiwi Investment Management Wholesale Funds

Portfolio Commentary

Lifetime Fixed Interest Trust

	Units	Unit Price	Market Value	%
Cash Fund	189,219.99	1.0533	199,305.42	100.00
Total			**199,305.42**	**100.00**

The Cash Fund returned 0.06% 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 may be are reaching the bottom for short term bank deposit rates, as ASB increased their deposit rates at the end of the month. At this point the RBNZ is still fully committed to keeping interest rates at current levels for a considerable period, but the market is now beginning to price in interest rate hikes in 2022. With near full employment, stronger than expected GDP, higher inflation, and a runaway housing market to it is not hard to see why.

Lifetime VIP Balanced Fund

	Units	Unit Price	Market Value	%
Fixed Interest Fund	2,224,352.47	1.3455	2,992,866.24	40.99
Growth Fund	2,563,617.72	1.6807	4,308,672.30	59.01
Total			**7,301,538.54**	**100.00**

Fixed Interest Fund

The Fixed Interest Fund returned -2.49% after fees and taxes in February, outperforming its benchmark, which returned -3.63%. As a rule, bond prices decline when interest rates go up, with longer maturity bonds being disproportionately affected. Much of the outperformance is reflected in our reduction of longer-dated bond exposure since September last year.

We continued down this path in February as interest rates rose ahead of higher expected inflation numbers. Consequently, we sold the last of our 16-year and 20-year maturity New Zealand Government bonds (AAA). We take the view that there will be a time to buy longer bonds again, but that will likely be in our spring. Yes, the market may "see through" a temporary blip in inflation, and we may miss the turn in inflation and some of the subsequent rally in bond prices. The big unknowns are the effect of deep economic damage on small businesses or whether the Brazilian Covid variant could upend global optimism. It's also likely that the Federal Reserve will step in to suppress interest rates of long-maturity bonds, and we've seen the Australian central bank having to step in and buy longer-dated bonds, as have our own Reserve Bank. In the medium term, will we revert to a world where cheap automated mass-produced goods will tamp down inflation again? All worth pondering but we are very much keeping to a better-safe-than-sorry approach right now towards long-term interest rates.

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We've been keeping cash levels quite high, waiting for better times to add company risk. We dipped our toes in the water in February, beginning to buy short-dated bonds of IQIVA (BB+), a pharmaceuticals-testing powerhouse and Twitter (BB+), a premier global franchise we think has a strong path to a higher rating. We also purchased global equipment provider, United Rentals (BB).

Growth Fund

The Growth Fund returned 1.23% before tax and fees in February, 0.71% behind the MSCI All Country benchmark which returned 1.94%. Two of the three underlying equity strategies contributed negatively to relative performance this month, the alternative assets on the other hand outperformed both equities and cash. The Kiwi dollar had another strong month which was yet again a headwind for returns denominated in foreign currency.

We have shifted some of our investments and weightings to reflect the higher interest rate environment and rising inflationary pressures. This has seen us reduce exposure to defensive themes like discount retail and snack foods, while increasing our tilts to re-opening beneficiaries, particularly in the banking and semiconductor industries.

Lifetime International Companies Fund

	Units	Unit Price	Market Value	%
Global Quantitative Fund – Hedged	1,612,063.44	1.3108	2,113,092.76	71.81
Global Quantitative Fund – Unhedged	680,215.01	1.2198	829,726.27	28.19
Total			**2,942,819.03**	**100.00**

The Global Quantitative Fund returned 1.56% in February, 0.88% behind the MSCI AC benchmark as the improving economic outlook saw 10-year US treasury yields up 34bps and crude oil up 17%, keeping the Energy and Financial sectors buoyant. The optimism is in large part driven by the reduced Covid-19 case count and vaccine momentum against background messages from central banks that they will tolerate higher inflation to secure an economic rebound. Our top sector for the month was Technology (Verint, HP Inc, Au Optronics) with Verint rallying on its Cognyte cyber intel spinoff and HP Inc beating expectations on strong demand for PCs and printers. Our poorest sector was Financials (underweight JPMorgan, Bank of America) which benefited from the yield rally and expectations of economic pickup despite showing relatively poor fundamentals.

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 allocation to Financials (Moody's, ORIX Corp) and Technology (Texas Instruments, Synopsys), and reduced Healthcare (Novartis, Anthem) and Staples (Coca-Cola, Procter & Gamble). Technology, Materials and Industrials are favoured sectors while Energy and Utilities are largest underweights.

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