Kiwi Invest. NZ's smart money.

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

Market Commentary

Global equity markets rose 3.5% in March as measured by the NZD-hedged MSCI ACWI index, shrugging off concerns about rising inflation and higher interest rates, and instead focusing on the positive stories of ongoing vaccine rollouts and massive levels of US fiscal stimulus.

President Biden used his party's skinny majority in Congress to full effect in March, passing a US$1.9 trillion stimulus package to help re-ignite the pandemic-ravaged economy. Included in the bill is a USD $1,400 one-off payment for most Americans, money that policymakers hope will be spent on dining out, trips to the mall, and on other business sectors still struggling from multiple lockdowns.

It remains to be seen whether American consumers are in a spending mood, but equity markets have clearly taken the view that the Biden boost is just what the economy needs. It's a common theme in financial markets at present – good news is being seized upon as another reason to buy risk assets, while bad news is dismissed as trifling or temporary. For example, the threats of higher corporate taxes in the US and a potential fourth wave of infections in Europe have had little impact on investor sentiment. Even the dramatic collapse of hedge fund Archegos Capital failed to fuel market fears, the negative impact being restricted to a small cluster of stocks (none of which had a material impact on Kiwi Wealth funds).

In New Zealand, the conversation was rather surlier and more inward-looking, with the housing market again taking centre stage. Labour's property tax changes seemed to catch everybody off guard, with both the Kiwi dollar and local interest rates falling sharply post announcement. The country's leisurely vaccine rollout also came under scrutiny, with concerns that New Zealand could fall behind in a post-COVID global recovery.

However, while the 2.7% gain in domestic equities lagged the global rally, it's worth noting that New Zealand has outperformed the world index over the past three years, and a little bit of give-back isn't a catastrophe.

Likewise, the 3.3% monthly fall in the NZD/USD exchange rate to ~0.70 should be seen in the context of its 17.3% rally from ~0.60 a year ago.

Looking back at the blistering rally in global share markets since the depths of the pandemic sell-off, it's worth noting that almost nobody predicted we'd be 16% above pre-pandemic levels within twelve months. But almost nobody anticipated the unprecedented monetary response, the speedy success of multiple vaccines, and a Democratic sweep in the US elections – factors critical to the share market rally.

Where equity markets finish for the year will likely be determined by similarly unpredictable events. Regardless, we still see plenty of investment opportunities that offer potential for long term gains. Time and time again, staying the course on an investment plan rather than trying to pick market inflection points has proven to be a winning long-term strategy.

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Kiwi Investment Management Wholesale Funds

Portfolio Commentary

Lifetime Fixed Interest Trust

	Units	Unit Price	Market Value	%
Cash Fund	189,197.88	1.0541	199,433.49	100.00
Total			**199,433.49**	**100.00**

The Cash Fund returned 0.08% before fees and taxes in March, beating its benchmark the S&P/NZX Bank Bill 90-Day Index which returned 0.03%.

There wasn't much movement in bank deposits rates over the month, with rates basically going sideways.

The government's announcement that they will change the bright-line tax rules for property investors from 5 years to 10 years and remove the tax-deductibility of mortgage interest payments helped to reduce the odds of interest rate hikes next year by the Reserve Bank of NZ (RBNZ). The market took the view that these changes will increase the likelihood that the housing market will slow down, and therefore the RBNZ will not need to increase interest rates as quickly to counteract the rise in house prices. The consequences of this is that it seems more likely that cash returns will stay lower for a longer period of time.

Lifetime VIP Balanced Fund

	Units	Unit Price	Market Value	%
Fixed Interest Fund	2,223,911.66	1.3497	3,001,613.56	39.76
Growth Fund	2,562,621.50	1.7747	4,547,884.38	60.24
Total			**7,549,497.94**	**100.00**

Fixed Interest Fund

The Fixed Interest Fund returned 0.31% before fees and taxes in March, underperforming its benchmark, which returned 0.71%. This was almost wholly a function of a smaller average maturity than the fund's benchmark. New Zealand interest rates declined from February's highs in March, although the effects faded towards month-end.

This month saw us focus squarely on shorter-maturity bonds. We added Netflix (BB+), Twitter (BB+) and lease equipment giant United Rentals (BB) as well as hard disk drive behemoth Western Digital (BB+). Credit spreads (the extra interest premium you get from owning a bond issued by a company rather than a government) aren't all that attractive due to strong expectations for global growth. However, we do see value in rising stars that will likely trade very well if they have their credit ratings upgraded. Closer to home, we added new issues of Transpower (AA) and quasi-government IBRD (AAA). We also continued to reduce our government bond exposure selling out of the expensive New Zealand Government (AAA) 2028 dated bonds and taking profits on New South Wales State (AA+) bonds ahead of higher expected inflation numbers.

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We take the view that there will be a time to buy longer bonds again, but that will likely be in our spring. Longer maturity (> 5 years) NZ bonds take their lead from the interest rate on the 10-year US Treasury bond. Right now, there is the same giddy elation in the US that we felt in May last year and warranted concerns that inflation will spike. Will the interest rate on the US 10-year Treasury bond (and hence long maturity NZ bonds) continue to climb as inflation spikes? If so, at what point would the Fed step in to push down 10-year interest rates? It's still too early to tell, so we are keeping a conservative tack when it comes to average maturities.

Growth Fund

The Growth Fund returned 5.59% before tax and fees in March, ahead of the MSCI All Country benchmark which returned 5.12%. All three of the underlying equity strategies performed well over the month contributing positively to relative performance. The Kiwi dollar got exceptionally weaker last month which helped boost our foreign currency returns.

Lifetime International Companies Fund

	Units	Unit Price	Market Value	%
Global Quantitative Fund – Hedged	1,611,380.68	1.3800	2,223,705.35	71.22
Global Quantitative Fund – Unhedged	679,927.69	1.3219	898,796.41	28.78
Total			**3,122,501.76**	**100.00**

Global Quantitative finished the month up 8.41% and was 1.79% ahead of the ACWI benchmark as vaccine optimism and a monster US stimulus package added support to the economy, spurring a pickup in inflation and a rise in treasury yields keeping growth stocks on the back foot. The month ended with the Suez Canal blocked, sending freight rates sky-high and raising questions about the fragility of global supply lines. Our top sectors were Consumer Discretionary, with US home retailer Williams-Sonoma a top performer posting strong results, and Technology, where Infosys rallied on their expansion in Canada. These were complemented by a handy underweight in Shopify which was down sharply for the month as rising yields hampered growth stock valuations. Our worst sector was Communications where our Baidu holding, and underweight Facebook were headwinds.

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 Communications stocks (Activision Blizzard, Telcom Italia) and Energy (Baker Hughes, Williams), and reduced Technology (Microchip Technology, Cisco). Technology and Materials remain favoured sectors while Energy and Utilities are our largest underweights.

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