Kiwi Invest. NZ's smart money.

Lifetime Income Limited
Monthly Portfolio Report
as at 30 June 2021
Wholesale Investor

Market Commentary

Global equities rallied over the course of June, recording a 2.3% return as measured by the NZD-Hedged MSCI ACWI index. Developed markets performed exceptionally well, notably the S&P 500 and the NZX 50, each gaining 2.2% and 2.8%, respectively. European markets, on the other hand as well as several emerging economies, saw subdued returns as the highly infectious Delta variant of COVID-19 created a surge in new cases, particularly affecting those with low rates of vaccinations. In general, mobility restrictions continued to be lifted globally as vaccination campaigns progress, and hospitality rates have sunk despite pockets of an uptick in cases.

Last month we saw the continuation of themes that dominated much of April and May this year. Confidence in risk markets remains high as favourable economic data continues to support investor sentiment. In the US, first quarter annualized GDP grew at a healthy 6.4% rate, jobless claims have fallen to COVID-era lows and manufacturing activities are at record highs as domestic demand shifts away from services to produced goods. Despite the Eurozone having contracted 0.6% in the first quarter, leading indicators from the Purchasing Manager's Index (PMI) suggests pickup in activities in the second quarter. The picture certainly suggests that the economic rebound has more legs and could extend well into remainder of the year.

Inflationary pressures continued to build as we saw the latest inflation readings out of the US growing at the fastest rate since 2009. The May Consumer Price Index (CPI) came in at 4.7% year on year, while core inflation excluding volatile food and energy was 3.5%. Both readings were above market consensus. Together, this prompted the Federal Reserve to switch a more hawkish stance, signalling two potential interest rate hikes by the end of 2023. While it came as an initial surprise, equity and treasury markets were quick to shrug off the knee-jerk reaction. Interest rate curves flattened with short term interest rates rising and longer-term interest rates falling. The group of large-cap tech companies is one of the benefactors of lower interest rate yields and finished the month as one of the best performing sectors.

Global supply chain remains strained due to the pent-up demand. Freight operators are expecting no relief ahead of the holiday shopping season as retailers rush to restock after a year of pandemic related disruptions. Global shipping prices are up over 300% since the start of 2020 as measured by the Freightos Baltic Index. To put that in perspective, more than 400 ships were over two weeks late on the trans-Pacific trade lane for the first five months of this year. That compares to a total of 388 ships on the same route for the combined years 2012 to 2020.

The semiconductor shortage that had been spilling into automobile and tech sectors continues to bite, and crude oil prices have climbed another 11% in June. That said, we are finally seeing some relief in prices across other commodities such as soft metals and lumber where futures prices are now off their highs. This was partly alleviated by China releasing its national strategic reserves to curb the cost of raw materials.

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Portfolio Commentary

Lifetime Fixed Interest Trust

	Units	Unit Price*	Market Value	%
Cash Fund	189,125.32	1.0564	199,791.99	100.00
Total			**199,791.99**	**100.00**

**Applications are valued using the buy price, redemptions are valued using the sell price and market values are calculated using the mid-price.*

The Cash Fund returned 0.06% before fees and taxes in June outperforming its benchmark, the S&P/NZX Bank Bill 90-Day Index, which returned 0.03%.

New Zealand short term interest rates continued to move higher over the month, as the prospect for a higher Official Cash Rate (OCR) within the next 6-9 months increased further. New Zealand 1st quarter GDP was released in the middle of the month and came in stronger than expected. This, combined with more warnings from local bank economists that the OCR may need to be raised sooner rather than later, helped lift rates.

Bank term deposit rates also continued to grind higher over the month due to the rise in short term interest rates combined with a widening funding gap (mortgage loans are being written at a faster pace than term deposit growth).

Lifetime VIP Balanced Fund

	Units	Unit Price	Market Value	%
Fixed Interest Fund	2,196,293.29	1.3550	2,975,977.41	37.96
Growth Fund	2,535,851.87	1.9184	4,864,778.22	62.04
Total			**7,840,755.63**	**100.00**

Fixed Interest Fund

The Fixed Interest Fund returned 0.30% before fees and taxes in June, outperforming its benchmark which returned 0.09%.

Most of the outperformance was related to the strong run of NZ LGFA (Local Government Funding Authority) and Housing NZ bonds which did well vs. NZ Government bonds. We see LGFA and Housing NZ as very attractive high-quality issuers that will perform better as interest from international investors lifts.

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Kiwi Investment Management Wholesale Funds

We remain leery of the idea that reopening will only have a "transitory" effect on inflation given some of the secular trends like the effect of lower expected NZ immigration on wage costs. Even if only "transitory", there are multiple signs that our economy is running near full capacity – with some obvious caveats like tourism. We have therefore continued to take a wait-and-see approach and we remain positioned towards shorter average maturities. We did, however, participate in the well-priced new issue of New Zealand Government (AAA) 2032 maturity bonds. We believed that longer dated New Zealand bond interest rates had got ahead of itself vs. global peers, reacting more to the LSAP tapering than what's really necessary.

Growth Fund

The Growth Fund returned 4.27% before fees and taxes in June, outperforming the MSCI ACWI benchmark by -0.35%.

One of the underlying equity strategies had excellent performance, which contributed to the positive outperformance. The weakening Kiwi Dollar also helped lift foreign currency returns.

Lifetime International Companies Fund

	Units	Unit Price*	Market Value	%
Global Quantitative Fund – Hedged	1,598,531.83	1.4860	2,375,418.30	71.15
Global Quantitative Fund – Unhedged	674,113.63	1.4287	963,106.14	28.85
Total			3,338,524.44	**100.00**

**Applications are valued using the buy price, redemptions are valued using the sell price and market values are calculated using the mid-price.*

The Global Quantitative Fund returned 5.41% before fees and taxes in June, 0.18% behind the MSCI ACWI benchmark, as the market keenly eyed robust inflation data and Fed reaction, treasuries however were on another planet rallying 13bps while oil was up 10% and the greenback up 2.7%. Technology and Energy were top performing sectors for the month with mega cap growth stocks like NVIDIA, Adobe, Apple, and Microsoft roaring back to life, while Materials and Financials were weak.

Our top-down positioning targets higher quality companies and sectors seen as more suited to the current environment. Stock selection favors companies with attractive metrics across earnings quality, capital efficiency, valuations, sentiment, and sustainability. Over the month, we increased allocation to Technology (Dell, Gartner) and Healthcare (Veeva, Novartis), and reduced allocation to Financials (Ping An, Magellan) and Staples (Brown-Forman, Kroger). Technology and Discretionary are our favored sectors while Energy, Staples and Real Estate are our largest underweights.

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