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

Market Commentary

The global economic recovery continued to gather pace in July, with restrictions on activity being further eased across several developed markets (notably the UK), coupled with continued strong vaccine rollouts as the percentage of adults with at least one jab in developed markets continued to increase to generally above 50%. Sentiment was not uniformly positive, however, as the spread of the more contagious Delta variant of COVID-19 (and the unknown ability for vaccinated individuals to pass this on) increased concerns that the path back to pre-COVID life may be more challenging than previously expected. Given the threat of Delta and Lambda strains, global bonds delivered a 1.3% return over the course of July with some eye-opening movements in the US 10-year Treasury yield, which fell 0.25% to finish the month at 1.22%. Equity markets tended to take their cues from the bond market. Growth stocks such as those in Tech were boosted by the decline in yields and returned 2.9%, while the relatively cheap value stocks returned 0.7%. On a geographic basis, the US market led the way, returning 2.4% over the month. Emerging market equities lagged, returning -6.7%, dragged down by weak performance from China, where announcements of tighter regulation for several sectors triggered sharp declines in stock prices. Second quarter earnings season also offered some reasons for optimism: with over half of the S&P 500 companies having reported earnings by the end of July, close to 90% of those reporting had beaten analysts' earnings expectations.

In terms of economic data, US inflation surprised to the upside yet again (for the fourth consecutive month), with the increase in headline consumer price index (CPI) reaching 5.4% year over year in June. There was an obvious contribution from sectors that are benefitted by reopening, such as travel and tourism, which remained strong, but there were also signs that inflation was broadening across the wider economy. The recovery in the US labour market was reasonable, with 850,000 jobs added in June – the largest monthly gain since last August, however, the latest weekly jobless claims also came in higher than expected, showing the US labour market is not yet completely out of the woods, which plays into the on-the-ground reality of surging cases and hospitalizations in states with low vaccine levels. Generally, the market seems to believe that the Federal Reserve has started the countdown on the tapering of quantitative easing (stimulus), but there is no sense that the US is as advanced as New Zealand, for instance, in terms of hiking interest rates.

With many equity markets having already delivered strong returns during the first half of the year, many investors seemed to focus on downside risks in July. The Delta variant may well lead to a slower global rebound, particularly in parts of the world where vaccination rates are lower, as well as in more vaccinated populations depending on the efficacy of vaccines and the ability of vaccinated individuals to pass the Delta variant on. However, there is little evidence at this stage to suggest that the global recovery will be derailed. Consumers are powering a strong rebound in growth, and given the lockdown induced savings through 2020, they have plenty of firepower in their pockets. Policymakers, on the other hand, continues to provide ample support (indeed, the downside of a slower COVID induced recovery is more support from Central Banks). While the simplest part of the recovery is now in the rear-view, there is increased confidence in the sustainability of the global recovery.

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Kiwi Investment Management Wholesale Funds

Portfolio Commentary

Lifetime Fixed Interest Trust

	Units	Unit Price*	Market Value	%
Cash Fund	171,305.37	1.0571	181,086.91	100.00
Total			**181,086.91**	**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 0.07% before fees and taxes in July outperforming its benchmark, the S&P/NZX Bank Bill 90-Day Index, which returned 0.01%.

New Zealand short term interest rates continued to move higher over the month, as the prospect for a higher Official Cash Rate (OCR) is now imminently priced into the market for the next Official Cash Rate review later this month. This is due to a much stronger than expected 2nd quarter inflation report coupled with a more hawkish Reserve Bank of New Zealand (RBNZ) statement at their July Monetary Policy Review. As of the time of writing, there are now close to three 25 basis point hikes priced in the market by the end of the year, which would take the OCR back to 1.00%.

Bank term deposit rates continued to increase throughout the month as various New Zealand banks responded to the increases in short term wholesale interest rates caused by the above. While these deposit rates are still historically very low in many cases, they are now 0.50-0.75% above where they were at their lowest point and are likely to increase further from here.

Lifetime VIP Balanced Fund

	Units	Unit Price	Market Value	%
Fixed Interest Fund	2,606,335.61	1.3578	3,538,882.49	44.75
Growth Fund	2,231,320.82	1.9579	4,368,703.03	55.25
Total			**7,907,585.52**	**100.00**

Fixed Interest Fund

The Fixed Interest Fund returned 0.21% before fees and taxes in July, underperforming its benchmark which returned 1.14%.

Underperformance was mostly due to having a lower average maturity than that of our benchmark. All things being equal, bond prices go up when interest rates go down and go up more if the maturity of the bond is longer. We were also hit somewhat by our overexposure to short rates, which also rallied (and therefore declined in price) on the back of an abrupt change of message from the Reserve Bank of New Zealand.

July saw us add to Asian Development Bank (AAA) and KBN (AAA). We also added some attractive term deposits of ANZ (AA-) and Westpac (AA-). Our core belief is that Fed tapering, COVID reopening normalization (or some version thereof) and less-than-transitory inflation makes long-dated bonds look awfully expensive. We see company bonds as a great alternative to longer maturity bonds - albeit having been too expensive for some time. Although we haven't been adding too much of it lately, the good news is that we are finally seeing more high-quality company bond opportunities as a means of adding yield to the portfolio (more on this next month).

Growth Fund

The Growth Fund returned 2.09% before fees and taxes in July, outperforming the MSCI ACWI 50% hedged to NZD Index, which returned 0.80%

Two of the three underlying equity strategies performed well, which contributed to the positive outperformance. The alternative assets underperformed equities.

Lifetime International Companies Fund

	Units	Unit Price*	Market Value	%
Global Quantitative Fund – Hedged	1,573,079.74	1.5039	2,365,754.62	70.02
Global Quantitative Fund – Unhedged	699,507.95	1.4482	1,013,027.42	29.98
Total			**3,378,782.04**	**100.00**

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The Global Quantitative Fund returned 1.38% before fees and taxes in July, 0.53% ahead of the MSCI ACWI benchmark as the Delta Variant wave grew in the US and yields plumbed recent lows with Treasuries rallying 22bps to finish the month at 1.23%

Equity winners for the month were the US, Growth and Defensives, particularly Healthcare; losers were Value, Energy and EM, particularly China, which was down heavily with regulatory clampdowns affecting some big names. The fund was handily ahead of multifactor ETFs that were dragged down by Value. Our top sectors were Healthcare, with HCA reporting strong earnings on the back of a demand rebound, Financials with Partners Group reporting strong flows and a series of deals and Discretionary where u/w Meituan paid off as new Chinese regulations piled on costs. Our worst sector was Comms, where Activision Blizzard came under pressure with sexual harassment allegations surfacing.