Kiwi Invest. NZ's smart money.

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

Market Commentary

The global economic recovery continued in August, buoying investor sentiment in what is traditionally a weak month for stocks. Global equity markets rose 2.61% (as measured by the NZD-hedged MSCI ACWI index) off the back of positive progress on the vaccine rollout and further easing of restrictions in several major developed markets. However, the path to normality may be bumpier than previously expected as the spread of the Delta variant undermines re-opening plans.

Looking across asset classes, the yield on the benchmark US 10-year Treasury increased in August from a low of 1.18% to close at 1.31%. Nevertheless, bond yields remain well off from the March highs of 1.7%, a reflection of Delta variant fears and a loss of confidence in the strength of the global recovery.

Equity markets took their cues from the bond market, and "reopening" trades were put on hold as the Delta variant delayed the reopening of many businesses. On a regional basis, inflation concerns, supply-chain constraints, labour shortages, the withdrawal of US troops from Afghanistan, and the spread of the coronavirus Delta variant were not enough to keep the markets down. US markets led the way, with the S&P 500 climbing higher for its seventh consecutive month – its longest winning streak since January 2018. Emerging market (EM) equities initially stalled under the combination of a tougher stance from Chinese regulators and increased virus concerns, but later rebounded to deliver a 2.6% return for the month. European markets delivered 1% over the month of August, also marking its seventh consecutive month of gains.

In terms of economic data, US data pointed to an economy that, while past the peak rate of growth, is still running hot, and concerns around inflationary pressures continued to build. However, both the S&P 500 and the Nasdaq moved to new records in the last week of August as investors reacted positively to words from US Federal Reserve Chairman Jerome Powell. As expected, Powell confirmed that the Fed is content with the progress made on inflation, which it still believes will be transitory, and anticipates only modest tightening of monetary policy later in the year. In the Eurozone, however, investors are waiting for monetary policymakers to decide whether the spike in inflation seen across the continent is something that will clear once pandemic-related disruption to supply chains eases, or if a more robust tightening will be required.

August's data highlights that the global reopening has continued, but as expected, several countries first out of the blocks are now seeing the rates of their recoveries start to slow. While the Delta variant and inflation pressures are expected to remain at the forefront of investors' minds, for now, the global economic recovery remains broadly on track.

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Kiwi Investment Management Wholesale Funds

Portfolio Commentary

Lifetime Fixed Interest Trust

	Units	Unit Price*	Market Value	%
Cash Fund	171,282.63	1.0579	181,199.89	100.00
Total			**181,199.89**	**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 0.08% before fees and taxes in August, beating its benchmark, the S&P/NZX Bank Bill 90-Day Index, which returned 0.06%.

New Zealand short term interest rates started the month by heading higher in anticipation of the Reserve Bank of New Zealand (RBNZ) likely rate hike of the Official Cash Rate (OCR). The confirmed outbreak of COVID-19 in the New Zealand community the day prior to the August 18th meeting, however quickly cancelled this action. This caused short term interest rates to fall, as the market had to reprice based on the OCR staying at 0.25% for longer than anticipated. The RBNZ Governor was quick to point out that the committee views the lockdown as just a delay to raising the OCR and that they still expect to increase the OCR imminently. Meanwhile bank deposit rates continued to grind higher over the month with many banks now offering 6-month deposits back above 1% and we expect this to continue.

Lifetime VIP Balanced Fund

	Units	Unit Price	Market Value	%
Fixed Interest Fund	2,605,825.60	1.3498	3,517,343.39	44.06
Growth Fund	2,230,302.42	2.0027	4,466,626.66	55.94
Total			**7,983,970.05**	**100.00**

Fixed Interest Fund

The Fixed Interest Fund returned -0.59% before fees and taxes in August outperforming its benchmark, which returned -1.25%.

The outperformance was mostly due to having a lower average maturity than that of our benchmark. All things being equal, bond prices go down when interest rates go up and down more if the maturity of the bond is higher. Longer interest rates rose around the world as unemployment fell and inflation expectations increased.

Robust job growth, unabated high inflation and the likely passing of a $1 trillion infrastructure deal saw US interest rates rise in August. The US 10-year treasury rose 9 basis points from 1.22% to 1.31%, a subdued and welcome reaction to the end of Quantitative Easing (QE/a.k.a. bond buying). Fed Chair Jay Powell laid the groundwork well for the end of QE, emphasizing that there won't be higher overnight interest rates any time soon post the global (and now virtual) central bank conference late August at Jackson Hole. Also, overshadowing any bullishness on the economy over the month, of course, was the rising tide of Delta variant infections and deaths. Added to that, increasing - almost daily - dictates from President Xi of China on issues from tutoring to video game usage, creating a more cautious tone at the margin.

Closer to home, the best-laid plans... Just one full day before the Reserve Bank was near-universally expected to raise its Official Cash Rate (OCR) by 25 basis points to 0.5%, Delta hit, and the hike was scratched out for now. For now, is the operative phrase. Doubling down, RBNZ Governor Adrian Orr has been clear that he expects to raise rates as soon as October, even if we are still in some form of lockdown.

We took opportunity in August to add names like pharma companies Bristol-Myers-Squib (A+) and Novartis (AA-), tech companies Amazon (AA), Salesforce (A+), Qualcomm (A-) and Microsoft (AAA), as well as rising stars Ford Motor Credit (BB+) and Berry Plastics (BBB-). We see investing in 5-7 year maturity company bonds as a sweet spot because the market is already pricing in higher short term interest rates at those maturity points and the credit spreads look attractive. Our aim over time is to roll maturing bonds into these higher interest yields, thus raising the entire yield of the portfolio without taking excessive risk at the more volatile long end of the maturity spectrum.

Growth Fund

The Growth Fund returned 2.32% before fees and taxes in August, outperforming the MSCI ACWI benchmark by 0.17%

Strong performance from Global Thematic contributed to the fund's outperformance.

Lifetime International Companies Fund

	Units	Unit Price*	Market Value	%
Global Quantitative Fund – Hedged	1,519,949.96	1.5417	2,343,306.85	67.89
Global Quantitative Fund – Unhedged	675,639.54	1.4696	992,919.87	28.77
Unsettled transactions	115,250.60	1.0000	115,250.60	3.34
Total			**3,451,477.32**	**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 1.50% before fees and taxes in August, which was -0.15% behind the MSCI ACWI benchmark, which returned 1.65%.

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Kiwi Investment Management Wholesale Funds

Winners for the month were Japan, the Growth factor, and Financials while losers were Hong Kong, the Value factor and Materials. The fund continued to perform well against multifactor ETF peers who have greater exposure to Value.Our top sectors were Materials with China National Building Material Co. beating expectations on strong materials demand and Healthcare with therapeutics specialist Translate Bio being bought out by Sanofi. Our worst sectors were Technology with Visa on the backfoot as consumer spending slowed with the Delta wave and Communications as Nintendo printed mediocre Q1 results with game sales declining YoY as consumers await new titles.

Our top-down positioning targets higher quality companies and sectors judged 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 Healthcare (Takeda Pharmaceutical, Abbott Labs) and Staples (Coca-Cola Europacific, Alimentation Couche-Tard), and reduced Communications (Tencent, REA Group) and Financials (Nomura, Sun Life). Technology, Discretionary and Industrials are our favored sectors while Energy and Staples are our largest underweights.

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