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

Market Commentary

April was another solid month for global equity markets, which climbed as much as 3.7% as measured by the NZD-hedged MSCI ACWI index. The healthy risk appetite lifted the S&P 500 and Dow Jones to fresh record highs in the first two weeks before tapering off and trending sideways for the rest of the month. First quarter corporate earnings results dominated much of the news flow, with a large group of US companies having now reported, and a good majority of those numbers have so far exceeded the market's expectations.

The reflation trade is still very much in play, that is, positioning for the expansionary economies supported by government stimulus through both fiscal and monetary policies. We've begun to see the third round of pandemic-relief cheques weave themselves into the US economy, as recent data metrics paint a picture of a robust recovery. The labour market continues to gain traction as weekly jobless claims in the US fell to post-pandemic lows, personal income also soared by a record 21.1% in March, levels not seen since 1946. Annualized first quarter GDP in the US recorded a 6.4% increase which, astonishingly enough, places total GDP only a mere 0.8% lower than the pre-pandemic end of 2019 figures.

With the pace of vaccine rollouts progressing well across the developed world, and better economic data expected in the coming months, the question remains just how quickly inflation will accelerate and for how long it's going to stick. We've already seen signs of inflation building in commodity prices, as metals and grains are among some of the best performers of late, squeezed by demand from rebounding economies. Both the Reserve Bank of New Zealand and the US Federal Reserve kept interest rates close to zero last month, citing that it would be a while before they hit the brakes. But of course, one can argue that central bankers have backed themselves into a corner in which they have to pretend to be behind the curve, as any hint of tapering their ultra-accommodative policies will likely stoke fear at a time where recovery remains the primary objective.

You may recall from the previous month where we outlined the Biden administration's US$1.9 trillion 'American Rescue Plan' and the proposed US$2 trillion infrastructure package. In April, the President detailed yet another new US$1.8 trillion 'American Families Plan', this time aimed at bolstering education and childcare. While the earlier pandemic stimulus packages were funded from debt, the administration plans to fund the latter initiatives with a series of tax increases targeting the wealthy and corporations. It goes without saying that this direction of tax reform will no doubt face resistance in the Congress from both the Republicans as well as moderate Democrats.

As global share markets continue to drift higher following their spectacular recovery, it's important for us not to lose sight of what could happen next. As such we have positioned our portfolios in a robust and diversified way which we believe will help us as we navigate the rest of the year.

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Kiwi Investment Management Wholesale Funds

Portfolio Commentary

Lifetime Fixed Interest Trust

	Units	Unit Price	Market Value	%
Cash Fund	189,173.43	1.0547	199,521.22	100.00
Total			**199,521.22**	**100.00**

The Cash Fund returned 0.06% 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 just like the previous month.

The New Zealand economy is chugging along, but we have already done our COVID dash. On the positive side, there are welcoming signs that the Trans-Tasman bubble is helping regions such as Auckland and Queenstown. Milk prices look set to remain very high heading into the next season. It is also proving hard to fill some jobs and, yes, we are slowly getting vaccinated. Finance Minister Grant Robertson has indicated that the 2021 budget will also be a COVID budget, so we'd expect the decent stimulus to continue.

The RBNZ remains firmly in the no-change to the OCR camp, with the market pricing in the OCR remaining at 0.25% well through to 2022. The Reserve Bank remains cautious of the various clouds on the horizon, these include the delicacy of our vital export relationship with China, a Labour government that is determined to suppress house price and the threat of new Covid-19 variants etc.

Lifetime VIP Balanced Fund

	Units	Unit Price	Market Value	%
Fixed Interest Fund	2,208,193.26	1.3569	2,996,297.44	39.06
Growth Fund	2,547,845.37	1.8344	4,673,767.55	60.94
Total			**7,670,064.99**	**100.00**

Fixed Interest Fund

The Fixed Interest Fund returned 0.53% before fees and taxes in April underperforming its benchmark, which returned 0.78%. As a rule, bond prices increase when interest rates go down, with longer maturity bonds being disproportionately affected. The underperformance was a factor of lower exposure to the more volatile longer maturity part of the market as the theme of rising interest rates took a breather. This was offset by the strong performance from company bonds.

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Compared to the volatility in February, April was pretty quiet in global interest-rate land. We are in a time somewhere between central banks poised to reduce their extraordinary 2020 stimulus - but not yet. This reduction needs to happen as we move out of the shadow of COVID-19. Having over 50% of the adult US population immunized at least once is somewhat of a tipping point for substantive economy opening, that is, if the Israeli experience is anything to go by. The reopening spending is kicking into full gear, and that is showing through in the economic data.

We've also seen a continuation of the equally extraordinary government intervention like the proposed $2 trillion infrastructure stimulus in the US. Potential spikes in inflation from all this ebullience amidst continued consumer and industrial shortages are beginning to worry central banks. But if central banks were to step in, it most likely won't involve raising interest rates, at least until 2022. That is assuming inflation stays anything but "transitory", the new buzzword in fixed income markets. In the absence of higher inflation and dovish Fed-speak, the lower volatility brought out bond buyers from the sidelines and pushed the interest rate on the 10-year US Treasury down 11 basis points from 1.74% to 1.56%.

We spent April nipping and tucking. We switched 5-year International Bank for Reconstruction & Development (AAA) into an attractive 7-year new issue, we also purchased Asian Development Bank (AAA), NZ Local Government Bonds (AAA) and Housing New Zealand (AAA). Further, we added NZ gentailer, Mercury (BBB+). We remain leery of longer dated bonds that are 7+ years. We aren't as certain as the market that inflation will be 'transitory' as the effect of reopening and higher oil and commodity prices run through the economy. Therefore, we are continuing to take a wait-and-see approach. Consequently, we are positioning more towards shorter average maturities and corporate bonds. Having said that, global corporate bond opportunities were few and far between lately, as credit spreads contracted. Despite this, we were very busy adding potential new investment candidates throughout the month.

Growth Fund

The Growth Fund returned 3.40% before fees and taxes in April outperforming, 0.59% ahead of the MCSI All Country benchmark, which returned 2.81%. Two of the three of the underlying equity strategies performed well over the month contributing positively to relative performance. The alternative assets also outperformed cash. The Kiwi Dollar on the other hand strengthened which offset some of the foreign denominated returns.

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Kiwi Investment Management Wholesale Funds

Lifetime International Companies Fund

	Units	Unit Price	Market Value	%
Global Quantitative Fund – Hedged	1,610,653.14	1.4346	2,310,643.00	71.59
Global Quantitative Fund – Unhedged	679,620.28	1.3489	916,739.80	28.41
Total			**3,227,382.80**	**100.00**

Global Quantitative finished the month up 2.07% and was 0.15% ahead of the ACWI benchmark as growth sectors led the market to new record highs through Q1 earnings season. Communications and Tech were the strongest with the world's biggest listed company Apple posting double-digit growth. Energy was the weakest sector as pandemic setbacks plagued key regions, with treasuries rallying 10bps. Growth indicators continued to be strong however, and policies supportive. Our top sectors were Industrials (HMM, COSCO Shipping) as global freight transport was in strong demand and Staples as Archer-Daniels-Midland posted strong results. Our worst sector was Financials (Ping An, ORIX) as our focus on Asian names in Financials worked against us for the month. Au Optronics was our top position, surging more than 50% ahead of the benchmark on a strong earnings result and strong demand for its displays.

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 Technology (Apple, Microsoft) and Discretionary (GM, Daimler), and reduced Communications (TELUS, Verizon). Technology and Discretionary are favoured sectors while Energy and Real Estate are largest underweights.

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