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

Market Commentary

September indicates the end of the Northern Hemisphere summer and what has been one of the seasonally worst-performing months for equities. Historically, September ranks as the worst-performing month for the S&P500 over both the last 10 and 20 years, and it is the only month with negative average returns over each period. This year has been no different with a catalogue of events causing the index to return the worst monthly performance since March 2020 (-4.76% USD) and ripple effects were echoed across global markets. Domestically, the NZX 50, bucked the global equity sell off, returning a moderate 0.43%. Energy and commodity markets, especially oil, coal, and natural gas, continued to rally strongly with the Bloomberg Commodity Index having its largest annual gain in 42 years.

The month started off with a big miss in employment numbers in the US and Federal Reserve's chairman Jerome Powell did a good job in managing expectations post the Jackson Hole Economic Forum as the market was definitely in the mind set of "when" rather than "if" tapering (discontinuation of stimulus) would take place. There continues to be significant head winds to the US and global economies as the constant low-level babble of supply chain issues exacerbates inflation pressures as well as the delta variant concerns which keep chipping away at confidence.

Towards the end of the month additional risk-off sentiment was caused by issues surrounding the US debt ceiling and key departures at the FED resulting in the US 10-year government bonds selling off aggressively pushing its yield to the highest for the year at 1.55%. Ultimately, Congress kicked the can down the road till the 3rd of December by passing a stop gap spending bill allowing politicians to focus on raising the ceiling and passing President Biden's stimulus initiatives.

Stagflation - characterised by slow economic growth combined with soaring prices - was the buzzword of the month and at the forefront of most investors' concern. Top of mind was a consortium of factors on both the supply and demand side driving energy prices higher. However, despite a moderation in the pace of growth, we still expect the economic recovery to be delayed rather than derailed, ultimately thanks to still very healthy savings balances that consumers have accumulated. These elevated savings, along with solid wage growth, should also help most consumers to weather the increase in prices.

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Kiwi Investment Management Wholesale Funds

Portfolio Commentary

Lifetime Fixed Interest Trust

	Units	Unit Price*	Market Value	%
Cash Fund	171,260.50	1.0587	181,131.49	100.00
Total			**181,313.49**	**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 0.02%.

New Zealand short term interest rates moved higher over the month as the expected date for the first Official Cash Rate (OCR) hike on October 6th drew closer. The Reserve Bank of New Zealand (RBNZ) released a speech transcript entitled "A Least Regrets Approach to Uncertainty." Within the speech the RBNZ made it clear that hikes to the Official Cash Rate (OCR) will be gradual in nature, which will give the Reserve Bank more options should economic conditions change again in this uncertain environment. This made it less likely that the Reserve Bank would hike interest rates by 50 basis points at their October 6th meeting and the market quickly reduced the probability of this outcome. As it turns out, the RBNZ was true to its word and only increased the OCR by 0.25% to 0.50% at the meeting and indicated further hikes to the OCR are likely at upcoming meetings.

Lifetime VIP Balanced Fund

	Units	Unit Price	Market Value	%
Fixed Interest Fund	2,530,195.24	1.3399	3,390,208.61	44.76
Growth Fund	2,167,553.60	1.9300	4,183,378.45	55.24
Total			**7,573,587.06**	**100.00**

Fixed Interest Fund

The Fixed Interest Fund returned -0.73% before fees and taxes in September outperforming its benchmark, which returned -1.10%.

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 usually more so if the maturity of the bond is higher. September saw a marked increase in international long maturity rates which fed into New Zealand's longer rates.

Our core belief remains that disruption from Covid will not be transitory and therefore inflation will not either, however, without getting anywhere near the inflation levels of the past. We don't believe that longer maturity interest rates are compensating us for inflation risk. Therefore, our strategy is to continue to err on the side of shorter maturities with one caveat: there will be a time to lock in higher rates when they better reflect inflation expectations funded from cash released as shorter bonds mature. So why then did we buy the **New Zealand Government Bond** (AAA) 30-year new issue? The simple answer is, as a brand spanking new maturity on the New Zealand interest rate curve, that it was priced very cheaply in a rising interest rate market at 2.86%. We subsequently took profits selling into other New Zealand funds that are basically forced to hold the bond.
Company bonds a.k.a. credit markets were a little choppier in September with more negative news from Evergrande, providing opportunities for us to participate in the market (albeit the window is closing for now). We added names like **Amazon** (AA), **Salesforce** (A+) and **Home Depot** (A) in the US. In New Zealand, we added new issues of **Kiwibank** (A1 Moody's), and **Transpower** (AA). We also participated in the new subordinated issue for **ANZ Capital** (A-) which came at a ~3% yield. While less rated than its AA- rated senior debt-, ANZ is nevertheless a strong Australasian bank with sound capital base.

Growth Fund

The Growth Fund returned -3.58% before fees and taxes in September, underperformed the MSCI ACWI benchmark by -0.71.%

The underlying equity strategies had a challenging month which contributed to the underperformance, the alternative assets on the other hand outperformed both cash & equities.

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Kiwi Investment Management Wholesale Funds

Lifetime International Companies Fund

	Units	Unit Price*	Market Value	%
Global Quantitative Fund – Hedged	1,514,437.75	1.4694	2,225,314.83	66.69
Global Quantitative Fund – Unhedged	673,193.75	1.4230	957,954.70	30.00
Unsettled transactions	10,000.00	1.0000	10,000.00	0.31
Total			**3,193,269.53**	**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 -1.01% before fees and taxes in September which was -.2.14% behind the MSCI ACWI benchmark, which returned -2.14%. As concerns over high inflation and rising oil prices continued to be front and center in the market.

Worst performers for the month included Facebook and Alphabet, which suffered from a rotation out of mega-cap technology stocks, and sportswear companies like Nike and Deckers Outdoor, which sold off on persistent supply chain disruptions. Note that these stocks are still sitting on healthy year-to-date gains. Bucking the negative trend in markets were our US bank holdings (SVB Financial, JP Morgan) which benefitted from a steepening yield curve.

Over September, we increased our weighting in some large cap technology names (Alphabet, Adobe) to take advantage of the cheaper prices. We also lowered our weighting to US discount retailers (Costco, Target) after a long period of outperformance.

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