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

Market Commentary

Stocks rallied over the course of October, clawing back September's losses with many indices back in record-high territory. Overall, the global equity market recorded a 4.8% return last month as measured by the NZD-hedged Solactive Global Market Screened Index. US equities performed extremely well, supported by a strong start to the Q3 earnings reporting season. Chinese risk markets also sprung back to life, as concerns eased across its troubled property sector. Fixed income markets on the other hand saw some volatility. The combination of higher input costs and surging energy prices are beginning to challenge the 'transitory inflation' argument, causing interest rates to rise, and triggered selloffs across bonds.

Q3 earnings season is in full swing in the US, and more than half of companies listed on the S&P500 have now announced. Aside from disappointing results from a couple of bellwether names such as Apple, Starbucks & Amazon, the overall picture looks great. A vast majority of companies delivered upside surprises in terms of both sales and profitability. Over the previous couple of quarters, there were high expectations for companies to deliver impressive numbers as they ride the wave of economic recovery. However, this time around companies is distinguishing themselves from the rest of the pack for how they've navigated the beleaguered global supply chain.

Local economic data stole the limelight last month with the release of our CPI figures, where we saw inflation surging at the fastest pace in over a decade. Annual inflation came in at 4.9% and 2.2% for the quarter, with housing, utilities, council rates and food prices among some of the biggest contributors to the latest numbers. Transport prices also rose, influenced by higher fuel costs which is unsurprising given WTI crude oil prices have risen above $80 per barrel, up 75% year to date. The data surprise triggered dramatic increases across wholesale swap rates, and this will no doubt put real pressure on the lending market. Highly indebted households are likely to be among the most affected as their fixed rate mortgages begins to roll off.

The million-dollar question that keeps central bankers up at night is whether this rapid inflation is going to become persistent or is it just another bump in the road to recovery. This determines how monetary policy will pan out in the coming months. That said, all four of the Australian banks have now lifted our OCR projections, and the market is currently pricing in rate hikes at every upcoming RBNZ decision date, with the OCR set to tip 2% around about this time next year.

For the time being, investors are certainly looking past some of the short-term obstacles involving supply chains, rising input costs and tight labour markets. Instead, many are focused on the trend of reopening economies, given many have reached an inflection point in the face of Delta variant, just as we are seeing locally. This bull market may have legs, but we are equally cognizant that an earlier than expected tightening cycle due to prolonged inflationary pressures could very well turn the tide

Roger Browne
M: +64 021 211 0552; E: roger.browne@kiwiinvest.co.nz

Kiwi Investment Management Wholesale Funds

Portfolio Commentary

Lifetime Fixed Interest Trust

	Units	Unit Price*	Market Value	%
Cash Fund	171,239.08	1.0595	181,427.81	100.00
Total			**181,427.81**	**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 October outperforming its benchmark, the S&P/NZX Bank Bill 90-Day Index, which returned 0.03%.

New Zealand short term interest rates continued their march higher over the month. The Reserve Bank of New Zealand (RBNZ) hiked the Official Cash Rate (OCR) by 0.25% to 0.50% and the Consumer Price Index (CPI) data for the 3rd quarter was much stronger than expected showing a 4.9% increase for the year and 2.2% for the quarter. This in turn increased the odds that the RBNZ would have to hike interest rates faster and ultimately end up at a higher terminal rate this cycle, with markets now pricing in an OCR of almost 2.25% by this time next year. We have seen bank deposit rates inch up over the month of October, but the spreads over the wholesale interest rates (extra yield the depositor receives) remain very tight from what we have witnessed post the Global Financial Crisis (GFC). Though we do expect this widen some as the RBNZ tightens monetary policy

Roger Browne
M: +64 021 211 0552; E: roger.browne@kiwiinvest.co.nz

Lifetime VIP Balanced Fund

	Units	Unit Price	Market Value	%
Fixed Interest Fund	2,576,570.11	1.3055	3,363,712.28	44.02
Growth Fund	2,134,796.60	2.0034	4,276,851.52	55.98
Total			**7,640,563.80**	**100.00**

Fixed Interest Fund

The Fixed Interest Fund returned -2.98.% before fees and taxes in October underperforming its benchmark, which returned -2.88%.

Our core belief has been confirmed: disruption from Covid is not looking to be transitory and neither is inflation. We've been keeping maturities low for some time which has helped protect the fund vs the market (our benchmark). That said, we don't believe we'll get anywhere near the inflation levels of the 70s or early 90s in the medium-to-long term. Disruptions will get sorted out and demand will be hampered by higher interest rates. Local mortgage rates have spiked aggressively which should cool the housing market. There are many uncertainties in the NZ economy as we adjust to dealing with Covid in our community. Currently, we don't believe that longer maturity interest rates are compensating us for inflation risk given secular changes in supply chains and new environment costs. We are waiting to see the impact of tapering in the US as their long rates serve as an anchor to ours. That said, NZ 10-year rates are now ~1% higher than those of the US. We've also baked in many more hikes than the rest of developed countries. We also question how far the RBNZ can hike the OCR assuming inflation abates without pushing us into recession. So, when do we start buying? Well, leading market pundits are now pencilling NZ inflation to tip 5.8%/year by Q1 next year. Markets are anticipatory and it may well be that buyers step in prior to the end of Q1. Right now, we think it's best to watch and wait for a good entry point.

Growth Fund

The Growth Fund returned -3.83% before fees and taxes in October, outperformed its benchmark by 0.74.%

Global Thematic was a strong contributor to the overall outperformance. The alternative assets on the other hand couldn't match equity returns but outperformed cash.

Roger Browne
M: +64 021 211 0552; E: roger.browne@kiwiinvest.co.nz

Kiwi Investment Management Wholesale Funds

Lifetime International Companies Fund

	Units	Unit Price*	Market Value	%
Global Quantitative Fund – Hedged	1,500,052.84	1.5361	2,304,231.16	69.99
Global Quantitative Fund – Unhedged	687,511.71	1.4368	987,816.82	30.01
Total			**3,292,047.98**	**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 0.99% before fees and taxes in October which was 0.31% behind the Solactive Kiwi Global benchmark which returned 1.30%.

October was another strong month for crude oil, which kept the Energy sector buoyant. Winners globally were Canada, Growth and Discretionary while laggards were Brazil, Small Caps and Communications. Our top sector was Financials where ICICI Bank rallied strongly on stellar Q2 results supported by higher NIMs (Net Interest Margin) and improved asset quality. Our bottom sector was Healthcare where Takeda Pharmaceutical was downgraded after it suspended a drug trial and some key patents approach expiration. Top and bottom performers overall were Tata Motors which rallied on the back of a deal to expand its EV operations and underweight Tesla which continued its strong performance as it launched a no-deposit financing program in China.

Our portfolio targets higher quality companies and sectors more suited to the current environment, having strong metrics across earnings quality, capital efficiency, valuations, sentiment, and sustainability. Over the month, we increased allocation to Energy (Pembina, Valero) and Financials (Bank of America, ING), and reduced Industrials (Siemens, Hitachi) and Healthcare (HCA, CSPC). Tech and Discretionary are our favored sectors while Utilities and Energy are our largest underweights.

Roger Browne
M: +64 021 211 0552; E: roger.browne@kiwiinvest.co.nz