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

Market Commentary

November kicked off strongly for markets. Risk assets took advantage of several tailwinds in the early weeks. This included Q3 corporate earnings that continued to impress, a pickup in US jobs, and optimism that grew about antiviral drugs which reduce the chance of severe illness from Covid-19. However, markets retreated as the news cycle became dominated by rising restrictions and hospitalisations in parts of Europe, along with concerns over the Omicron variant. As a result, the global equity market recorded a negative return of -1.56% last month, as measured by the NZD-hedged Solactive Global Market Screened Index. Government bonds rallied into the close given the risk-off sentiment, with the yield on the US 10-year treasury falling back to 1.44%, after a high of 1.67% a week earlier.

Europe began the month as the epicentre of the pandemic, due to a fourth wave spreading throughout the region. Local governments imposed fresh rounds of mobility restrictions, keeping a lid on risk assets. The extent of restrictions imposed so far has varied. While work from home restrictions have been implemented in Germany and Belgium, Austria is under a complete, 2020-style lockdown. After a state decision to require vaccination from its entire population by Feburary, the country has experienced significant civil unrest. Meanwhile, only minor restrictions like mask mandates on public transport were imposed in the UK, where almost a third of the population has received booster shots.

In the US, Jerome Powell was reinstated for a four-year term as Federal Reserve Chairman. After US inflation experienced its largest surge in more than 30 years (6.2% annualised), Powell suggested speeding up the pace of tapering the Fed's supportive bond-buying programme and finally retired the word "transitory". This marks the clearest sign to date that Powell is determined not to let inflation become entrenched. In Washington, lawmakers passed a long-awaited $1.2 trillion infrastructure package to upgrade America's outdated roads, bridges, and railways.

Back home, the Reserve Bank of New Zealand's policy meeting dished out no surprises, with a widely anticipated 25bps hike of the Official Cash Rate (OCR) to 0.75%. While there was talk of a 'double', 50bps hike leading into the meeting, the RBNZ kept with their 'least regrets' approach by revealing that hike of 25bp increments are preferable. We think this was especially prudent this time round, given the situation in both the country's largest city over the past three months and outside NZ's borders.

The news emerging from South Africa of the Omicron variant in the final week gave markets the jitters. At this stage, it is uncertain to what extent Omicron's mutations will reduce the effectiveness of current vaccines. We will be monitoring the situation over the coming weeks and positioning your portfolios accordingly. Even under the worst-case scenario, pharmaceutical companies have said a modified vaccine could be provided within a few months. The new antiviral drugs recently unveiled could also provide additional support once available. Ultimately, it is unlikely that markets would experience the same level of declines as seen at the start of the pandemic. We should know by the end of the year whether the variant will materially affect what is otherwise a fairly positive outlook for 2022.

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Kiwi Investment Management Wholesale Funds

Portfolio Commentary

Lifetime Fixed Interest Trust

	Units	Unit Price*	Market Value	%
Cash Fund	139,236.27	1.0604	147,646.14	100.00
Total			147,646.14	100.00

Lifetime Annuity Fund

	Units	Unit Price*	Market Value	%
Cash Fund	8,964,582.40	1.0604	9,506,043.18	98.65
Cash in Custody			130,000.65	1.35
Total			9,636,043.83	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 November, beating its benchmark, the S&P/NZX Bank Bill 90-Day Index, which returned 0.06%.

New Zealand short term interest rates continued their march higher over the month. The Reserve Bank of New Zealand's (RBNZ) policy meeting dished out no surprises, with a widely anticipated 25bps hike of the Official Cash Rate (OCR) from 0.5% to 0.75%. While there was talk of a 50bps hike leading into the meeting, the RBNZ kept with their 'least regrets' approach by revealing that hike of 25bp increments are preferable. We have continued to see bank deposit rates inch up over November. Still, 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), as banks remain well funded.

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Kiwi Investment Management Wholesale Funds

Lifetime VIP Balanced Fund

	Units	Unit Price	Market Value	%
Fixed Interest Fund	2,568,612.98	1.3108	3,366,937.89	43.78
Growth Fund	2,128,234.94	2.0315	4,323,509.27	56.22
Total			7,690,447.16	100.00

Fixed Interest Fund

The Fixed Interest Fund returned 0.44% before fees and taxes in November, underperforming its benchmark, which returned 0.74%. Underperformance was due to having a lower average maturity than our benchmark while long term rates declined. 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. Our overweight in short term bonds was hurt by continued pressure from mortgage fixing.

Our core belief is that global inflation is not transitory, a view echoed by the US Federal Reserve last month. We also think we have yet to see the worst of the inflation in New Zealand. With only a 29-basis points differential between the 30-year New Zealand government bond (2.91%) and a 5-year swap at 2.62%, we fundamentally don't believe we are being compensated for the risk that inflation won't come down back to pre-Covid days. We, therefore, continued to take a conservative view on the potential for higher inflation for a while and have consequentially kept average maturities down at 4.5 years. That being said, we believe that banks paying up for funding mortgages, so-called "mortgage-paying" had pushed up short-term interest rates too high prior to the RBNZ announcement. Consequently, we received 2-year swap (similar to buying a 2-year maturity bond) and bought other short-dated bonds as a tactical trade. When news of Omicron hit, we also added 5-year and 7-year swaps for insurance.

Growth Fund

The Growth Fund returned 1.43% before fees and taxes in November, outperformed its benchmark by 0.81.%

All three of the underlying equity strategies performed exceptionally well and contributed to the overall outperformance.

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Kiwi Investment Management Wholesale Funds

Lifetime International Companies Fund

	Units	Unit Price*	Market Value	%
Global Quantitative Fund – Hedged	1,495,333.30	1.5271	2,283,523.49	68.99
Global Quantitative Fund – Unhedged	685,388.08	1.4973	1,026,231.57	31.01
Total			3,309,755.06	100.00

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The Global Quantitative strategy returned 4.22% in November, a strong 3.06X% ahead of the Solactive Kiwi Global benchmark. A significant weakening of the NZD resulted in returns X.XX% lower for the hedged class. A powerful driver of global equity returns was the emergence of Omicron, which shunted risk assets lower at the end of the month – the S&P500 ended down 0.7% while crude oil fell 20% on fears of crimped demand. Winners globally were Taiwan, Quality (companies with stable earnings, healthy balance sheet etc.) and Information Technology, and laggards were Russia, Growth (i.e. younger fast-growing companies) and Energy.
Our top sector for stock picking was Industrials, where global services firm Wolters Kluwer rallied on higher guidance and robust revenue growth. Our bottom sector was Real Estate, where troubled Chinese property developer Country Garden Services fell 25% after scrambling to raise cash through a share placement. At the stock level, our top performer was an overweight to Lam Research, which rallied after a brokerage firm increased its rating on the stock. On the other hand, our worst performer was an underweight to Nvidia, which performed well following its positive third-quarter results.

Over the month we increased allocation to Energy (Pembina Pipeline, Valero Energy) and Real Estate (CBRE, China Overseas Land & Investment) and reduced IT (Qualcomm, HP Inc) and Consumer Staples (J.M. Smucker, Estee Lauder). The increase in relative Energy positioning was due to removing our fossil fuel exclusions from the benchmark at the beginning of the month. IT and Consumer Discretionary are our favoured sectors, while Utilities and Consumer Staples are our largest underweights.

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