Lifetime Income Limited
Monthly Portfolio Report
as at 31 January 2022
Wholesale Investor

Market Commentary

Equity markets were off to a volatile start in the first month of 2022 as concerns grew over rising inflation and the tightening grip of central banks around the globe. Fourth-quarter corporate earnings reporting season is now in full swing in the US, and results have been a mixed bag so far. In addition, escalating geopolitical tensions over in Eastern Europe further exacerbated the risk-off sentiments. As a result, the global equity index slumped by -5.38% in January as measured by the NZD-hedged Solactive Global Market Screened Index. The bond market also declined as local and offshore yields moved higher but nevertheless outperformed stocks.

The latest inflation reading in the US grabbed the headlines last month, as the year-on-year consumer price index rose at a record pace of 7%, the largest jump since 1982. The biggest culprits to the latest reading include accommodations, food and used vehicles. Despite a healthy 4.7% annual nominal wage growth in the US, real wages are now, in fact, negative. This was followed by a hawkish Federal Reserve meeting where Chairman Jerome Powell signaled a move to begin its rate hiking cycle once its balance sheet expansion winds up in March. The Fed's back-track on its earlier messaging that the inflation was "transitory" resulted in many critics pointing out that the central bank could now be well behind the curve. An aggressive lift of interest rate typically weighs on stocks, especially those trading on steep valuations.

Closer to home, New Zealand wasn't immune to the price increases seen globally. Last month, Stats NZ also published our own inflation reading where the annual price increase in 2021 came in at a hot 5.9%, the highest that it's been in over 30 years. Despite the Reserve Bank of New Zealand having moved earlier to lift the OCR and end its quantitative easing programme. There are a total of 7 further rate hikes priced in for this year, and it is undoubtedly going to cool the economy, particularly discretionary spending. We saw the NZX 50 plummeted almost 9% last month, and fortunately, the globally focused Kiwi Wealth Growth Fund holds little to no New Zealand stock exposure.

Escalating tension between Russia and the NATO over Ukraine further added fuel to the fire. The mobilization of troops along the Ukrainian border sent crude oil (Brent) and natural gas prices surging, climbing over 17% and 30%, respectively and are likely to contribute to even higher consumer prices in Q1. Whilst not out of the question, an all-out invasion is unlikely given the fragile state of the European economies, along with a lack of propaganda and appetite for war within Russia. For now, the ordeal very much appears to be Russia posturing against the eastward expansion by the NATO.

Although periods of volatility in the market can be unsettling, the ups and downs throughout the Covid-19 pandemic have shown the importance of staying focused on your long-term investment objectives. Meanwhile, the team at Kiwi Wealth remain focused on navigating these uncertainties and continues to balance risks and opportunities which fit your portfolio needs.

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Kiwi Investment Management Wholesale Funds

Portfolio Commentary

Lifetime Fixed Interest Trust

	Units	Unit Price*	Market Value	%
Cash Fund	139,198.88	1.0626	147,912.73	100.00
Total			147,912.73	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 0.10% before fees and taxes in January , beating its benchmark, the S&P/NZX Bank Bill 90-Day Index, which returned 0.08%.

Markets continue to grapple with concerns over higher, persistent inflation, and the latest NZ CPI came in above consensus at just shy of 6% year on year. The RBNZ is scheduled to meet in February and is expected to lift the OCR by 0.25% to 1%, there are now 7 rate hikes priced into 2022. Short term interest rates lifted higher in January and several banks have revised deposit rate upwards. The portfolio remains well diversified between the financial institutions.

Lifetime VIP Balanced Fund

	Units	Unit Price	Market Value	%
Fixed Interest Fund	2,646,641.99	1.3072	3,459,690.41	45.56
Growth Fund	2,050,087.49	2.0168	4,134,616.45	54.44
Total			7,594,306.86	100.00

Fixed Interest Fund

The Fixed Interest Fund returned -0.80% before fees and taxes in January, outperforming its benchmark, which returned -1.05%. Outperformance was due to having a lower average maturity than that of our benchmark while long term rates spiked. 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.
Offsetting this, corporate credit spreads (the extra interest rate you get for owning a company over a government) was a headwind. Also, our overweight to short term bonds hurt us with higher expectations of the Reserve Bank's overnight Official Cash Rates (OCR) rising in the next year.

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The idea that inflation was only transitory has become – well – transitory. It is real, and global central banks have their feet squarely on the brake pedal. The herculean efforts to push back on Omicron in China only serve to emphasize just how much the supply lines continue to be pummelled by Covid. Oil prices continue to rise and, while there are signs of higher production, it's clearly adding fuel to the inflation fire.
However, to be clear, we do expect inflation to fall by the end of the year. Firstly, some of those port issues will reduce as demand reduces. Some 70% of mortgages in New Zealand are set to be repriced this year, sucking extra spending power from Kiwis (and the same is happening all over the world). Our base case is that there may well be other Covid variants but that continued vaccinations and/or infections will render the virus as less of a concern at least economically in the next few years. The Fed expects inflation to fall back down to 3.2% by the end of this year, so this is not the early 90s inflation New Zealand suffered. Our view is that it is best to remain at lower average maturities where much of the interest rate hikes are already priced in and then start adding longer bonds by the end of the year at more attractive levels.

As bond yields spiked and equity markets declined in January, credit spreads began to gap out globally. The average rating on the Kiwi Wealth Fixed Interest Fund is highly rated AA. Last month we added AAA-rated names like Rentenbank and the Asian Development Bank in 5-year maturities. They had a nice yield vs. their New Zealand Government Bond equivalent. We had been holding off adding more company bonds which had been artificially held too expensive from the Fed's explicit support. As the Fed decidedly moves away from being market friendly, we expect further slippage in credit spreads. Should that occur, we stand ready to add to the portfolio

Growth Fund

The Growth Fund returned -4.14% before tax and fees in January, behind its benchmark, which returned -3.64%. One of the underlying equity strategies saw a challenging month given the sell-off of growth (fast growing/high valuation) in favour of value-oriented(cheap/cyclical) stocks. On the other hand, the weakening Kiwi dollar and a positive return generated by the alternative assets contributed positively to the fund.

Lifetime International Companies Fund

	Units	Unit Price*	Market Value	%
Global Quantitative Fund – Hedged	1,288,711.75	1.5163	1,954,073.63	69.26
Global Quantitative Fund – Unhedged	566,442.43	1.5313	867,393.30	30.74
Total			2,821,466.93	100.00

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Global Quantitative returned -1.7%, 0.1% behind its index in January. A significant weakening of the NZ Dollar resulted in returns 3.5% lower for the hedged class. Global Equity markets fell as the US Federal Reserve shifted towards a more hawkish policy tone. The S&P 500 had its worst month since the pandemic began, falling 5.3% as volatility spiked. The winners globally were Energy, Brazil, and Value (relatively undervalued stocks given their fundamentals), and laggards included Information Technology, New Zealand and Growth (the opposite of Value).

Our top sector for stock picking was Real Estate, where overweight China Overseas Land & Investment was up 24% as the company is set to purchase distressed properties at fire-sale prices. The worst sector for stock picking was Financials, where overweight S&P Global fell 12% as the financial data industry performed poorly after December trading activity mainly was weaker. Overall, the top-performing position was underweight Netflix, which fell 29% after announcing a weaker than expected subscriber outlook. The worst pick was an overweight to Automatic Data Processing; the stock fell 16% after reporting its profitability growth had slowed from the previous quarter.

Over the month, we increased allocation to Health Care (McKesson, Bristol-Myers Squibb) and Communication Services (Interpublic Group of Companies and Netflix), while we reduced Financials (Canadian Imperial and Goldman) and Consumer Discretionary (Gentex and General Motors). Information Technology and Health Care are our favoured sectors, while Utilities and Consumer Sales are our largest underweights.

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