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

Market Commentary

Equity markets took a breather in March, following the exceptionally difficult start to the year. Markets remain focused on developments coming out of the Ukraine conflict and investors rushed back into equities despite inflation hanging at decade-high levels. On the other hand, bond markets remained volatile as the prospect of higher interest rates continues to push bond yields higher, surpassing the pre-pandemic levels.

Russia and Ukraine are known to be the 'bread baskets' of Europe. Together they account for one third of the global wheat production and are also substantial suppliers of natural gas. The conflict in Ukraine and subsequent sanctions from the West have helped to create the perfect storm, further crippling the already fragile global supply chain. It is no surprise then, that the Bloomberg Commodities Index is up over 25% just this first quarter. Among the constituents, we saw the price of crude oil rocketing past $130 per barrel at one point. The Biden administration has recently begun to release the US strategic reserves to help alleviate the pain that many consumers are feeling at the pump.

Meanwhile, the spread of Omicron across parts of mainland China has forced major population centres to effectively shut down, shaping up to some of the strictest lockdowns we've seen since the original outbreak. The government now face a difficult dilemma as any restriction eases would mean admitting failure on its 'zero-tolerance approach' thus far. The other end of that stick results in economic losses, and we are seeing signs of a sharp contraction in manufacturing and service activities in the March PMI (purchasing managers' index) data.

The combination of the above is likely to result in inflation running hot for some time. Investors flocking back into equities last month is one indication that many see stocks as an inflation hedge, given the ability for companies to pass on rising costs to consumers. In response, central banks around the world have geared up to raise interest rates substantially. The US Federal Reserve aims to achieve a 'soft landing', that is attempting to raise the interest rates just enough to cool inflation without sending economy into recession. One can argue, after their poor track record of calling inflation "transitory" over the past 6 months and now having to backtrack, that it would take an incredible feat for them to engineer this 'soft landing'.

Additionally, real wage growth is on the decline while housing and rent have surged. With many consumers now dipping into a finite amount of savings, it's hard to not foresee one massive hangover from this tightening cycle. This view is reflected in the flattening of the yield curve, where short term interest rates have risen aggressively, while the long end is reluctant to move. Historically, the flattening of the yield curve is seen to be a signal of a pending recession, but it is worth noting variations of that signal tells the opposite story and not to mention of the effects of quantitative easing have somewhat muddled the reliability of that signal to begin with.

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Kiwi Investment Management Wholesale Funds

Portfolio Commentary

Lifetime Fixed Interest Trust

	Units	Unit Price*	Market Value	%
Cash Fund	130,938.53	1.0649	139,436.44	100.00
Total			139,436.44	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 0.11% before fees and taxes in March, beating its benchmark, the S&P/NZX Bank Bill 90-Day Index, which returned 0.08%.

NZ treasury yields moved markedly higher in March, consistent with global moves as surging commodity prices are expected to exacerbate inflationary pressures. The NZ 3-month bank bills gapped up from 1.26% to 1.61% by the end of the month. The market is pricing in a good likelihood that the RBNZ would look to raise the OCR by 50bps at the April meeting. The portfolio maintained its lower duration, and has targeted attractive deposit rates in the 6-month maturity range given lack of liquidity in short dated bonds.

Fund and Portfolio Returns*

	Month %	3 Months %	Year %	3-Year % pa
Cash Fund	0.11	0.32	1.02	n/a
Benchmark return**	0.08	0.21	0.55	n/a

*Returns for funds and their respective benchmarks are calculated on a time weighted basis, whilst returns for the Portfolio are calculated on a money-weighted basis. Returns are gross of tax and fees.
**S&P/NZX Bank Bill 90-Day Index

Monthly Transactions

Event	Date	Description	CCY	Quantity	Price	Amount
Sell	17-Mar	Cash Fund	NZD	15.80	1.0639	16.81
Expense	21-Mar	Cash Fund	NZD	-16.81	-	-16.81

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Monthly Summary

Description	MTD	YTD
Beginning Value	139,296.12	139,296.12
Net Contributions	0.00	0.00
Total Investment Gain/Loss	157.13	157.13
Income	0.00	0.00
Management Fees Paid	-16.81	-16.81
Other Expenses	0.00	0.00
Ending Value	139,436.44	139,436.44

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Kiwi Investment Management Wholesale Funds

Lifetime VIP Balanced Fund

	Units	Unit Price	Market Value	%
Fixed Interest Fund	2,533,230.90	0.0128	3,234,429.21	45.92
Growth Fund	1,957,895.90	1.9456	3,809,282.26	54.08
Total			7,043,711.47	100.00

Fixed Interest Fund

The Fixed Interest Fund returned -1.66% before fees and taxes in March, outperforming its benchmark, which returned -2.84%. Outperformance was predominantly due to our long-held conviction on maintaining a lower average maturity than that of our benchmark as long-term rates gapped up. 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. We did continue to see headwinds from our overweight to short term bonds as the market aggressively priced in higher expected overnight Official Cash Rates (OCR) in the next year or so, although a lot of that appears to have already been baked in now.

The yield curve, the market interest rate for bonds across different maturities, flattened like a pancake in March, so there was precious little difference in the interest rate between a 5-year maturity bond and a 30-year bond. What that means is that markets are pricing in some very chunky OCR rate hikes, as much as 50 basis points at a clip, only to have them come down aggressively post-2023, presumably when inflation has been tamed by throwing New Zealand into a recession. Usually, a flattening yield curve is pretty unstable. In its normal state, longer rates are higher than shorter rates reflecting a belief that the Reserve Bank can anchor inflation. However, while we do think the economy will slow with higher rates, there is still an awful lot of momentum, not least with the education and tourism sectors reopening. So, we think there is a bit of a show-me factor here. When these chunky OCR rates rises do eventuate, we think they will nudge the long rates higher. Additionally, our best guess is that inflation will now stay high for at least a couple of years, meaning that those future rate cuts implied by a flat curve are dubious.

We have therefore continued to focus on buying good quality, shorter maturity bonds. Company bond interest rates have been more attractive, and we have been adding bonds of industry giants **JPMorgan** (A), **Alphabet** (aka Google) (AA+), **Blackrock** (AA-) and **Johnson & Johnson** (AAA). We financed these purchases by selling a number of New Zealand names like **Auckland International Airport** (A-) and **Westpac** (AA-) that were trading very expensively vs. overseas names.

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Growth Fund

The Growth Fund returned 1.18.% before tax and fees in March, 0.24 % ahead of its benchmark, which returned 0.94%. Among the underlying strategies, Global Quantitative outperformed, while Global Thematic and Core Global largely performed inline. Although the strengthening Kiwi Dollar was a headwind, the alternative assets generated excellent returns.

Fund and Portfolio Returns*

	Month %	3 Months %	Year %	3-Year % pa
Fixed Interest Fund	1.18	-7.58	9.63	n/a
Benchmark return**	0.94	-6.89	7.40	n/a
Growth Fund	-1.66	-3.11	-5.40	n/a
Benchmark return***	-2.48	-4.34	-7.06	n/a

**The above returns are calculated on a time weighted basis. Returns for Funds and their respective benchmarks are calculated gross of foreign tax credit.*
***S&P/NZX New Zealand Government Bond Index in NZ dollars*
****50% Solactive Kiwi Global Markets Screened NZD Index, 50% Solactive Kiwi Global Markets Screened Hedged to NZD Index*

Monthly Transactions

Event	Date	Description	CCY	Quantity	Price	Amount
Sell	15-Mar	Kiwi Wealth Fixed Interest Fund	NZD	10,373.64	1.2848	13,313.32
Sell	15-Mar	Kiwi Wealth Growth Fund	NZD	9,280.65	1.8321	17,003.08
Withdrawals	16-Mar	Expense	NZD	-15,474.77	-	-15,474.77
Withdrawals	16-Mar	Expense	NZD	-12,661.18	-	-12,661.18
Withdrawals	21-Mar	Withdrawal	NZD	-1,528.31	-	-1,528.31
Withdrawals	21-Mar	Withdrawal	NZD	-652.14	-	-652.14

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Kiwi Investment Management Wholesale Funds

Monthly Summary

Description	MTD	YTD
Beginning Value	2,693,740.06	2,942,819.03
Net Contributions	-28,517.30	-720,046.53
Total Investment Gain/Loss	48,833.81	509,335.49
Income	0.00	0.00
Management Fees Paid	-1,186.41	-19,237.83
Other Expenses	0.00	0.00
Ending Value	2,712,870.16	2,712,870.16

Lifetime International Companies Fund

	Units	Unit Price*	Market Value	%
Global Quantitative Fund – Hedged	1,253,856.78	1.5243	1,911,253.89	70.45
Global Quantitative Fund – Unhedged	551,280.01	1.4541	801,616.27	29.55
Total			2,712,870.16	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.*

Global Quantitative finished ahead of its benchmark last month. A significant strengthening of the NZ Dollar resulted in higher returns for the hedged class. Global equities performed poorly in local terms during the month, which was dominated by the news flow from the war in Ukraine – the conflict caused the Bloomberg Commodity Index to rise a further 8%. The winners globally were Energy, Brazil, and Quality (more profitable firms), while laggards included Communication Services, Russia (which has been removed from the benchmark), and Value.

Our top sector for stock picking was Materials, where off-benchmark name and US crop nutrient producer Mosaic was the top contributor as it rose by 26% after Russia urged domestic fertiliser producers to halt exports. Our worst sector for stock picking was Real Estate, where an overweight to Country Garden Services detracted from relative returns after it fell 28% off the back of loans to Chinese households (a proxy for mortgages) falling for the first time in 15 years. Overall, the top-performing position was off-benchmark holding, PBF Energy, an American refiner, which jumped 49% on news of America banning Russian oil imports.

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Kiwi Investment Management Wholesale Funds

The worst pick was an overweight to China Resources Beer which curiously fell 22% after announcing net income results that were largely in-line with analyst expectations.

We increased allocation to Heath Care (Sanofi, Vertex Pharmaceuticals) and Financials (Itau Unibanco, Tokio Marine), while we reduced Industrials (Schneider Electric, Deere & Co) and Real Estate (Cifi, Daito). Information Technology and Health Care are our favoured sectors, while Utilities and Consumer Staples

Fund and Portfolio Returns*

	Month %	3 Months %	Year %	3-Year % pa
Global Quantitative Fund – Hedged	2.79%	-4.58%	10.74%	n/a
Benchmark return**	2.48%	-5.97%	7.49%	n/a
Global Quantitative Fund – Unhedged	-0.11%	-6.55%	10.29%	n/a
Benchmark return***	-0.60%	-7.88%	7.09%	n/a

**The above returns are calculated on a time weighted basis. Returns for Funds and their respective benchmarks are calculated gross of foreign tax credit.*
***NZD Hedged Class: Solactive Kiwi Global Market Screen Hedged to NZD Index*
**** Unhedged Class: Solactive Kiwi Global Market Screened NZD Index*

Monthly Transactions

Event	Date	Description	CCY	Quantity	Price	Amount
Sell	4-Mar	Global Quant Fund - Hedged	NZD	13,729.10	1.4540	19,962.11
Sell	4-Mar	Global Quant Fund - Unhedged	NZD	6,072.25	1.4089	8,555.19
Sell	8-Mar	Global Quant Fund - Hedged	NZD	-19,962.11	0.0000	-19,962.11
Sell	8-Mar	Global Quant Fund - Unhedged	NZD	-8,555.19	0.0000	-8,555.19
Sell	17-Mar	Global Quant Fund - Hedged	NZD	551.30	1.4966	825.08
Sell	17-Mar	Global Quant Fund - Hedged	NZD	251.01	1.4395	361.33
Withdrawals	17-Mar	Management Fee	NZD	-825.08	0.0000	-825.08
Withdrawals	21-Mar	Management Fee	NZD	-361.33	0.0000	-361.33

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Kiwi Investment Management Wholesale Funds

Monthly Summary

Description	MTD	YTD
Beginning Value	2,942,819.03	2,942,819.03
Net Contributions*	-720,046.53	-720,046.53
Total Investment Gain/Loss	509,335.49	509,335.49
Income	0.00	0.00
Management Fees Paid	-19,237.83	-19,237.83
Other Expenses	0.00	0.00
Ending Value	2,712,870.16	2,712,870.16

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