Kiwi Invest. NZ's smart money.

Lifetime Income Limited Monthly Portfolio Report as at 30 April 2022 Wholesale Investor

Market Commentary

Investors were met with another volatile month as global equity markets finished deeper into negative territory. US equity markets took the brunt of the sell-off, with the Nasdaq Composite and S&P 500 falling 13.3% and 8.8%, respectively. Locally, the NZX 50 performed relatively well in comparison, down -1.87%. The equity market volatility has pushed investors to try and weather the storm in the relative sanctuary of the bond market. As bond ETFs receive record inflows, despite the US 10-year treasury note suffering further losses as it inches closer to the 3% yield handle.

There has been a multitude of factors contributing to the third-worst start to the year in the history of the S&P 500. Accelerating inflation is being experienced across the world, and central banks are desperately trying to get ahead of the curve with aggressive rate hikes. Inflation is being spurred on by the lagged effect of pandemic related stimulus injections, as well as ongoing supply chain issues, which will only be exacerbated by China's zero covid policy approach.

Locally, the RBNZ stepped up to tackle inflation and lifted the Official Cash Rate (OCR) by 0.5% to 1.5%, with potentially another 50-basis point hike at the next May meeting. Given the subsequent rise in mortgage rates, the resiliency of the NZ housing market will certainly be tested over the coming year.

Although commodity prices have pared back from highs seen back in March, oil remains over $100 a barrel, and agricultural commodity supplies are still uncertain with the war in Ukraine rumbling on as Putin shifts Russia's tactics to focus on key regions on the eastern border. The net effect of the turmoil has investors concerned about global economic growth, especially given the key outcome of interest rate hikes is to curb demand.

US earning season has offered some insight into performance over the last quarter and guidance for the year ahead. Results so far have been broadly positive, with estimated average earnings growth of 7.1%. However, this comes in below the five and ten-year averages, indicating that the pace of growth might be beginning to falter. The technology sector has been the worst performer, with the likes of Netflix, Amazon and Apple presenting disappointing results and contributing to the -11% return for the sector.

There is still plenty of concerns for investors, and in the short term, there is likely to be increased volatility as markets react to ever-evolving global events. Only time will tell if the odd adage "sell in May and go away" rings true this year. However, the in-line with expectations interest rate rise of 0.50% from the US Federal Reserve gives some level of comfort to the market that a clear action plan is in place to try and curb inflation. That, coupled with the end of Q1 earnings reporting, might result in a more placid market than that experienced last month

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Kiwi Investment Management Wholesale Funds

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Portfolio Commentary

Lifetime Fixed Interest Trust

	Units	Unit Price*	Market Value	%
Cash Fund	130,921.61	1.0661	139,575.53	100.00
Total			139,575.53	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 Cash Fund returned 0.13% before fees and taxes in April, beating its benchmark, the S&P/NZX Bank Bill 90-Day Index, which returned 0.08%.

Last month the RBNZ hiked 50bps, taking the OCR from 1% to 1.5%. While the magnitude of the hike itself was very much within expectations, the decision was widely perceived as dovish on the day as it became apparent that the RBNZ were prepared to front load the rate hikes in order to quell the record high levels of inflation. Yields initially fell but resume its upward climb through the rest of the month, particularly given another hot CPI print. The portfolio continued to reinvest at more attractive yields and took advantage of short, dated bonds that are offering a yield pick-up vs term deposits.

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	13-Apr	Cash Fund	NZD	16.92	1.0650	18.02
Expenses	26-Apr	Cash Fund	NZD	-18.02	-	-18.02

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Kiwi Investment Management Wholesale Funds

Monthly Summary

Description	MTD	YTD
Beginning Value	139,436.44	139,436.44
Net Contributions	0.00	0.00
Total Investment Gain/Loss	157.11	157.11
Income	0.00	0.00
Management Fees Paid	-18.02	-18.02
Other Expenses	0.00	0.00
Ending Value	139,575.53	139,575.53

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Kiwi Investment Management Wholesale Funds

Lifetime VIP Balanced Fund

	Units	Unit Price	Market Value	%
Fixed Interest Fund	2,469,777.90	0.0125	3,097,842.42	45.43
Growth Fund	1,998,928.05	1.8614	3,720,804.66	54.57
Total			6,818,647.08	100.00

Fixed Interest Fund

The Fixed Interest Fund returned -1.76% before fees and taxes in April, outperforming its benchmark, which returned -2.37%. Outperformance was again 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. Offsetting this, company spreads (the higher interest rate you need on top of a government bond to compensate you for the higher risk) widened close to early March levels when the import of the Ukrainian invasion began to hit.

Like a broken record, our conviction remains that it's best to stay (on average) in shorter maturity bonds for now. That's kept us in good stead with many competitors' global bond portfolios with longer maturities down -10% year to date. Yes, economies could cool so much that people begin to believe that prices will move down faster, and hence longer bond yields could come down (and their prices go up). Yes, some kind of breakthrough may come in the Ukraine conflict and a reopening in China. But we don't believe that anyone watching the terrible events unfold thinks that's likely - at least yet. In fact, the concern is that if China finds a way through its Covid issues, it will have more demand for oil even as embargoes on Russian oil ratchet up. In such a case, the oil price could peak much higher - and hence inflation - before coming down again as aggressive interest rate hikes really bite. But, to be clear, it's a concern and not our base case. Nevertheless, there is good news. We are getting closer to the point where maturing bonds are being reinvested into much higher-yielding bonds delivering income to our investors. Credit spreads have widened, and interest rates are higher, creating an attractive buying opportunity. To that end, we opportunistically added to solid global company bonds such as JPMorgan (A-), consumer products giant GSK (BBB), Amazon (AA), New York Life (AA+), Abbott Labs (AA-) and Unilever (A+). We also purchased the new issue of NZ property company, GMT (BBB+). We expect to stay pretty active in company bonds over the next few months.

Growth Fund

The Growth Fund returned -4.33% before tax and fees in April, ahead of its benchmark, which returned -4.46%. While the equity markets experienced a gloomy month, the weakening Kiwi Dollar and positive returns generated by our alternative assets helped to soften the blow.

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Fund and Portfolio Returns*

	Month %	3 Months %	Year %	3-Year % pa
Fixed Interest Fund	-4.33	-7.71	1.47	n/a
Benchmark return**	-4.46	-7.87	-0.19	n/a
Growth Fund	-1.76	-4.05	-7.56	n/a
Benchmark return***	-2.37	-5.62	-9.97	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	12-Apr	Kiwi Wealth Fixed Interest Fund	NZD	556.24	1.2640	703.09
Sell	12-Apr	Kiwi Wealth Growth Fund	NZD	826.80	1.9414	1,605.15
Withdrawals	26-Apr	Management Fee	NZD	-1,605.15	-	-1,605.15
Withdrawals	26-Apr	Management Fee	NZD	-703.09	-	-703.09
Buy	28-Apr	Withdrawal	NZD	41,858.95	1.8868	78,979.46
Sell	28-Apr	Withdrawal	NZD	62,896.76	1.2557	78,979.46

Monthly Summary

Description	MTD	YTD
Beginning Value	7,043,711.47	7,043,711.47
Net Contributions	0.00	0.00
Total Investment Gain/Loss	-222,756.15	-222,756.15
Income	0.00	0.00
Management Fees Paid	-2,308.24	-2,308.24
Other Expenses	0.00	0.00
Ending Value	6,818,647.08	6,818,647.08

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Lifetime International Companies Fund

	Units	Unit Price*	Market Value	%
Global Quantitative Fund – Hedged	1,253,265.27	1.4241	1,784,775.08	69.27
Global Quantitative Fund – Unhedged	551,021.92	1.4367	791,653.19	30.73
Total			2,576,428.27	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 Fund

Global Quantitative finished ahead of its benchmark in April. Yields continued their upward march as inflation spiked to 8.5% in the US during the month, sending equities lower. Equity sentiment further soured with disappointing earnings reports from mega-cap tech stocks Amazon, Apple and Alphabet at the end of the month. US GDP missed expectations with a surprise Q1 contraction, mainly due to a strong US dollar resulting in a large trade deficit. The winners globally were Consumer Staples, Saudi Arabia and Value (relatively cheaper firms), while laggards included Communication Services, Brazil and Growth (the opposite of Value).

Our top sector for stock picking was Information Technology, where overweight Mastercard bucked the market trend, ending the monthly 2% higher after beating earnings expectations. Our worst sector for stock picking was Financials, where an overweight to Blackrock detracted from relative returns as it fell by 18%. Overall, the top-performing relative position was not holding Netflix, which cratered by 49% after reporting weak subscriber numbers. The worst pick was an off benchmark holding in Matson Inc, a transportation company, which fell 28% on fears that high inflation and increasing rates will curb consumer spending.

We increased allocation to IT (Apple, Screen Holdings) and Real Estate (Jones Lang, Brixmor), while we reduced Consumer Discretionary (Lowe’s, Whirlpool Corp) and Health Care (J&J, Hologic). Information Technology and Health Care are our favoured sectors, while Utilities and Consumer Staples are our largest underweights.

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Fund and Portfolio Returns*

	Month %	3 Months %	Year %	3-Year % pa
Global Quantitative Fund – Hedged	-6.45%	-5.89%	-0.36%	n/a
Benchmark return**	-7.22%	-7.80%	-3.82%	n/a
Global Quantitative Fund – Unhedged	-1.11%	-6.02%	6.86%	n/a
Benchmark return***	-1.70%	-8.05%	3.29%	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	14-Apr	Global Quant Fund - Hedged	NZD	258.09	1.4496	374.13
Sell	21-Apr	Global Quant Fund - Unhedged	NZD	591.51	1.4934	883.36
Withdrawals	26-Apr	Management Fee	NZD	-883.36	-	-883.36
Withdrawals	26-Apr	Management Fee	NZD	-374.13	-	-374.13

Monthly Summary

Description	MTD	YTD
Beginning Value	2,712,870.16	2,712,870.16
Net Contributions*	0.00	0.00
Total Investment Gain/Loss	-135,184.40	-135,184.40
Income	0.00	0.00
Management Fees Paid	-1,257.49	-1,257.49
Other Expenses	0.00	0.00
Ending Value	2,576,428.27	2,576,428.27

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