Kiwi Invest. NZ's smart money.

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

Market Commentary

After a tumultuous April, global markets saw the continuation of volatility through May. The MSCI All Country World Index ended the month up 0.2%. Although equity markets did not see a spectacular bounce off of their recent losing streak, ending the month flat is nonetheless a welcoming relief. The bond market also enjoyed its first positive month of the year in the face of inflation remaining at historic highs. The three themes that have dominated the year so far continue to play out: tightening monetary policy, ongoing geopolitics in Europe, and a beleaguered global supply chain. As there haven't been any major signs of a positive turning point for each of these themes, the appetite for risk assets remains cautious.

In keeping with market expectations, both the US Federal Reserve and the Reserve Bank of New Zealand raised their overnight interest rates by 0.50% in May. In an effort to combat the record-high levels of inflation, another two back-to-back 0.50% hikes are priced in over the next two policy decisions in the upcoming months. Unsurprisingly, market sentiment remains on the edge as investors continue to draw doubts about whether the central banks could pull off the supposed "soft landing" for the economy and what a hard landing could mean for economic growth going forward.

The war in Ukraine continues to rage on with no signs of resolution on the horizon, exacerbating the price increase across several key commodities. The European Union escalated its sanctions last month, approving an embargo on Russian oil, which could mean further retaliatory actions from the Kremlin in its natural gas exports to Europe. Meanwhile, inflation in the Eurozone soared to a record of 8.1% year on year, pressuring the European Central Bank to turn away from its ultra-accommodative monetary policy at a faster pace.

Recent concerns over rising input costs, tight labour markets, and supply chain troubles were particularly evident when two major US retailers announced their results last month. Both Walmart and Target tumbled after reporting lower than expected bottom-line figures, citing weaker consumer discretionary spending and higher costs. Meanwhile, encouraging news has been coming out of China, where it is expected to relax Covid restrictions in Shanghai after its two-month lockdown. While supply chain disruptions in the region will not disappear overnight, the partial ease is a step in an optimistic direction for local residents and the economy.

While the recent market volatility can be unsettling, the sharp rebound out of the troughs of Covid-19 serves as a good reminder that staying the course on your investment plan is often the best strategy over the long term. Our investment team remains cautiously optimistic heading into the rest of the year and sees plenty of opportunities ripe for picking following the recent sell-offs.

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Kiwi Investment Management Wholesale Funds

Portfolio Commentary

Lifetime Fixed Interest Trust

	Units	Unit Price*	Market Value	%
Cash Fund	0.00	0.00	0.00	n/a
Total			0.00	**n/a**

*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 0.15% before fees and taxes in May, beating its benchmark, the S&P/NZX Bank Bill 90-Day Index, which returned 0.12%.

As well telegraphed, the Reserve Bank (RBNZ) hiked its Official Cash Rate (OCR) by 50 basis points from 1.5% to 2.0% on May 25th. However, the RBNZ changed its tune quite markedly from its April meeting. Instead of the previous talk of a swift series of OCR hikes with an endpoint of 3.25%, that number was changed to 3.95% by mid-2023. Most of the hikes are upfront, with the OCR likely to reach 3% by December, implying up to two more 50 basis point hikes followed by a series of 25 basis point increments. The portfolio continued to pick up short dated bonds which are offering a yield pick-up vs term deposits and have added a number of new floating-rate new issues.

Fund and Portfolio Returns*

	Month %	3 Months %	Year %	3-Year % pa
Cash Fund	0.15	0.39	1.15	n/a
Benchmark return**	0.12	0.28	0.68	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	2-May	Cash Fund	NZD	16.37	1.0660	17.45
Sell	2-May	Cash Fund	NZD	130,905.24	1.0662	139,571.17
Expense	4-May	Management Fee	NZD	-17.45		-17.45

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Kiwi Investment Management Wholesale Funds

Monthly Summary

Description	MTD	YTD
Beginning Value	139,575.53	139,575.53
Net Contributions	-139,571.17	-139,571.17
Total Investment Gain/Loss	13.09	13.09
Income	0.00	0.00
Management Fees Paid	-17.45	-17.45
Other Expenses	0.00	0.00
Ending Value	0.00	0.00

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Lifetime VIP Balanced Fund

	Units	Unit Price	Market Value	%
Fixed Interest Fund	0.00	0.00	0.00	n/a
Growth Fund	0.00	0.00	0.00	n/a
Total			**0.00**	**n/a**

Fixed Interest Fund

The Fixed Interest Fund returned 0.43% after fees and taxes in May, outperforming its benchmark, which returned 0.12.%. Outperformance was predominantly due to being significantly underweight long-term rates which rose (and hence their price fell) post the NZ budget, while shorter rates (which we are overweight) performed relatively better. May was yet another highly volatile month for global bond markets as the rhetoric from central banks escalated. Central banks across the world are trumpeting their expectations of aggressive rate hikes in order to stymie inflation – and soon.

With extensive OCR rate hikes up to 4% already baked into the price of NZ bonds, we continue to like shorter bonds (3-6 year maturities), especially good quality company bonds where we can provide investors higher interest rates without taking undue risk. We continue to see better opportunities in these bonds overseas with the New Zealand market not reacting enough, in our view, to global company bond spread widening (the extra interest you get by owning a company bond over a government bond). Hence, we purchased the bonds of global healthcare product behemoth Baxter International (BBB), Visa (AA-) and Bank of America (A-). Of note, we hedge these bonds “onto the NZ curve” so that they trade as if they were New Zealand bonds. We remain leery of longer maturity bonds whose prices tend to drop more when inflation is higher. While we believe NZ CPI (consumer price inflation) may even peak in the second quarter somewhere above 7%, we are sceptical that it will come down to the RBNZs target range of 2-3% quite as rapidly as some market pundits think. Our focus is squarely on the oil market amidst European embargoes of Russian oil and a willingness of the OPEC countries to see crude oil trade north of $120. In addition, there are more positive signals coming out of China on reopening and hence upping its oil demand.

Growth Fund

The Growth Fund returned -1.47% before tax and fees in May, 0.72% behind its benchmark, which returned -0.75%. The underlying equity strategies saw mixed performances, and the alternative assets generated positive returns. The strengthening Kiwi dollar was a headwind for the unhedged portion of the portfolio. Despite the near-term uncertainty, we are actively increasing our investments in high-quality companies that will thrive long after the current macro headwinds recede, taking advantage of the market’s current focus on the short term.

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Fund and Portfolio Returns*

	Month %	3 Months %	Year %	3-Year % pa
Fixed Interest Fund	-1.47	-4.63	-0.34	n/a
Benchmark return**	-0.75	-4.28	-1.57	n/a
Growth Fund	0.43	-2.98	-6.75	n/a
Benchmark return***	0.12	-4.68	-9.26	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	2-May	Global Quant Fund - Hedged	NZD	602.14	1.4252	858.17
Sell	2-May	Global Quant Fund - Unhedged	NZD	1,252,663.13	1.4252	1,785,295.49
Sell	2-May	Global Quant Fund - Hedged	NZD	550,768.17	1.4488	797,952.92
Sell	2-May	Global Quant Fund - Unhedged	NZD	253.75	1.4488	367.63
Expenses	4-May	Management Fee	NZD	-858.17		-858.17
Expenses	4-May	Management Fee	NZD	-367.63		-367.63

Monthly Summary

Description	MTD	YTD
Beginning Value	2,576,428.27	2,712,870.16
Net Contributions	-2,583,248.41	-2,583,248.41
Total Investment Gain/Loss	8,045.94	-127,138.46
Income	0.00	0.00
Management Fees Paid	-1,225.80	-2,483.29
Other Expenses	0.00	0.00
Ending Value	0.00	0.00

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Kiwi Investment Management Wholesale Funds

Lifetime International Companies Fund

	Units	Unit Price*	Market Value	%
Global Quantitative Fund – Hedged	0.00	0.00	0.00	n/a
Global Quantitative Fund – Unhedged	0.00	0.00	0.00	n/a
Total			0.00	

**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 outperformed its benchmark in May. In a volatile month for equities, markets rebounded from their mid-month lows paring much of their losses. In China, data released showed the protracted lockdowns hampering economic growth. A headline 8.3% CPI number was released in the US – sparking fears that the Fed will be unable to tame inflation without pushing the economy into recession by its path of raising rates. The winners globally were Financials, Japan and Quality (more profitable firms), while laggards included the Consumer Discretionary, US and Momentum (recent outperformers).

Our top sector for stock picking was Information Technology, where overweight **VMWare** was up 35% after it was revealed **Broadcom** was looking to take over the firm. Our worst sector for stock picking was Communications, where the off-benchmark holding **Publicis**, an advertising agency, fell 11% on broker downgrades on indications firms are lowering their ad spend. Overall, our top position was off-benchmark holding **H&R Block**, which rallied 35% on a 3Q profit beat and forecasted revenue boost. Our worst position was an overweight in **Target**, which fell 29% after announcing disappointing results, with a 32% increase in inventory as consumers moved from hardlines (candles and picture frames) to services (items related to experiences).

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

Fund and Portfolio Returns*

	Month %	3 Months %	Year %	3-Year % pa
Global Quantitative Fund – Hedged	-0.55%	-4.36%	-2.51%	n/a
Benchmark return**	-0.76%	-5.64%	-5.63%	n/a
Global Quantitative Fund – Unhedged	-0.37%	-1.59%	5.90%	n/a
Benchmark return***	-0.74%	-3.01%	2.38%	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

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Sell	2-May	Global Quant Fund - Hedged	NZD	602.14	1.4252	858.17
Sell	2-May	Global Quant Fund - Unhedged	NZD	1,252,663.13	1.4252	1,785,295.49
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Sell	2-May	Global Quant Fund - Unhedged	NZD	253.75	1.4488	367.63
Withdrawals	4-May	Management Fee	NZD	-858.17		-858.17
Withdrawals	4-May	Management Fee	NZD	-367.63		-367.63

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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Kiwi Investment Management Wholesale Funds