

Quarterly Report NPDC Perpetual Investment Fund



Q3 2021



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Fund Overview

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Fund Overview

Fund size*

\$349.7m

Returns (after fees and taxes)

Since inception p.a. (Nov 2004)	5 years p.a.	1 year p.a.	3 months
7.3%	8.7%	19.4%	1.2%

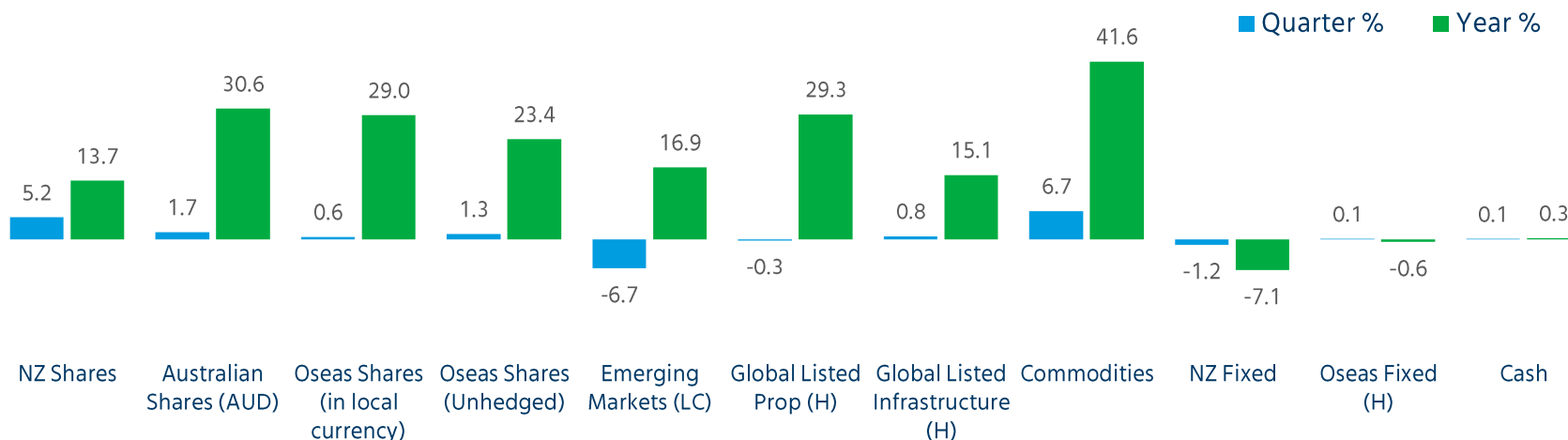
Distributions to Council (Release payments)

Since inception (Nov 2004)	5 years	1 year
\$230.8m	\$40.4m	\$6.8m

Nb – Implementation of Guardian and Full Outsource Agent (Mercer) model took effect March 1 2017. Results and distributions incorporate TIML results for period prior to March 1.

* excludes TIML settlement of \$100.1k

Financial Market Update



The September quarter finished with a number of factors weighing on returns. Despite starting strong, the final month of the quarter ended with markets pricing in the effects of a slowing global economy and the likelihood that central banks around the world will start to raise interest rates.

Supply chain issues have kept inflation high around the world with shipping prices reaching new highs. Queues of container ships waiting to enter ports continue to lengthen as pandemic-restrictions limit ports and workers abilities to unload ships. The queuing has resulted in reduced container supply and thus higher prices. Rising commodity prices are also putting upwards pressure on inflation.

At the annual Jackson Hole Symposium, the US Federal Reserve (Fed) stated it still anticipates inflation will be transitory. The Fed also communicated its expectation that it will taper its quantitative easing programme. The taper “will not be intended to carry a direct

signal of timing of interest rate lift off”.

Investors also grappled with fears around the potential default of Evergrande, a large Chinese property developer, after the company announced its inability to meet upcoming principal and interest payments. Market analysts were left scrambling to assess the impact of an Evergrande default. The potential collapse of the Chinese property market (which accounts for a significant share of China’s GDP) contains possibilities of ‘contagion’ to industries and sectors in both the Chinese and global economy.

China’s \$1 Trillion Crackdown is also creating headwinds. From music and financials, to ride sharing and tutoring, the Chinese Government have put the brakes on growing investor fortunes wiping more than a \$1.5T from stocks at its most extreme as the government implemented sweeping policies prioritising social stability and national security.

Market Outlook

- We acknowledge a number of short term headwinds but our medium term macro outlook remains positive nevertheless.
- We expect economic growth to remain strong, although supply disruptions and near term weakness in China, could lead to near term growth being weaker than we had thought. However, any growth shortfall this year may be offset by better growth next year, especially in China and supply constrained sectors. It seems likely that the impact of COVID on economies and markets will fade, especially in those economies that have vaccinated the most.
- Inflation, which has risen sharply should moderate, although remain above target for a while. While we share the US Federal Reserve view that much of the inflation increase is temporary, we think that rising wages and higher inflation expectations create the risk of a longer lasting move higher in inflation. We expect central banks to gradually withdraw some of the stimulus that was added last year.





Fund Performance

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Fund performance

- The Fund returned 1.2% for the 3 month period to 30 September 2021 (after fees). The Fund is ahead of its objective of CPI+3.3% over all periods.
- On a benchmark relative basis, which is the secondary objective, the Fund is ahead of benchmark for the quarter and year.

	5 years % (p.a.)	1 year %	3 months %
Fund return (net of fees)	8.7	19.4	1.2
Value add (total portfolio including legacy PE)			
• Relative to CPI + 3.3%	+3.0	+11.2	-1.9
• Relative to benchmark	n/a	+5.7	+0.2
Fund Listed Sector Return	-	19.7	0.0
Relative to benchmark	-	+3.1	-0.1
Fund Unlisted Sector Return	-	21.8	3.9
Relative to benchmark	-	+13.4	+1.4

Sector Performance – (3 Months)

Gross Returns	\$ Value (\$M)	Weighting %	Return %	Excess over benchmark %	Return attribution ¹
Overseas Shares (incl. PE Proxy)	144.9	41.4	0.9%	-0.0	0.4%
Emerging Markets	17.8	5.1	-7.7%	-0.9	-0.4%
Alternatives³	61.5	17.6	1.9%	-0.3	0.3%
Mercer Unlisted Property	14.3	4.1	4.2%	-0.2	
Mercer Unlisted Infrastructure	17.3	4.9	3.3%	-0.1	
Mercer Listed Property	16.2	4.6	-0.3%	+0.0	
Mercer Listed Infrastructure	13.7	3.9	0.7%	-0.1	
Private Equity	59.0	16.9	5.9%	+3.1	1.0%
Fixed Interest	45.5	13.0	0.2%	+0.1	0.0%
Mercer Overseas Sovereign Bonds	18.4	5.2	0.2%	+0.2	
Mercer Global credit	27.2	7.8	0.2%	+0.2	
Cash	20.9	6.0	0.1%	+0.0	0.0%
Total Portfolio	349.7	100.0%	1.3%		1.3%

1. Weighted contribution to total fund return.

2. Gross returns for all sectors except Private Equity which is net of fees.

3. The Alternatives Sector has a benchmark of CPI+4%, which is the long term target. CPI is reported with a 1 quarter lag. The Alternatives sub-sectors are also shown, versus their respective benchmarks.

4. Cash includes: Cash, PE Proxy, and TIML cash.

Sector Performance – (12 Months)

Gross Returns	\$ Value (\$M)	Weighting %	Return %	Excess over benchmark %	Return attribution ¹
Overseas Shares (incl. PE Proxy)	144.9	41.4	29.1%	+3.1	12.0%
Emerging Markets	17.8	5.1	12.7%	-0.9	0.7%
Alternatives³	61.5	17.6	16.3%	+9.0	2.9%
Mercer Unlisted Property	14.3	4.1	11.0%	-1.2	
Mercer Unlisted Infrastructure	17.3	4.9	16.3%	+4.7	
Mercer Listed Property	16.2	4.6	25.2%	-4.0	
Mercer Listed Infrastructure	13.7	3.9	14.1%	-1.0	
	0.0				
Private Equity	59.0	16.9	26.2%	+16.7	4.3%
Fixed Interest	45.5	13.0	0.5%	+1.1	0.1%
Mercer Overseas Sovereign Bonds	18.4	5.2	-0.9%	+1.4	
Mercer Global credit	27.2	7.8	1.5%	+0.1	
Cash	20.9	6.0	0.4%	+0.1	0.0%
Total Portfolio	349.7	100.0	20.0%		20.0%

1. Weighted contribution to total fund return.
2. Gross returns for all sectors except Private Equity which is net of fees.
3. The Alternatives Sector has a benchmark of CPI+4%, which is the long term target. CPI is reported with a 1 quarter lag. The Alternatives sub-sectors are also shown, versus their respective benchmarks.
4. Cash includes: Cash, PE Proxy, and TIML cash.
5. Alternatives include MSAS attribution

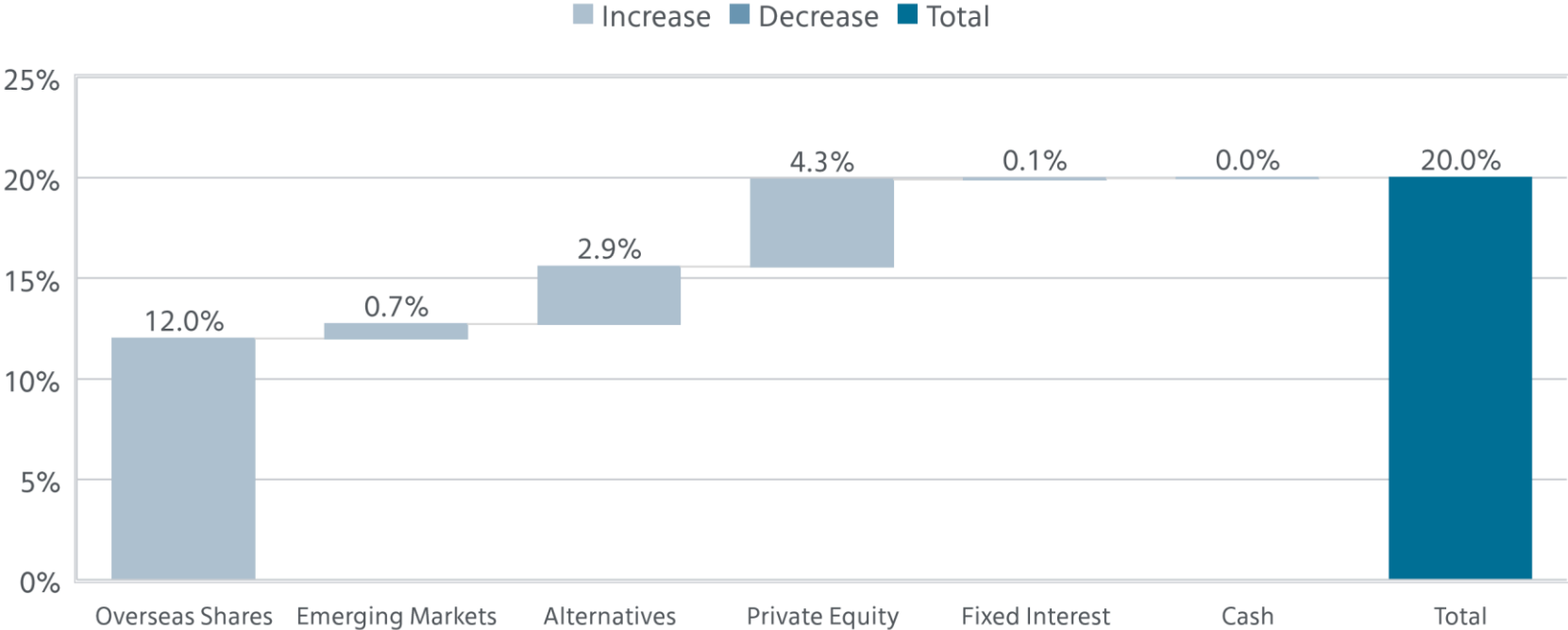
Sector Performance – (Since Inception with Mercer)

Gross Returns	\$ Value (\$M)	Weighting %	Return %	Excess over benchmark %	Return attribution ¹
Overseas Shares (incl. PE Proxy)	144.9	41.4	12.2%	-0.2	5.4%
Emerging Markets	17.8	5.1	10.8%	+0.4	0.8%
Alternatives³	61.5	17.6	6.6%	+0.6	1.2%
Mercer Unlisted Property	14.3	4.1	8.1%	+2.1	
Mercer Unlisted Infrastructure	17.3	4.9	12.4%	+5.7	
Mercer Listed Property	16.2	4.6	8.9%	+4.0	
Mercer Listed Infrastructure	13.7	3.9	6.8%	-0.3	
	0.0				
Private Equity	59.0	16.9	9.8%	+0.1	1.5%
Fixed Interest	45.5	13.0	4.6%	+1.0	0.7%
Mercer Overseas Sovereign Bonds	18.4	5.2	4.4%	+1.0	
Mercer Global credit	27.2	7.8	4.5%	+0.1	
Cash	20.9	6.0	1.7%	+0.3	0.1%
Total Portfolio	349.7	100.0	9.7%		9.7%

1. Weighted contribution to total fund return.
2. Gross returns for all sectors except Private Equity which is net of fees.
3. The Alternatives Sector has a benchmark of CPI+4%, which is the long term target. CPI is reported with a 1 quarter lag. The Alternatives sub-sectors are also shown, versus their respective benchmarks.
4. Cash includes: Cash, PE Proxy, and TIML cash.
5. Alternatives includes MSAS attribution

Sector Performance (12 Months)

Weighted Contribution to Total Fund Return



The all sectors contributed positively over the 12 months, with the main drivers being Overseas Shares and Private Equity.

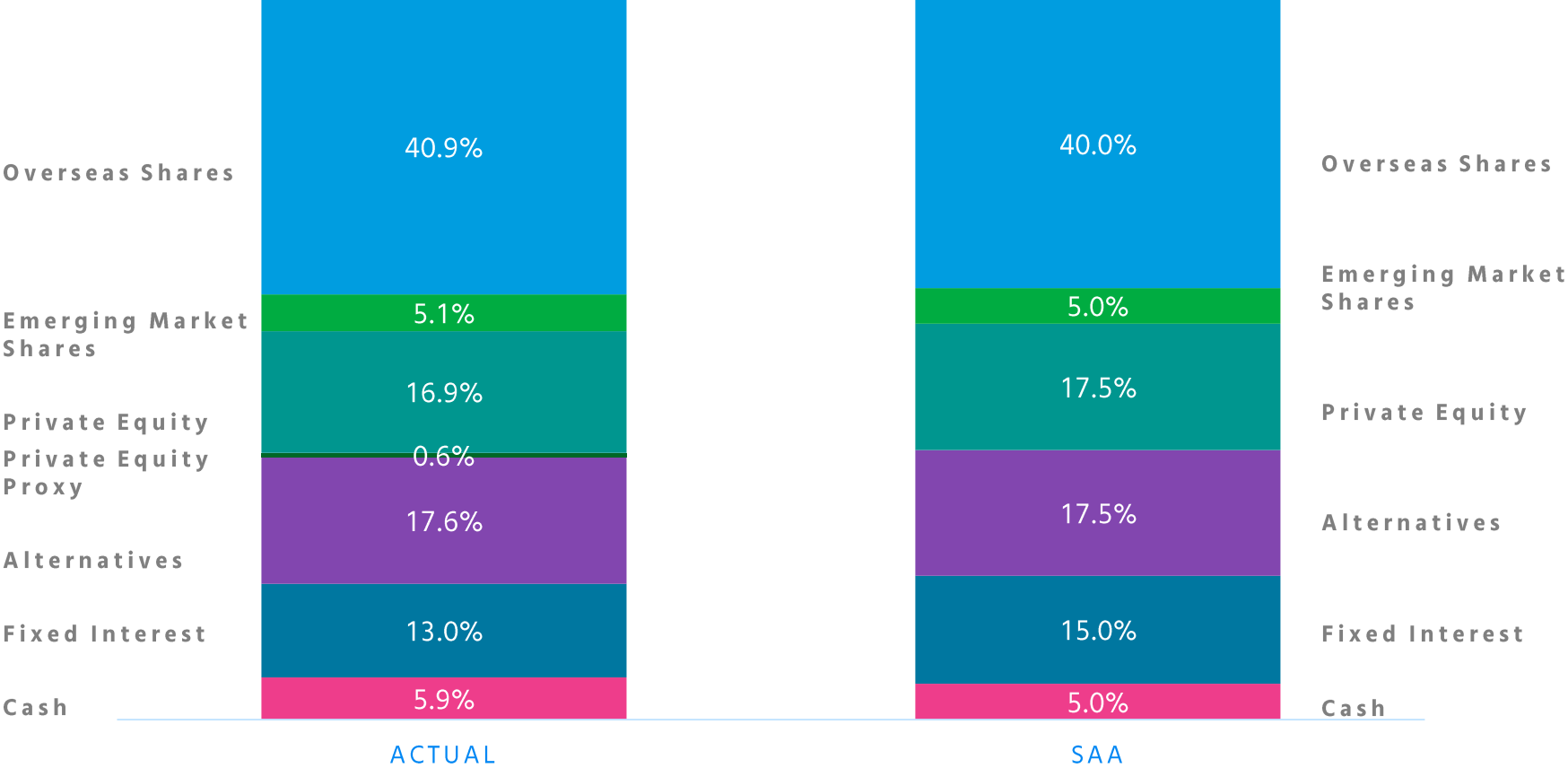
1. Weighted contribution to total fund return.
2. Gross returns for all sectors except Private Equity and Fund of Hedge Funds which are net of fees.



Asset Allocation

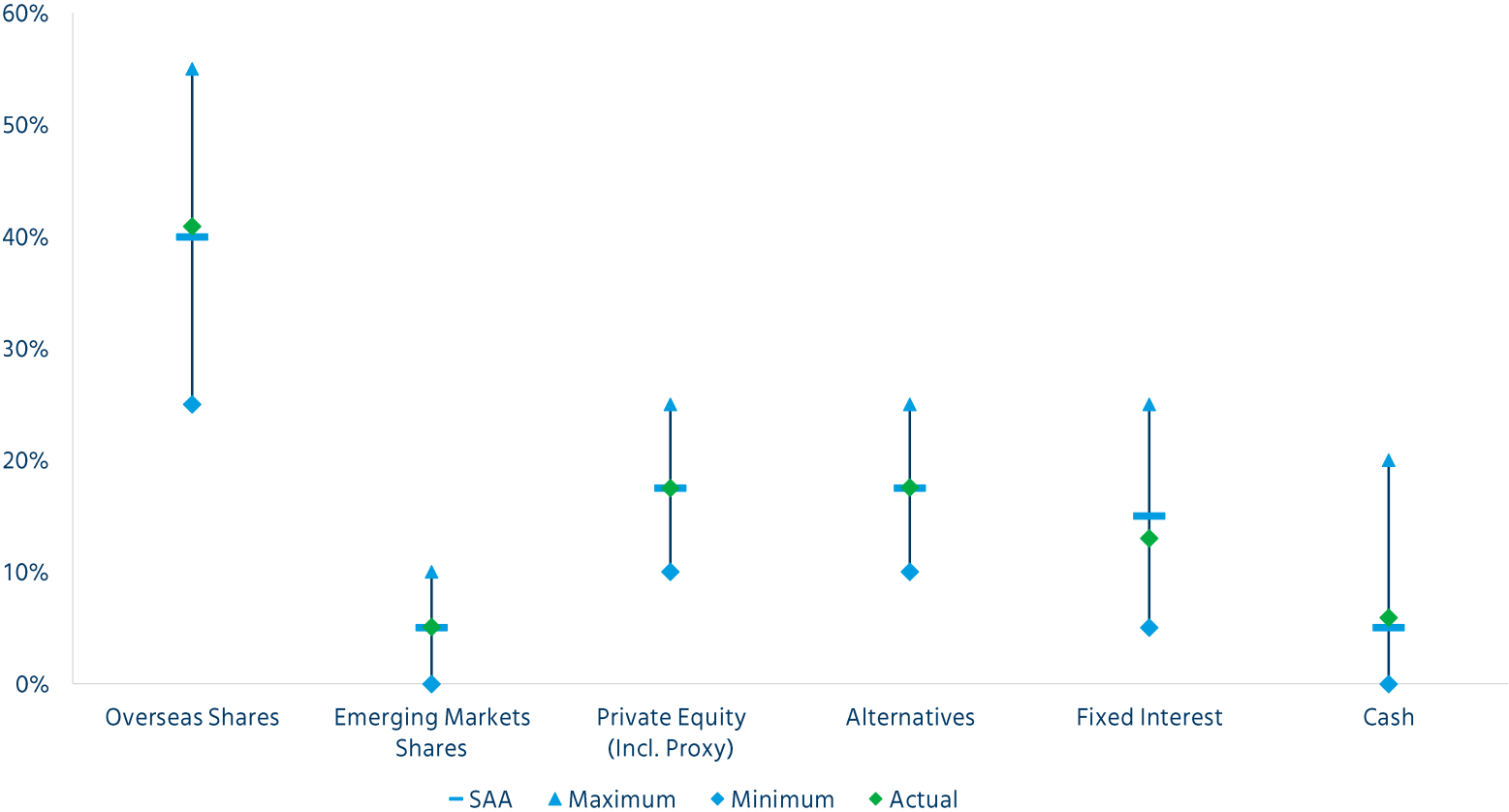
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Asset Allocation



- The NPDC portfolio continues to transition towards the long term Strategic Asset Allocation (SAA) as the Private Equity allocations are built up and the proxy is progressively reduced. The Private Equity Proxy consists of 0.6% Listed Overseas Shares and 0.1% Cash.
- The target hedging ratio for Overseas Shares is now 50% (effective 31 August 2019).
- Cash is 5.9% Mercer Cash and 0.03% TIML Cash.

Asset allocation Ranges

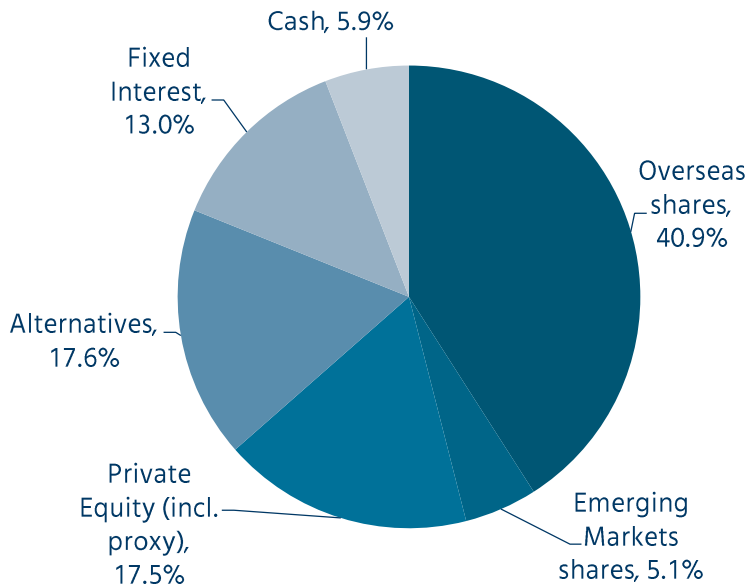


- All asset class allocations are within the ranges specified in the SIPO.

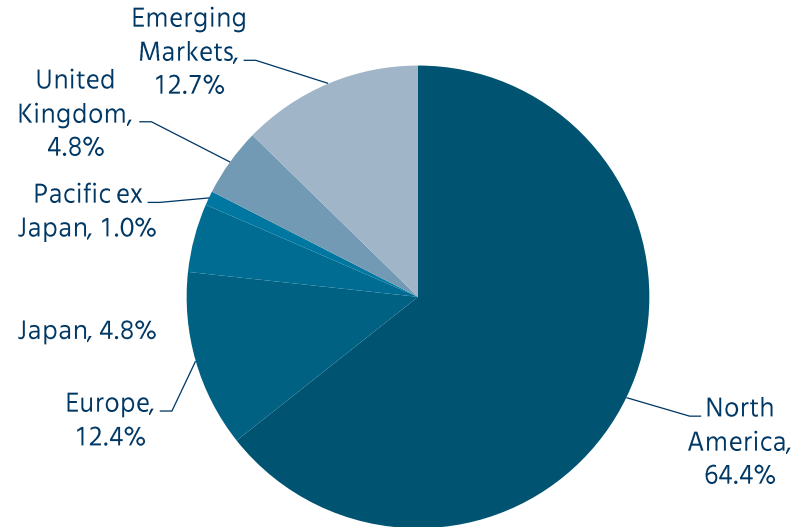
Asset Allocation

- The portfolio is well diversified by asset class, sector and region.
- Within Overseas Shares, there is an underweight relative to the benchmark in the following regions; Pacific ex Japan, Japan, Europe, and North America, in favour for an overweight to Emerging Markets and the United Kingdom . Note the Portfolio by Geography graph below includes the Schroders, LGIM and EM portfolios.

Portfolio by asset class



Portfolio by Geography



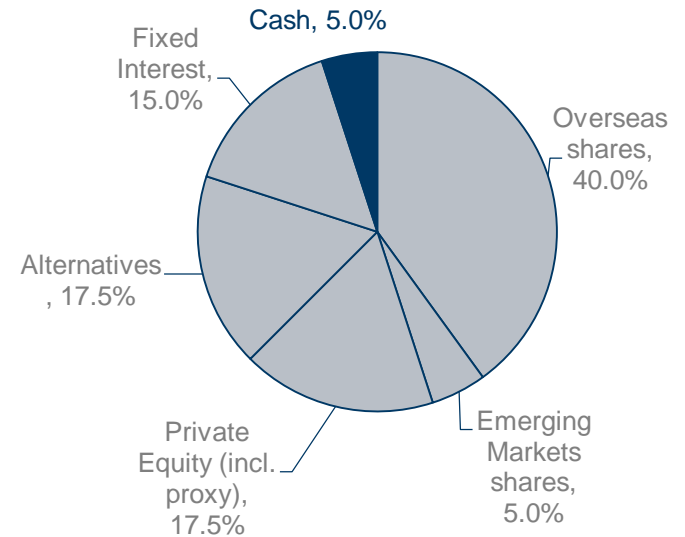
Sector in focus

Cash

- **What is Cash?** Cash is a defensive asset and may include a range of cash related investments including on call cash deposits, term deposits, bank bills, notes, and short term bonds. While there is limited upside return potential for cash, it is expected to generate a steady and positive return. Cash generally performs well relative to other asset classes in periods of rising interest rates and times of market turbulence.

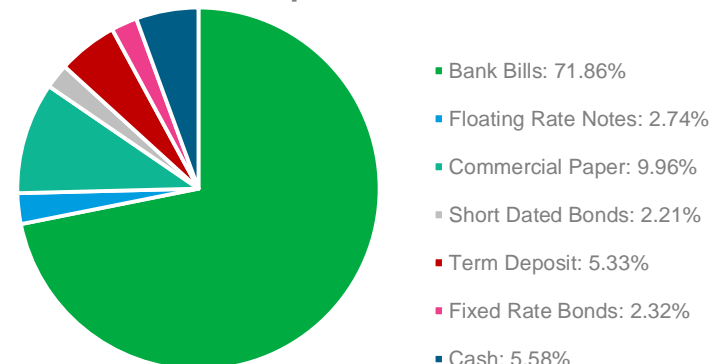
- **Roles in the portfolio:**

- **Liquidity Management:** The Fund will have regular quarterly cash flow requirements (release payments) and in the first instance, these are paid from the Cash allocation.
- **Reduced Portfolio Volatility:** An allocation to Cash can help anchor the portfolio when markets decline and limit losses. However the opposite is true as the lower expected return can be a drag on returns over the longer term as markets appreciate.
- **Dynamic tilts/Opportunity:** The allocation to Cash can be increased or decreased as part of the dynamic asset allocation process. When other asset classes are unattractive, more cash can be held, and vice versa. After a sell-off in markets, Cash can also be used opportunistically to invest at more attractive or distressed levels.
- **Allocation:** The long term Cash allocation is 5% (currently 5.9%). The overweight tilt is due to the underweight tilt to Fixed Interest. There is also a small allocation to cash (0.1%) as part of the proxy allocation while the Private Equity allocation is being built up. The majority of the cash portfolio consists of deposits with and securities issues by NZ registered banks.



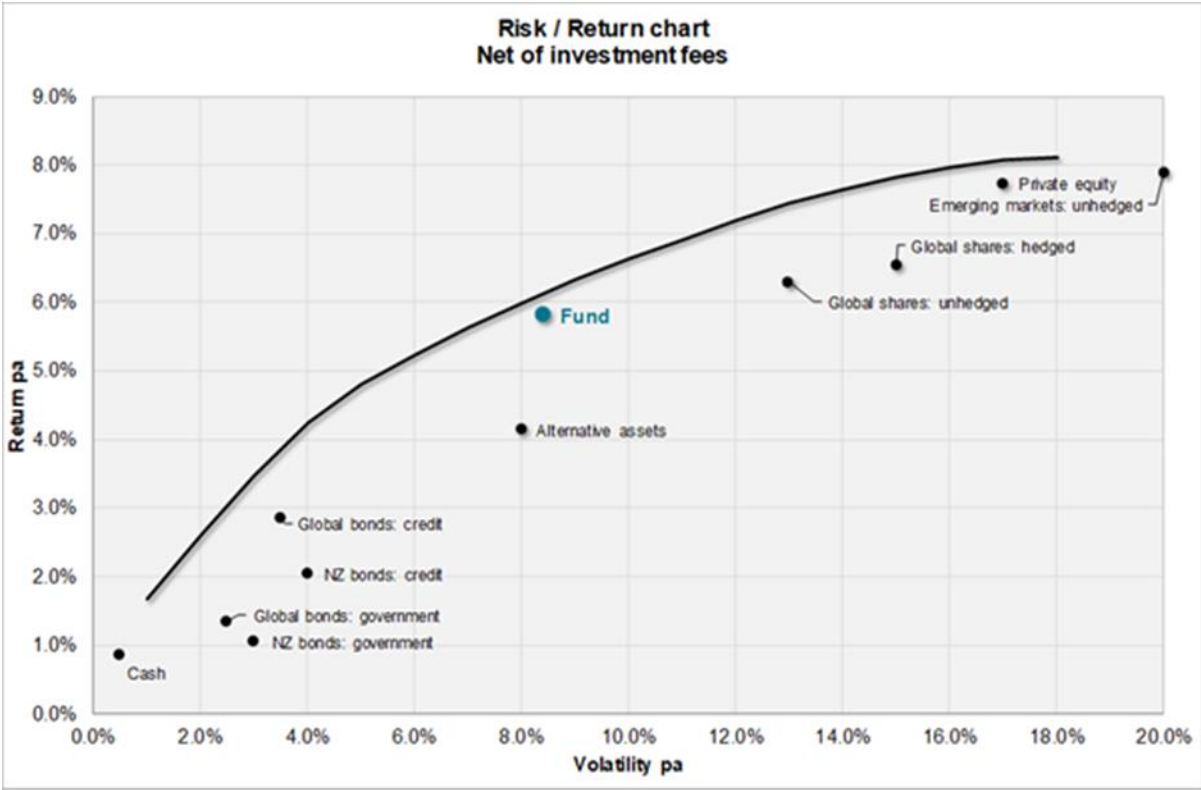
Manager	Nikko Asset Management
Benchmark	S&P/NZX Bank Bill 90-Day Index
Current Running Yield	0.57%
Current Portfolio Duration	65 Days

Cash: Asset Composition



Asset class

Risk /return chart



Compliance Statement

Document	Status
New Plymouth PIF Guardians SIPO	There were no breaches reported in the quarter
Mercer Investment Trusts NZ SIPO	There were no breaches reported in the quarter
Responsible Investment Policy	There were no breaches reported in the quarter

Investments held in Mercer Investment Trusts NZ	Status
Segregated mandates	There were no breaches reported in the quarter
Mercer managed funds	There were no breaches reported in the quarter
External managed funds	There were no breaches reported in the quarter

Disclaimer

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