

QUARTERLY REPORT NPDC PERPETUAL INVESTMENT FUND

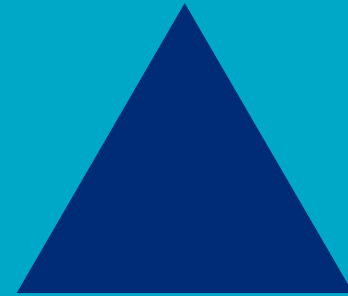
Q4 2019



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FUND OVERVIEW



FUND OVERVIEW

Fund size

\$304.9m

Returns (after fees and taxes)

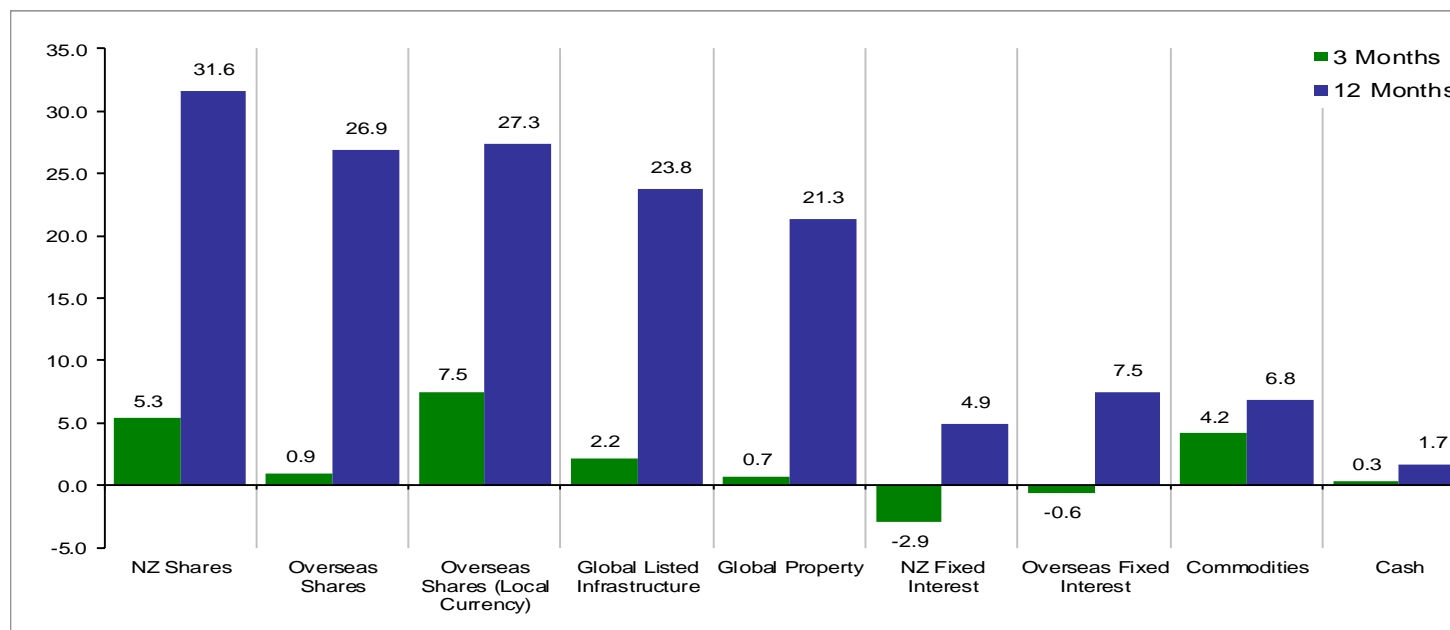
Since inception (Nov 2004)	5 years	1 year	3 months
6.8%p.a.	10.1%p.a.	15.0%p.a.	2.2%p.a.

Distributions to Council (Release payments)

Since inception (Nov 2004)	5 years	1 year
\$217.1m	\$38.2m	\$8.6m

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.

FINANCIAL MARKETS UPDATE



- In a sharp contrast to 2018, Q4 2019 ended on a high note for investors. Markets were encouraged by healthy U.S. economic indicators including employment, consumer spending and improved manufacturing data. Expectations that global interest rates will remain low throughout 2020, coupled with an improved US-China trade position also provided further support.
- While the evolving relationship between the US and China contributed to some intra-quarter volatility, it ultimately finished the year on a positive note. In December the leaders of the two nations announced the agreement of a 'phase one deal'. Included in the scope was the phasing out of American tariffs, while China would review its intellectual property protections and commit to increased purchases of US agriculture.
- In New Zealand, the NZX-50 jumped +5.3% over the quarter supported by healthy wage growth, a labour market close to full employment, fiscal spending, coupled with existing interest rate levels. The economic data was reflected in the NZD which rebounded 5.1% against the trade weighted index of currencies.
- The US Federal Reserve cut its Federal Funds Rate by 0.25% at the conclusion of its October meeting (to 1.50% - 1.75%), the third such cut in 2019 while the European Central Bank left its historically low deposit rate unchanged at -0.50% in October, continuing to highlight the adverse economic climate across the continent.
- The Reserve Bank of New Zealand (RBNZ), in its November monetary policy statement, left the Official Cash Rate unchanged at 1.00%.

MARKET OUTLOOK

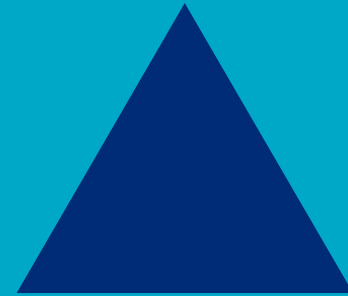
- The global growth outlook remains broadly positive, despite downgraded growth projections by the International Monetary Fund (IMF). Some of the risk factors weighing on medium term growth have abated; in the Asia-Pacific, the signing of the 'phase one' agreement between the United States and China has provided some reassurance to markets.
- In Europe, the decisive election in the United Kingdom has ended the political paralysis around Brexit and provided more directional certainty.
- Supporting global growth is global administrations willingness to boost fiscal spending and maintain accommodative monetary policy. The United States ran a \$984b fiscal deficit for the year ended 30 September (up 26% on the year prior) and expectations are that China will boost infrastructure spending throughout 2020.
- In New Zealand the economic environment remains positive. The economy grew by 0.7% over the September quarter and the NZ Treasury forecasts an increase in growth throughout 2020 & 2021 supported by fiscal spending and low interest rates; the RBNZ has expressed a willingness to cut interest rates further if growth declines.



MARKET OUTLOOK – IMPACT ON THE NPDC FUND

- The Fund has an asset allocation designed to meet the investment objective of CPI+3.3% over a long term investment horizon.
- While over the near term we recognise there are a number of potential risks in the market, the diversification across asset classes, sector and country means the Fund is not overly exposed to any one risk or event.
- Examples of near term market factors that may impact the NPDC Fund:
 - Global/EM Equities: While geopolitical risks have eased modestly, market sentiment has been impacted as investors assess the potential impacts of the Novel coronavirus outbreak. We believe volatility will likely remain elevated in equity markets over the coming weeks as more news on the virus emerges. Although the virus may lead to short-term and potentially even medium-term disruptions, we retain our view that global growth should return to trend levels over the course of the year.
 - Fixed Interest: Given the low levels of interest rates around the world, a lower than normal return is expected from Fixed Interest. There is currently an underweight position in Fixed Interest in the Fund, however there is still a holding. The reason for this is it is a defensive asset that we still expect to perform in a significant equity market downturn.

FUND PERFORMANCE



FUND PERFORMANCE

- The Fund returned 2.2% for the 3 month period to 31 December 2019 (after fees). The Fund is ahead of its long term objective of CPI+3.3% for the quarter and over the year. The Fund is 5.5% p.a. ahead of the objective over 5 years.
- On a benchmark relative basis, which is the secondary objective, the Fund is outperforming over the quarter and the year.

	5 years (p.a.)	1 year	3 months
Fund return (net of fees)	10.1%p.a.	15.0%p.a.	2.2%p.a.
Value add (total portfolio including legacy PE)			
• Relative to CPI + 3.3%	+5.5%	+9.8%	+0.9%
• Relative to benchmark	n/a	+0.2%	+0.5%

SECTOR PERFORMANCE (3 MONTHS)

Gross Returns	\$ Value (\$M)	Weighting %	Return %	Excess over benchmark %	Return attribution ¹
Overseas Shares (incl. PE Proxy)	134.1	44.0	4.2%	+0.1	1.9%
Emerging Markets	15.5	5.1	4.1%	+0.1	0.2%
Alternatives³	56.8	18.6	0.8%	-0.9	0.1%
Mercer Unlisted Property	9.1	3.0	1.2%	-1.5	
Mercer Unlisted Infrastructure	9.3	3.1	1.0%	-2.8	
Mercer Listed Property	6.1	2.0	1.7%	+1.1	
Mercer Listed Infrastructure	6.1	2.0	1.7%	-0.5	
Fund of Hedge Funds	26.2	8.6	0.1%	-0.4	
Private Equity	39.1	12.8	0.9%	+2.6	0.1%
Fixed Interest	33.8	11.1	-0.2%	+0.4	0.0%
Mercer Overseas Sovereign Bonds	16.1	5.3	-1.3%	+0.2	
Mercer Global credit	17.7	5.8	0.8%	+0.2	
Cash	25.7	8.4	0.3%	+0.0	0.0%
Total Portfolio	304.9	100.0%	2.4%		2.4%

All sectors contributed positively over the quarter.

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

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.

SECTOR PERFORMANCE (12 MONTHS)

Gross Returns	\$ Value (\$M)	Weighting %	Return %	Excess over benchmark %	Return attribution ¹
Overseas Shares (incl. PE Proxy)	134.1	44.0	24.0%	-1.1	10.7%
Emerging Markets	15.5	5.1	19.5%	+1.8	1.2%
Alternatives³	56.8	18.6	8.2%	+2.7	1.5%
Mercer Unlisted Property	9.1	3.0	6.9%	-0.9	
Mercer Unlisted Infrastructure	9.3	3.1	11.6%	-0.7	
Mercer Listed Property	6.1	2.0	25.5%	+4.2	
Mercer Listed Infrastructure	6.1	2.0	27.4%	+3.6	
Fund of Hedge Funds	26.2	8.6	2.2%	+2.0	
Private Equity	39.1	12.8	6.6%	-3.7	0.8%
Fixed Interest	33.8	11.1	9.8%	+2.4	1.1%
Mercer Overseas Sovereign Bonds	16.1	5.3	8.9%	+1.8	
Mercer Global credit	17.7	5.8	10.5%	+0.0	
Cash	25.7	8.4	2.0%	+0.4	0.2%
Total Portfolio	304.9	100.0	15.5%		15.5%

All sectors contributed positively over the quarter.

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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.

SECTOR PERFORMANCE (SINCE INCEPTION WITH MERCER)

Gross Returns	\$ Value (\$M)	Weighting %	Return %	Excess over benchmark %	Return attribution ¹
Overseas Shares (incl. PE Proxy)	134.1	44.0	9.9%	-0.9	4.8%
Emerging Markets	15.5	5.1	12.7%	+1.0	0.8%
Alternatives³	56.8	18.6	5.9%	+0.2	1.0%
Mercer Unlisted Property	9.1	3.0	8.9%	+2.2	
Mercer Unlisted Infrastructure	9.3	3.1	10.4%	+2.3	
Mercer Listed Property	6.1	2.0	11.8%	+4.1	
Mercer Listed Infrastructure	6.1	2.0	11.1%	-0.1	
Fund of Hedge Funds	26.2	8.6	1.8%	+0.5	
Private Equity	39.1	12.8	5.5%	-4.8	0.7%
Fixed Interest	33.8	11.1	5.5%	+1.1	0.7%
Mercer Overseas Sovereign Bonds	16.1	5.3	6.0%	+1.6	
Mercer Global credit	17.7	5.8	5.0%	-0.0	
Cash	25.7	8.4	2.3%	+0.4	0.2%
Total Portfolio	304.9	100.0	8.2%		8.2%

All sectors contributed positively over the quarter.

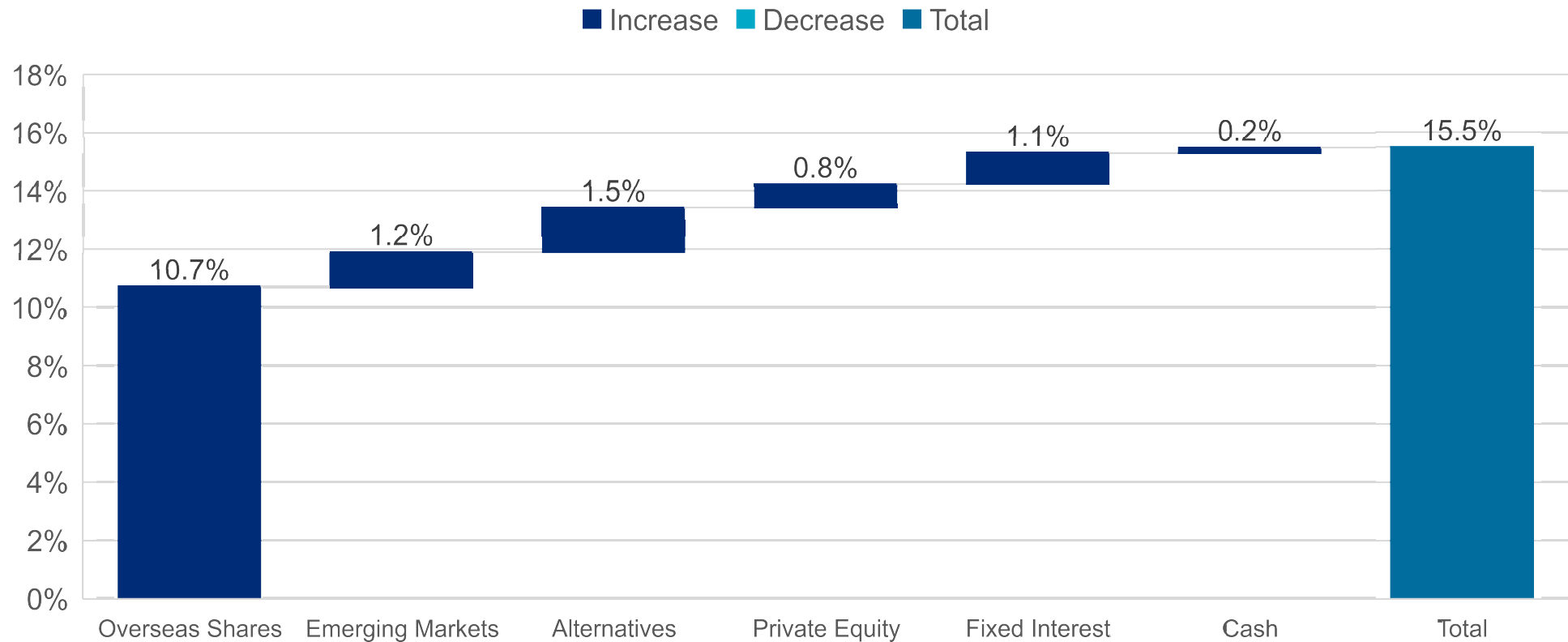
¹ Weighted contribution to total fund return.

² Gross returns for all sectors except Private Equity and Fund of Hedge Funds which are net of fees

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.

SECTOR PERFORMANCE (12 MONTHS)

Weighted Contribution to Total Fund Return



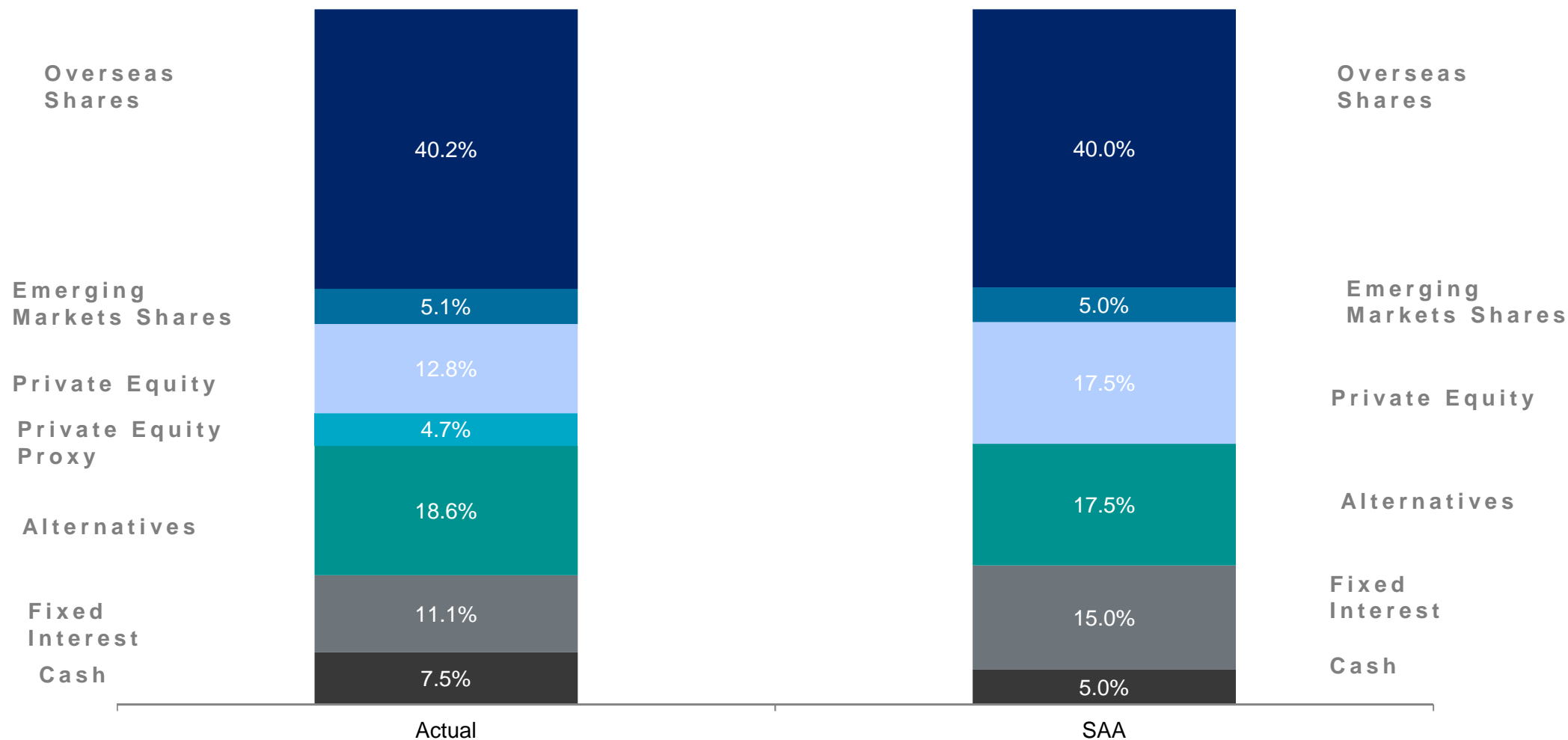
All sectors contributed positively over the 12 months.

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

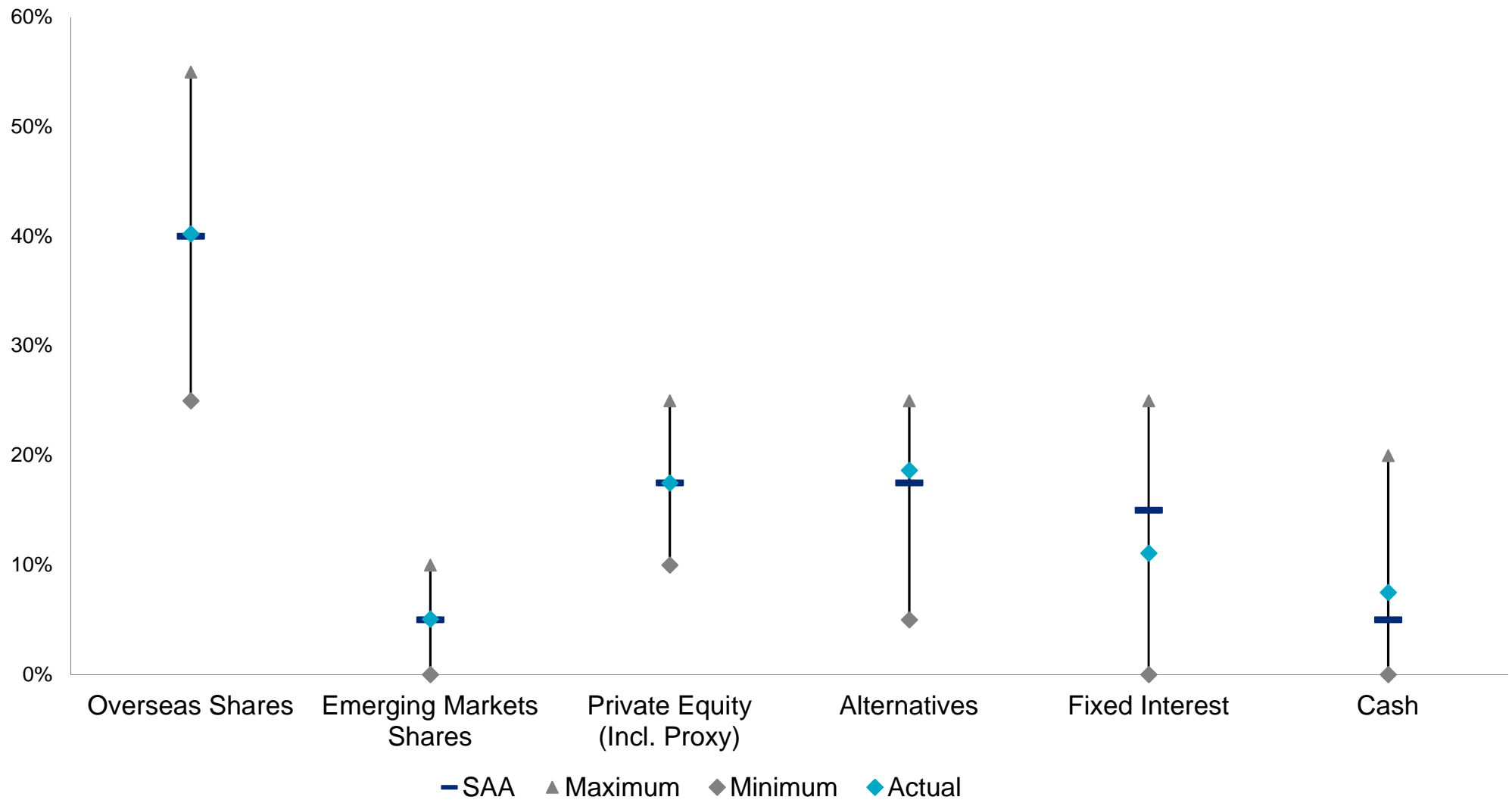


ASSET ALLOCATION



- 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. PIP IV and Pioneer 3 made drawdowns and Barings 4, Direct Capital III and IV made distributions.
- The Private Equity Proxy consists of 3.7% Listed Overseas Shares and 0.9% Cash.
- The target hedging ratio for Overseas Shares is now 50% (effective 31 August 2019)

ASSET ALLOCATION RANGES

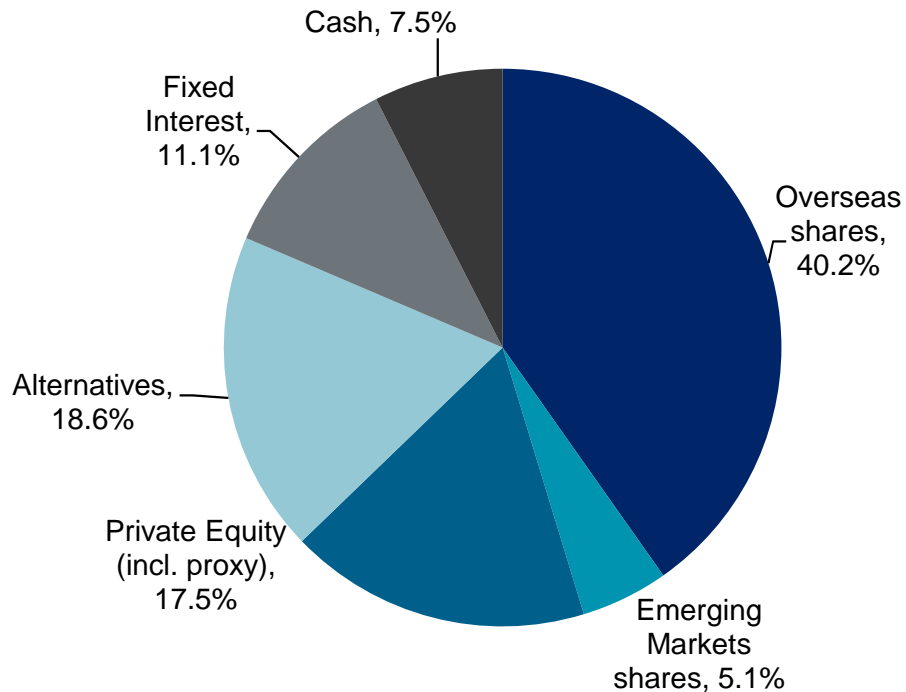


- All asset class allocations are within the ranges specified in the SIPO.

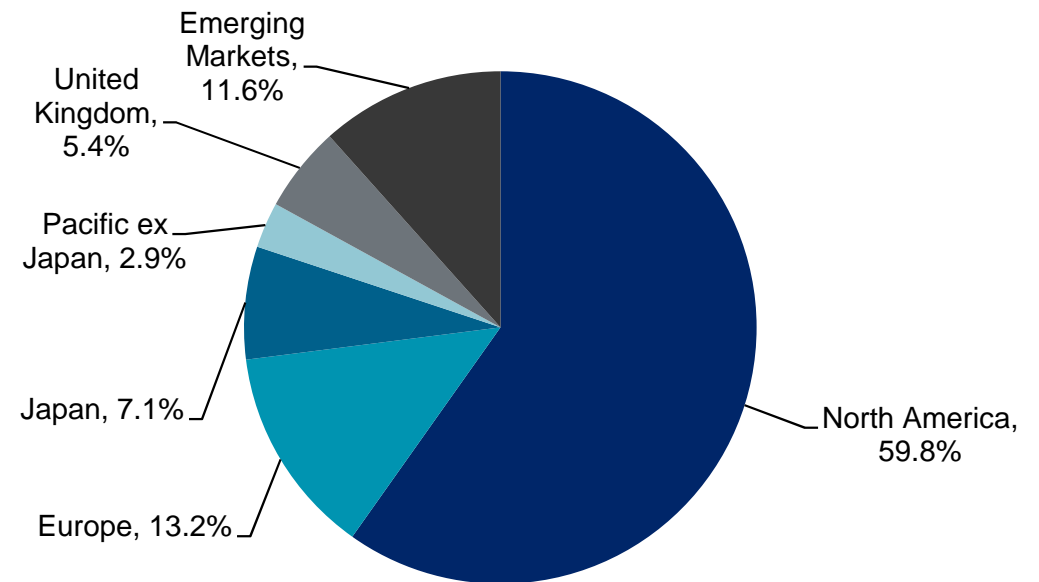
ASSET ALLOCATION

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

Portfolio by asset class



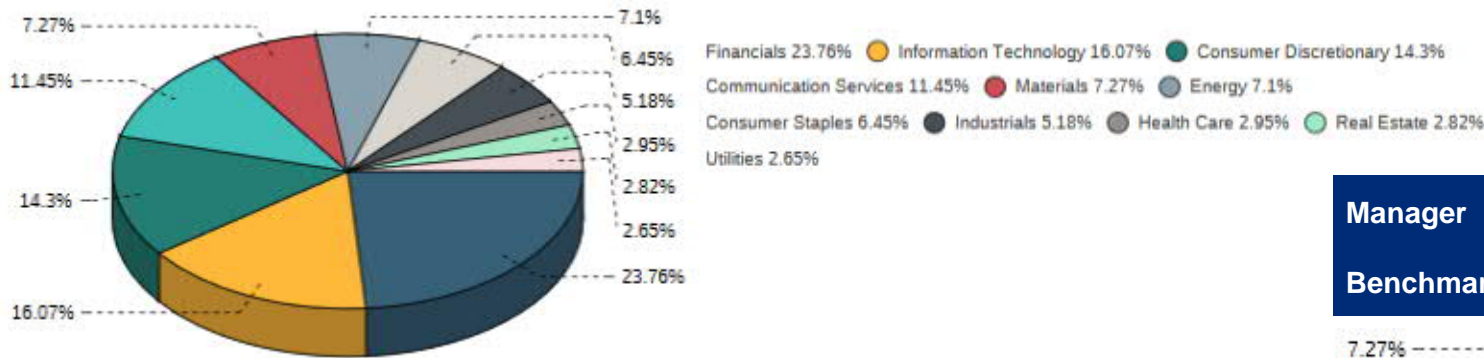
Portfolio by Geography



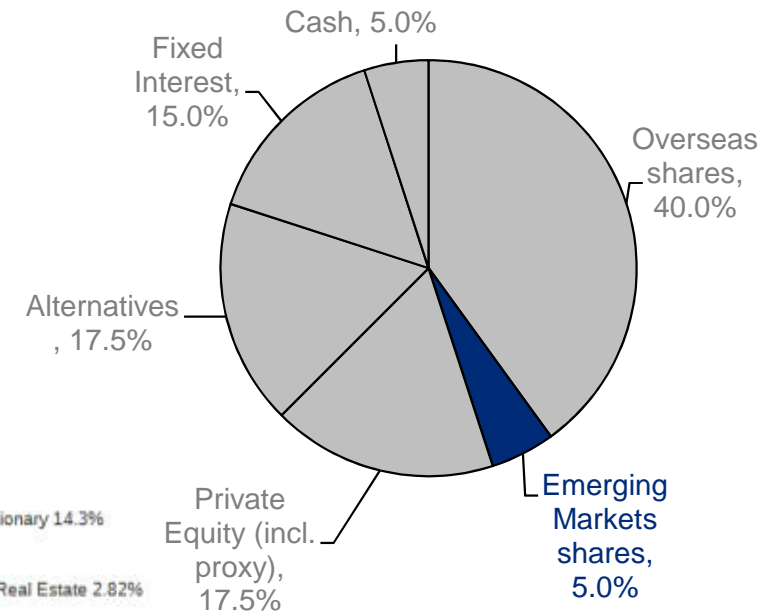
SECTOR IN FOCUS

EMERGING MARKETS SHARES

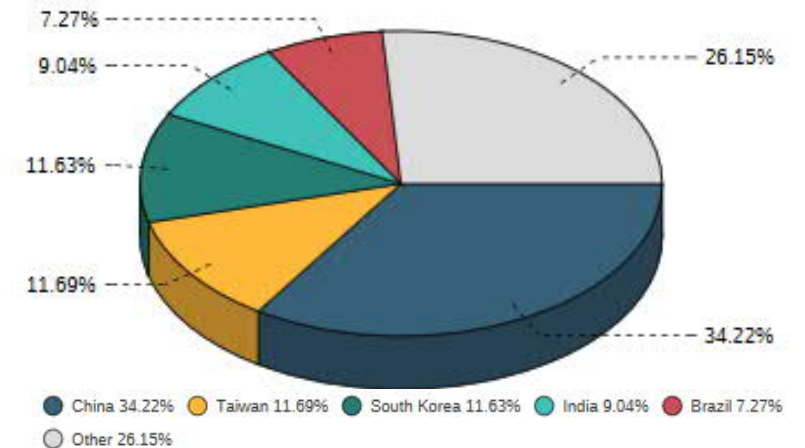
- **What are Emerging Market Shares?** Emerging Market Shares are shares of companies from countries classified as Emerging, developing or middle income countries. These countries are less mature than developed countries, but more developed than frontier countries. There are 1,402 shares in the index, spread across 26 emerging markets countries and diversified by sector (see below).



- **Role in portfolio:** Emerging Market Shares are considered to be higher risk than developed market (Overseas Shares), and are expected to generate a higher return over the long term. They form part of the Growth Assets part of the portfolio. They help to diversify the developed market equity risk in the portfolio.
- **Allocation:** The long term emerging market shares allocation is 5.0%.
- **What influences Emerging Market Shares?** Emerging Market economies tend to have high economic growth rates and favourable demographic trends. However they also have higher risks associated with liquidity, political instability and conflict, inflation, less regulation, and more volatile currencies.



Manager	BlackRock Investment Management
Benchmark	MSCI Emerging Markets Index in NZD



* Other includes: Argentina, Chile, Colombia, Czech Republic, Egypt, Greece, Hungary, Indonesia, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Thailand, Turkey, and the United Arab Emirates.
Source: MSCI

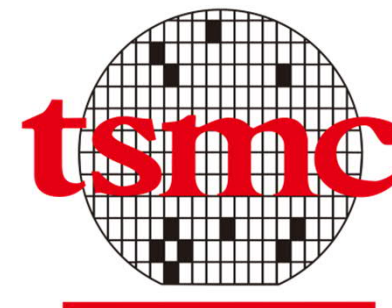
EMERGING MARKETS SHARES AS AT 31 DECEMBER 2019

TOP 10 HOLDINGS

The Mercer Emerging Markets Shares Portfolio invests in 416 stocks across 24 countries.

Mercer Emerging Markets Shares	Country
ALIBABA GROUP HOLDING LTD	China
TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED	Taiwan
TENCENT HOLDINGS LIMITED	China
SAMSUNG ELECTRONICS COMPANY LTD	South Korea
NK LUKOIL PAO	Russia
BANCO BRADESCO S.A.	Brazil
ITAU UNIBANCO HOLDING S.A.	Brazil
NASPERS LIMITED	South Africa
HON HAI PRECISION INDUSTRY COMPANY LTD	Taiwan
PING AN INSURANCE (GROUP) COMPANY OF CHINA LTD	China

Tencent 腾讯

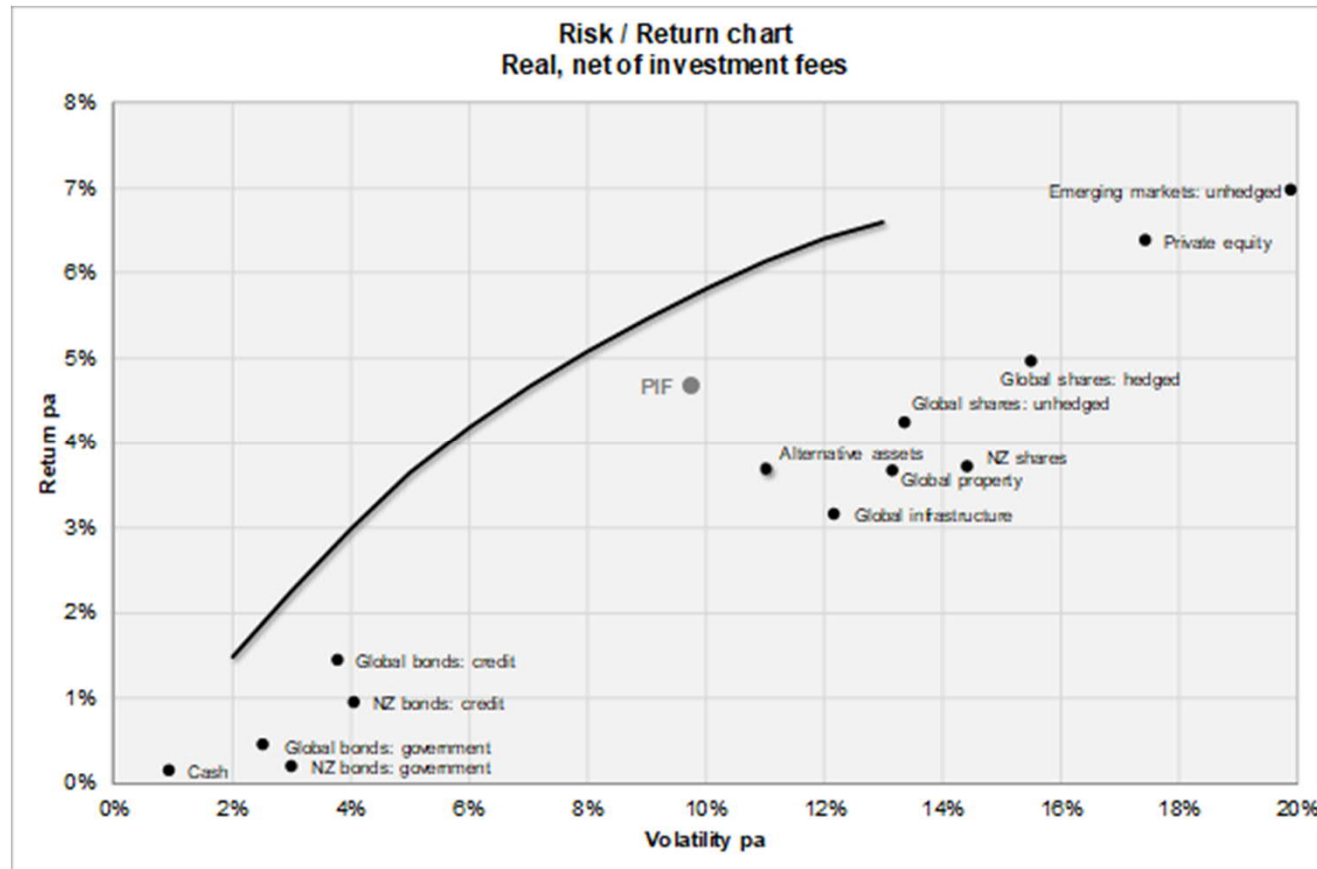


SAMSUNG



*Active share shows the variation from the index. A positive active share reflects a greater allocation in the portfolio than the index.

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

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