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Waitara Perpetual Community Fund

Quarterly Report

Quarter Ending 30 June 2023

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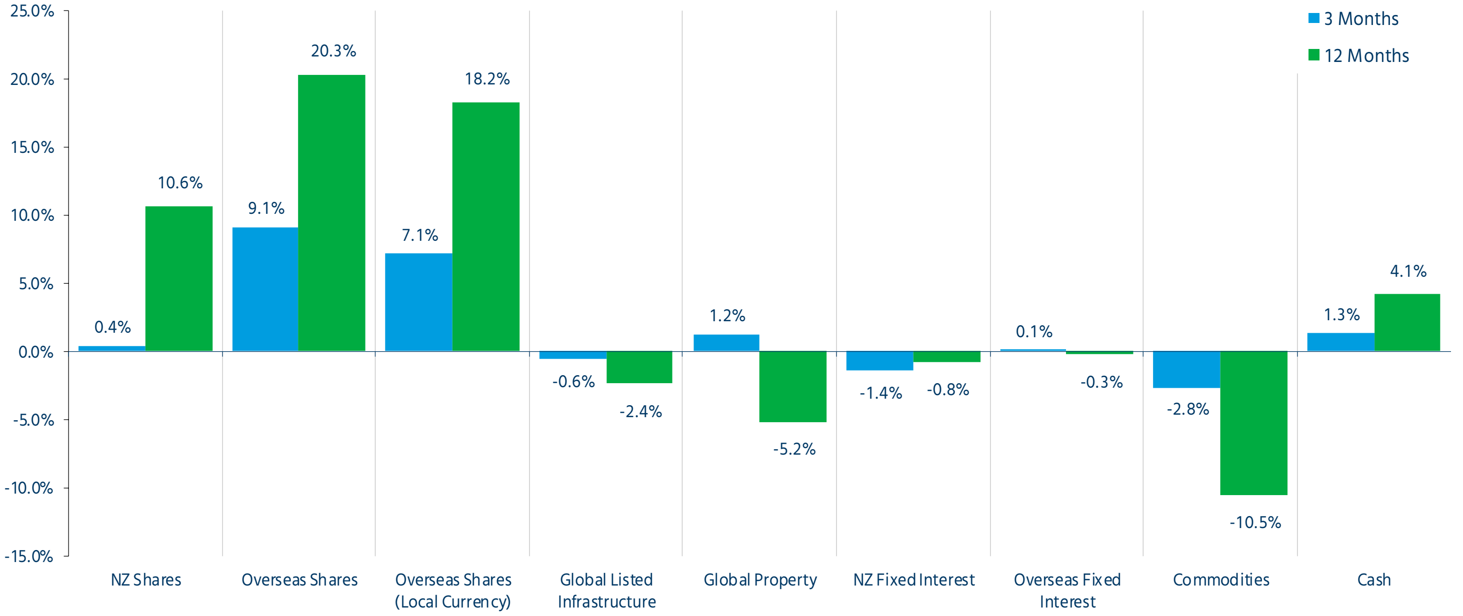
ECONOMY & MARKETS



Global shares impressed in Q2 with the advance led by developed markets, notably the US, while emerging market stocks lagged behind. US debt ceiling negotiations and continued rumblings in the banking sector caused a bit of a stir, however, investors were largely unphased by this as hype surrounding artificial intelligence (AI) drove a rally in the information technology sector and, in particular, sent chipmakers higher. Other leading catalysts were moderating inflation and the continued strength of the US economy despite higher interest rates. The US economy expanded at a rate of 2% (annualised) in Q1 and headline inflation slowed to 4% year-on-year – it's lowest 12-month increase in over two years. Unemployment increased to 3.7% in May but the US labour market still remains historically tight, prompting the US Federal Reserve (Fed) to address the need for further interest rate rises despite electing to pause at their latest June meeting.

Emerging market equities underperformed as concerns remained over China's economic recovery running out of steam. Eurozone share markets trended higher on the back of a strong performance from the information technology and financials sectors, while the Japanese market hit its highest level in 33 years amid expectations of corporate governance reforms and structural shifts in the Japanese macro-economy. Elsewhere, UK equities were a weaker proposition this quarter as an increase in core inflation, stronger-than-expected wage growth and jobs market numbers all weighed heavily on sentiment.

In fixed income, government bond yields generally rose (prices fell) as major central banks all continued to lift their benchmark interest rates during the quarter. UK and Australian government bonds saw the biggest decline as inflation remains particularly sticky in both economies. US debt was also negative, with a sharp increase in the two-year yield marking a further inversion of the US Treasury yield curve. On the credit front, global high yield outperformed investment grade as more immediate recessionary fears rescinded amid a risk on environment. All things considered, most major asset classes closed out Q2 and the first half of the year in remarkably good fashion.

Significant Recent Developments Include:

- Discussions over whether or not lawmakers would approve a deal to raise the US debt ceiling caused some investor apprehension in Q2. With a 5 June "X-date" date looming, an agreement was eventually brokered to raise the government's borrowing limit and prevent a potentially catstrophic default on US debt repayments. Despite feeling a bit like Groundhog Day – same drama, different year, the debt limit debate highlights one of the fundamental ideological differences between the two major US political parties. One one hand, the Republicans view government spending skeptically – with rising national debt being evidence of an out-of-control government and a direct path to social and economic ruin. On the other hand, the Democrats, on the whole, view government spending as a force for good. Sharp divisions in the country's political system was at the heart of the fiscal stand-off as the Republicans currently hold a slim majority in the House of Representatives, while the Democrats control the Senate. The proposed two-year deal passed a massive legislative hurdle after securing approval in what was a crucial House vote. From there, the deal obtained safe passage through the Democratic-held Senate. Although all was resolved in the end, the ongoing political deadlock heightened investor concerns and was partly cause for a mid-quarter blip in capital market performance. The US has never intentionally defaulted on it's financial obligations and if the decision had gone another way, it would have carried global significance. For one, the US' reputation would take a catastrophic hit – which would stiff their creditors. The world's largest economy has always been seen as the "gold standard" in regards to paying its debts which has allowed them to borrow money at extremely cheap rates.

If they were to default, the US Government would all of a sudden find themselves paying a whole lot more on that same debt. They would be deemed riskier, and more importantly, dysfunctional. It would also have severe implications for financial markets, with a US default likely sparking a vicious credit crunch, and consequently, freezing up the global financial system.

- Markets were somewhat taken aback mid-quarter after data showed that the US economy wasn't exactly keeping to the disinflationary story that many had been articulating. Inflation figures continued to subside in developed regions, however, economic data otherwise remained strong. US payrolls increased by half a million in January, nearly double December's total and almost triple the consensus forecast of 185,000. This left the unemployment rate at a 53-year low of 3.4%. When asked about the enduring strength of the US labour market, Fed Chair Jerome Powell stated that the Fed may have to raise rates "more than is priced in" by financial markets. An annual increase in the personal consumption expenditures (PCE) index (the Fed's preferred measure of inflation) and strong US retail sales also supported recent data which showed inflation is falling at a slower pace than investors had been hoping. March saw the release of another robust employment report for February (albeit taking a back seat to banking sector troubles), with the US economy adding 311,000 new jobs and the unemployment rate still hovering near a multi-decade low. This data would ordinarily be considered as reflecting a healthy economy, however, in the current environment, it bears the cost of potentially stickier inflation and higher long-term rates. Despite the ongoing signs of resilience in the US economy, the general consensus is that further rate hikes from the Fed will be limited.

- Growth stocks (12.8%) heavily outperformend value (5.2%) in Q2 after investors flooded into AI-related stocks. Since the release of ChatGPT late last year, investors have been betting large on those companies which are expected to benefit from the introduction of generative AI, such as Nvidia, whose high-end processing chips are used to power AI applications like ChatGPT. This soaring demand for these chips led Nvidia to issue a blowout sales forecast in May – one that well and truly overshot expectations on Wall Street. The US chipmaker maintained that they expect sales to reach $11bn in the three months ending July, all but confirming themselves as the biggest beneficiary of the AI race that has broken out in the tech industry. In terms of stock price growth, Nvidia certainly led the 'big tech' pack as it finished the quarter up around 50%. Other mega-cap names in the US outperformed and the concentration of these names in the S&P 500 continues to rise and, by extension, in global indices too.

- The Reserve Bank of New Zealand (RBNZ) raised the official cash rate by 25bps to 5.5% in May. This move was widely expected, however, to the surprise of many, the RBNZ also signalled this to likely be the peak of their tightening cycle (which has consisted of 525bps worth of rate rises from the onset of October 2021). Before the delivery of the news, some market participants had even upped their terminal rate forecasts to 6% due to uncertainty about inflation and the overheated state of the economy. In June, data released by Stastics New Zealand showed that the local economy trickled into 'technical recession' territory after posting a -0.1% decline in GDP over Q1 – the second quarter of negative growth on the trot (-0.7% in Q4 2022). The economy is currently experiencing a necessary, policy-induced slowdown and the International Monetray Fund expects this to continue in the near-term as monetary tightening takes a firmer grip on New Zealand households and businesses. On the policy rate front, the second straight contraction in GDP over the previous quarter added to expectations that the central bank will not raise rates again for the foreseeable future.

Trans-Tasman Equities

Australasian equities were positive over the quarter but noticeably underperformed global counterparts. The S&P/NZX 50 Index (with ICs) returned 0.4%, while the S&P/ASX 200 was up 1.0% (local currency). In New Zealand, earnings results were largely in line with expectations. Fisher & Paykel was an exception after issuing a full-year net proft that identified a drop in demand for its hospital products. Given it's large presence in the index, this caused a significant drag to the performance of the S&P/NZX 50. Another exception was EBOS, who shook the market after announcing the loss of a major contract with Chemist Warehouse. Looking at the economy, the RBNZ paused their hiking cycle (at least for now) which saw business confidence take a considerable leap over the quarter. The bounce back in business confidence came despite the New Zealand economy dipping into a 'technical recession' after registering a -0.1% decline in GDP over the previous quarter. Across the Tasman, the Reserve Bank of Australia (RBA) left interest rates unchanged in April but went on to lift their cash rate by 25bps in May and June respectively. The revamp in their tightening regime came amid concerns over sticky inflation and weak productivity growth (which increases unit labour costs). Australian equities still managed to sail higher over the quarter, with the technology sector being a clear standout as the global enthusiasm for AI related names reached down under.

Global Equities

Within global equity markets, big growth names which fell sharply last year have now turned to being the driving force behind this years increase (so far). Growth stocks were up 12.8% on the quarter and an astonishing 31.2% year-to-date. Developed market equities, represented by the MSCI World, were up by 7.1% (local currency) and 9.1% in New Zealand dollar terms. At a high-level, further progress on the disinflation front and the global economies apparent resistance to tighter financial conditions remain the main protaganists for equities moving higher. The breakout in demand for AI has also played a significant part (particularly in the US), with some of the country's largest technology stocks posting spectacular gains as a result. From a regional perspective, Japanese equities have been one of the best performing equity markets, both for the quarter (15.6%) and the year-to-date (23.8%) in local currency terms. Investor appetite is resurfacing as the Japanese economy looks to be moving away from the deflationary stagnation of the last few decades.

Furthermore, continued weakness in the Yen has helped support Japanese stocks, many of which earn a significant portion of their profts abroad. Outside of Japan and the US, equity market returns were far more muted – the MSCI Europe and Emerging Markets were up 1.8% and 1.7% respectively, while the MSCI UK was down -0.6% (all in local currency terms).

Listed Property

Global REITs, represented by the FSTE/ERPA NAREIT Developed Index (NZD Hedged), recorded a 1.2% return this quarter, underperforming developed market equities by a considerable margin. Nevertheless, the positive quarter was a much needed breath of fresh of air after continuous rising rates and structural changes to the real estate sector have taken a heavy toll on valuations. Cyclical sectors like office REITs looked particularly dicey as mixed earnings, more bank failures, and the shift to remote work gains traction. On the other hand, data centre REITs (which own and manage facilities that customers use to store and access data) were one of the strongest performers due to AI driven optimism.

Listed Infrastructure

Listed infrastructure posted negative returns for the second consecutive quarter, with the FTSE Global Core Infrastructure 50/50 Index dropping -0.6% in Q2. At the sector level, toll roads were particularly strong in April as higher traffic volumes and inflation-linked toll road increases are leading to healthy earnings growth. However, momentum switched alongside the broader market in May, with tower stocks negatively contributing to overall performance as the concerns for interest rate levels and future leasing demand continued to weigh on the sector. A boost from railroads helped steer infrastructure assets higher in June, though, it ultimately wasn't enough to prevent back-to-back negative quarters. At the regional level, Japan was a standout across the entire three months – buoyed higher by electric utilities after the Japanse government allowed seven of Japan's major power companies to raise household electricity prices.

Global Bonds

Government bond yields generally increased as central banks continued their fight against inflation, however, some adjusted their stance as the speed of which price levels are coming down appear to be diverging at a regional level. In Q2, the Fed put rate rises on hold after one preceding 25bp increase in May, although, didn't rule further hikes out completely as they look to give themselves time to assess the still-developing effects of previous increases in interest rates. The Bank of England hiked by a larger-than-expected 50bps in June as inflation remains extremely persistent (leading many to price in an even higher terminal rate of 6%). Against this backdrop, the JP Morgan Global Aggregate Bond Index (NZD Hedged) fell -0.6%. The US 10-year yield ended the quarter at 3.81% (up 34bps). UK Gilts suffered much worse as the UK 10-year yield was up a full percentage point and ended the quarter at 4.39%. Italian government bonds have been one of the better performers this year – benefitting from their higher starting yields. In the credit space, high yield outperformed investment grade credit as more speculative assets gained traction amid a risk on environment. By and large, global bonds marginally increased despite weakness in sovereign debt, with the Bloomberg Barclays Global Aggregate Index (NZD Hedged) up 0.1%.

Commodities

Commodities, as measured by the Bloomberg Commodity Index (NZD Hedged), were negative for the second quarter running (-2.8%). Industrial metals and energy were the worst performing sectors, with the latter suffering despite of OPEC's plans to cut oil production into 2024 (WTI Crude dropped -6.6%). Within industrial metals, zinc, nickel, and aluminium were all sharply lower. Precious metals also disappointed as demand for safe have assets such as gold (-2.9%) was limited amid a risk-on Q2. Price falls in coffee, sugar and corn proved all too much as a jump in cocoa and soybean prices weren't enough to push the agricultural sector into positive terrirtory for the quarter. Wheat prices spiked as a reaction to the escalations of the conflict between Russia and Ukraine but cooled off into quarter-end.

New Zealand Bonds and Cash

Domestic bonds fell -0.6% over Q2. Despite the RBNZ signalling a pause in rates, local yields pushed on to end the quarter higher as rate cut expectations were pushed further into the future. Government bonds underperformed on the prospect of new issuance, while credit performed well on the back of strong demand. The NZ 10-year yield moved 40bps higher over the quarter and ended the month at 4.67%. Meanwhile, NZ cash fared better than both local bonds and equities, finshing the quarter up 1.3% and reaping the benefits of a higher interest rate playing field.

Currency

The NZD depreciated against most G-10 currencies in Q2 after the RBNZ paused their monetary tightening regime. Similarly, the US dollar lost favour against most major currencies as US monetary tightening paused while other regions continued to hike. The Yen was a weaker proposition and touched an all-time low against the USD in June. As sentiment for global growth improved, lower yielding currencies (such as the Yen), performed poorly in Q2. Elsewhere, the Great British Pound (GBP) was particularly strong as headline inflation in the UK remains out of control – prompting the Bank of England to re-introduce a 50bp incremental rate hike in June (after previously only being raised by just 25bps in May). As witnessed in Q2, interest rate differentials continue to drive exchange-rate movements and this is expected to remain the case throughout the rest of 2023. In summary, the NZD was down -4.8%, -2.5%, -2.1% and -1.5% against the GBP, EUR, USD, and AUD respectively.

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FUND PERFORMANCE & ASSET ALLOCATION

Waitara Perpetual Community Fund

Gross Returns – Before fees & taxes	3 Months (%)	1 Year (%)	3 Years (% p.a)	Since Inception (% p.a)
Waitara Perpetual Community Fund	3.0	8.8	-	2.0
Benchmark	2.9	8.4	-	1.8
Excess	*+0.1*	*+0.3*	-	*+0.2*

Notes:
Past performance is not a reliable indicator of future performance.
Excess: this is the excess return (either + / -) relative to the benchmark, before investment fees and taxes.
* Since inception is from the Fund's initial investment date of 15 February 2021.
Where applicable returns include, and assume the full utilisation of, tax credits.

Mercer Balanced

Gross Returns – Before fees & taxes	3 Months (%)	1 Year (%)	3 Years (% p.a)	5 Years (% p.a)
Mercer Balanced	2.5	7.6	5.1	5.2
Benchmark	2.4	7.2	4.1	4.6
Excess	*+0.1*	*+0.5*	*+1.0*	*+0.6*

Mercer Growth

Gross Returns – Before fees & taxes	3 Months (%)	1 Year (%)	3 Years (% p.a)	5 Years (% p.a)
Mercer Growth	3.5	9.9	7.4	6.5
Benchmark	3.4	9.6	6.5	6.0
Excess	*+0.1*	*+0.3*	*+0.9*	*+0.5*

Notes:
Returns shown for the Mercer Balanced and Growth Portfolios include the full returns history for those funds. Waitara Perpetual Community Fund returns are estimated returns for the Fund based on its investment in the Mercer Balanced and Growth Portfolios, for the period which it has been invested.

Asset Allocation

ASSET CLASS	Waitara Perpetual Community Fund	
Asset Allocation	Target (%)	Actual (%)
Trans Tasman Shares	14.0	14.7
Trans Tasman Shares	14.0	14.7
Overseas Shares	30.3	29.5
Overseas Shares Low Volatility	4.6	4.8
Overseas Shares Small Caps	3.6	3.7
Emerging Market Shares	4.5	4.6
Overseas Shares	43.0	42.6
Listed Property	3.3	3.1
Unlisted Property	3.3	3.2
Listed Infrastructure	3.3	3.2
Unlisted Infrastructure	3.3	3.3
Real Assets	13.0	12.8
Overseas Sovereign Bonds	8.0	7.8
NZ Sovereign Bonds	7.5	7.3
Global Credit	6.0	6.0
Other Fixed Income	6.0	6.2
Fixed Income	27.5	27.3
Cash	2.5	2.7
Cash	2.5	2.7
Total	100.0	100.0
Growth Assets	70.0	70.0
Defensive Assets	30.0	30.0
Overseas Shares Currency Hedging	**50%**	**50%**

Transaction Summary – Quarter ended 30 June 2023

	Opening Balance ($)	Applications ($)	Redemptions ($)	Investment Gain / (Loss) ($)	Closing Balance ($)
Mercer Balanced	9,464,587	-	-	210,127	9,674,714
Mercer Growth	9,455,173	-	-	304,049	9,759,222
Total	**18,919,760**	**-**	**-**	**514,176**	**19,433,936**

The units held in these funds by Waitara Perpetual Community Fund can be redeemed at any time and are considered "current". Liquidity provisions in times of market stress are detailed in our Information Memorandum.

SECTOR RETURNS

GROSS RETURNS RELATIVE TO BENCHMARK BEFORE FEES & TAXES	3 MONTH (%)	1 YEAR (%)	3 YEAR (%)	5 YEARS (% P.A)	7 YEARS (% P.A)*
EQUITIES					
Mercer Trans Tasman Shares**	0.8	10.8	3.3	7.4	9.5
Excess	*+0.4*	*+0.2*	*+1.2*	*+0.7*	*+0.5*
Mercer Overseas Shares Plus	9.5	20.1	14.1	11.2	13.7
Excess	*+0.4*	*-0.1*	*+0.0*	*-0.1*	*+0.7*
Mercer Hedged Overseas Shares Plus	7.1	16.0	11.0	7.3	10.2
Excess	*+0.4*	*+0.1*	*+0.1*	*-0.3*	*+0.4*
Mercer Socially Responsible Global Shares*	6.5	15.8	11.7	9.7	11.3
Excess	*-2.6*	*-4.5*	*-2.3*	*-1.6*	*-1.6*
Mercer Hedged Socially Responsible Global Shares*	3.9	11.0	7.6	6.0	6.4
Excess	*-2.7*	*-4.8*	*-2.8*	*-1.8*	*-1.9*
Mercer SR Overseas Shares Index*	9.3	20.6	-	-	11.7
Excess	*+0.1*	*+0.2*	*-*	*-*	*-0.5*
Mercer Hedged SR Overseas Shares Index*	6.8	16.3	-	-	7.2
Excess	*-0.1*	*+0.2*	*-*	*-*	*-0.3*
Mercer Overseas Small Companies	8.1	21.1	23.0	13.4	15.2
Excess	*+2.5*	*+5.9*	*+10.2*	*+6.5*	*+4.5*
Mercer Emerging Markets	3.4	4.7	4.4	3.6	8.2
Excess	*+0.2*	*+0.9*	*-0.0*	*+0.3*	*+0.7*
Mercer Low Volatility	5.4	10.8	9.6	7.3	8.9
Excess	*+1.7*	*+2.9*	*+2.0*	*-0.3*	*+1.0*
REAL ASSETS					
Mercer Unlisted Property	0.3	6.9	11.5	9.2	9.6
Excess	*-0.1*	*+2.3*	*+3.0*	*+2.1*	*+3.0*
Mercer Listed Property	1.0	-6.1	3.0	1.3	3.2
Excess	*+0.3*	*+0.2*	*+0.2*	*+2.4*	*+2.9*
Mercer Listed Infrastructure	-0.3	-1.1	5.4	5.0	6.1
Excess	*+0.7*	*+1.8*	*-0.5*	*+0.3*	*+0.5*
Mercer Unlisted Infrastructure	4.1	10.5	15.2	13.4	13.1
Excess	*+1.0*	*-0.2*	*+4.5*	*+3.9*	*+5.0*
FIXED INTEREST					
New Zealand Sovereign Bonds	-1.3	0.2	-4.3	0.3	0.8
Excess	*+0.1*	*+1.0*	*+0.7*	*+0.6*	*+0.4*
Mercer Overseas Sovereign Bonds	-1.5	-1.0	-2.7	1.2	1.5
Excess	*-0.9*	*+1.0*	*+1.4*	*+1.0*	*+1.1*
Mercer Global Credit	0.6	0.5	-3.3	0.9	1.2
Excess	*+0.6*	*+0.2*	*-0.0*	*+0.1*	*-0.0*
Mercer Absolute Return Bonds*	1.7	4.7	1.9	2.1	2.0
Excess	*+0.4*	*+0.6*	*+0.1*	*+0.4*	*+0.3*
Mercer Short Term Bonds*	1.3	4.7	-	-	2.6
Excess	*-0.0*	*+0.5*	*-*	*-*	*-1.0*
Mercer Cash	1.4	4.3	1.9	1.9	2.1
Excess	*+0.1*	*+0.2*	*+0.2*	*+0.3*	*+0.3*

Notes:

Past performance is not a reliable indicator of future performance.

Excess: this is the excess return (either + / -) relative to the benchmark, before investment fees and taxes.

* If there is less than seven years performance, performance since inception is shown.

Where applicable returns include, and assume the full utilisation of, tax credits.

SIPO Range Monitoring

Asset Class	SAA	Rebalancing Ranges: Lower	Upper	31/03/23 Value	Sector Allocation	Heat Map
Global Equities - Developed	38.5%	25.5%	60.5%	$7,383,341	38.0%	
Global Equities - Emerging	4.5%			$890,852	4.6%	
Trans-Tasman Equities	14%	2.5%	25.5%	$2,858,538	14.7%	
Real Assets	13%	3.5%	26%	$2,478,993	12.8%	
Alternatives	0%	0%	10%	$0	0.0%	
Total Growth Assets	**70%**	**40%**	**90%**	**$13,611,723**	**70.0%**	
Global Fixed Income	20%	7%	48%	$3,891,451	20.0%	
New Zealand Fixed Income	7.5%			$1,409,155	7.3%	
Cash	2.5%	0%	20%	$521,607	2.7%	
Total Income Assets	**30%**	**10%**	**60%**	**$5,822,213**	**30.0%**	
Total	**100%**			**$19,433,936**	**100.0%**	

Green = Between the SAA level, and half-way to the rebalancing range, either side of the SAA.
Orange = Between half-way to the rebalancing range (either side of the SAA), and the rebalancing range itself.
Red = Outside of the rebalancing range.

Compliance Statement

The table below details compliance with various documents during the quarter ending 30 June 2023.

Document	Breaches
MITNZ SIPO	There were no breaches reported in the quarter.
Investments held in MITNZ	**Breaches**
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.

BENCHMARKS

ASSET CLASS	BENCHMARK INDICES
Trans Tasman Shares	S&P/NZX 50 Index with Imputation Credits
Overseas Shares SR/Plus	MSCI World Index with net dividends reinvested
Hedged Overseas Shares SR/Plus	MSCI World Index with net dividends reinvested (100% hedged to NZD on a net of tax basis)
SR Overseas Shares Index	MSCI World Index with net dividends reinvested excluding Tobacco, Controversial and Nuclear Weapons companies in NZD
SR Hedged Overseas Shares Index	MSCI World Index with net dividends reinvested excluding Tobacco, Controversial and Nuclear Weapons companies in NZD (100% hedged to NZD on a net of tax basis)
Emerging Market Shares	MSCI Emerging Markets Index in NZD
Small Company Shares	MSCI World Small Cap Index Net Dividends Reinvested Index in NZD
Low Volatility Shares	MSCI World Minimum Volatility Index with net dividends reinvested in NZD
Unlisted Property	70% Mercer/IPD Australia Monthly Property Fund Index Core Wholesale 30% Property Council / IPD New Zealand Property Index
Listed Property	FTSE EPRA/NAREIT Global Real Estate Index (with net dividends reinvested) (100% hedged to NZD on a net of tax basis)
Listed Infrastructure	FTSE Global Core Infrastructure & Utilities 50/50 Net Index (100% hedged to NZD on a net of tax basis)
Unlisted Infrastructure	MSCI Australia Quarterly Unlisted Infrastructure Asset Index
New Zealand Sovereign Bonds	S&P/NZX NZ Government Bond Index
Overseas Sovereign Bonds	JP Morgan Government Bond Index Global (100% hedged to NZD on a net of tax basis)
Global Credit	Composite: 60% Bloomberg Barclay's Global Aggregate Corporate Index (100% hedged to NZD on an after tax basis), & 40% Bloomberg Barclay's Global Aggregate ex-Treasury ex-Government Related Index (100% hedged to NZD on a net of tax basis)
Other Fixed Interest	S&P/NZX Bank Bills 90-Day Index
Cash	S&P/NZX Bank Bills 90-Day Index

For further information

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