

Quarterly Report NPDC Perpetual Investment Fund



Q4 2020



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Fund Overview

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Fund Overview

Fund size*

\$318.9m

Returns (after fees and taxes)

Since inception p.a. (Nov 2004)	5 years p.a.	1 year p.a.	3 months
6.9%	6.8%	8.1%	6.4%

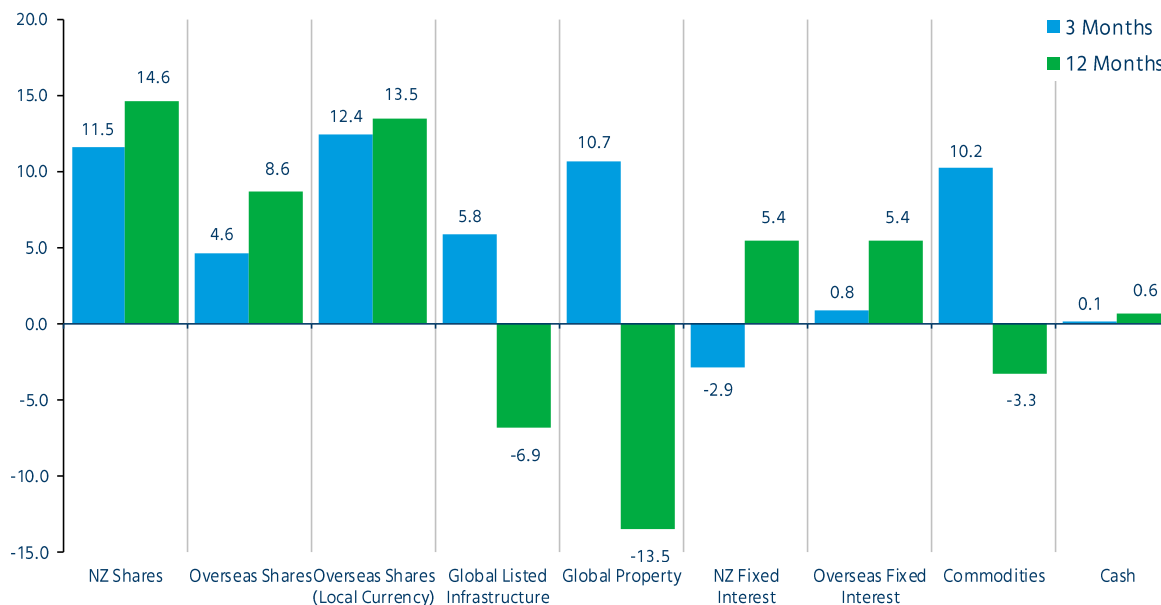
Distributions to Council (Release payments)

Since inception (Nov 2004)	5 years	1 year
\$226m	\$41.2m	\$8.9m

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 \$1.4m

Financial Market Update



The 2020 year ended optimistically. The approval and distribution of multiple COVID-19 vaccines helped investors to look past the slowing recovery toward a potential rebound in activity later in 2021. This helped to drive strong gains for equities and other risk assets.

Global equities extended their rebound during Q4, finishing the quarter up 12.4% (local currency). Local strength followed, the NZX50 up 11.5% and the ASX 200 up 13.7%. Real Assets sectors bounced, while NZ and Global Bonds were weaker as yields rose.

The US election took place on 18 November. A tight race which was always destined for contention, eventually declared Democratic nominee Joe Biden the winner.

The UK and EU reached agreement on a Brexit deal at the eleventh hour.

Major central banks reassured markets about their willingness to offer a backstop should short term obstacles to the recovery emerge:

The Federal Reserve committed to maintaining the pace of its asset purchase programs. A US \$900bn fiscal stimulus package was also signed into law by President Trump in late December.

The European Central Bank expanded its massive monetary stimulus program by €500 billion.

2020 in Review

Markets and major events



Source: Datastream and Mercer Research

All indices in USD. Total return indices for MSCI ACWI and S&P 500 and price index for Nasdaq.

Note: For visual reasons, events might not exactly pinpoint to the day they actually happened.

We do not imply a direct causal relationship between market movements and every single event.



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Market Outlook

- As we start a new calendar year, the global pandemic and associated developments continue to be the dominant market driver. The rally experienced in Q4 was driven by the development and roll-out of several COVID-19 vaccinations. The focus of Q1 will be to assess the vaccination programmes rolled out around the world, including their speed, uptake and results, to gauge the real world efficacy of these vaccines. Determining whether the developed vaccines are effective against the new mutations of COVID-19 which were reportedly up to 75% more infectious than the existing strains will also be a large factor in the continued recovery.
- With the Democrats taking both the house and senate, the Democratic Party is in a position to enact laws and policies more freely than a split house and senate. Although tax increases are anticipated, markets have so far considered that the expected fiscal stimulus should offset the drag from increased taxes.
- The first fiscal package under the democratic administration was announced in early Q1 amounting to USD1.9tn. The plan includes, boosting direct payments to individuals, earmarked funds for vaccination and testing, extending benefits for self-employed individuals and those who have exhausted regular jobless benefits, and the leveraging of government funds into low-interest loans to finance small businesses. Biden has also called for minimum wage to be doubled from USD\$7.25 to USD\$15 an hour.
- With such considerable fiscal stimulus proposed as well as expectations that a Biden administration will be highly supportive in the future, scrutiny is being placed on inflation indicators. The US 10-year yield has been slowly trending higher since its low of 0.51% in August 2020, and accelerating in December 2020. Commodity prices have been trending higher and gold prices, while not reclaiming their highs of August 2020, have held their ground. These factors suggest that market participants may be expecting inflation to surface in the coming future.





Fund Performance

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Fund performance

- The Fund returned 6.4% for the 3 month period to 31 December 2020 (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 slightly behind over the year.

	5 years % (p.a.)	1 year %	3 months %
Fund return (net of fees)	6.8	8.1	6.4
Value add (total portfolio including legacy PE)			
• Relative to CPI + 3.3%	+1.8	+3.3	+5.1
• Relative to benchmark	n/a	-0.1	+1.9
Fund Listed Sector Return	-	9.0	6.9
Relative to benchmark	-	+0.3	+0.9
Fund Unlisted Sector Return	-	7.6	6.6
Relative to benchmark	-	+4.9	+5.8

Sector Performance – (3 Months)

Gross Returns	\$ Value (\$M)	Weighting %	Return %	Excess over benchmark %	Return attribution ¹
Overseas Shares (incl. PE Proxy)	135.9	42.4	9.0%	+0.8	3.9%
Emerging Markets	19.3	6.0	9.4%	-0.5	0.5%
Alternatives³	56.7	17.7	4.5%	+3.0	0.7%
Mercer Unlisted Property	13.2	4.1	1.4%	-0.2	
Mercer Unlisted Infrastructure	15.9	5.0	5.2%	+2.0	
Mercer Listed Property	14.9	4.7	8.1%	-2.6	
Mercer Listed Infrastructure	12.7	4.0	5.1%	-0.7	
Private Equity	49.6	15.5	8.6%	+6.6	1.3%
Fixed Interest	40.4	12.6	1.9%	+1.0	0.2%
Mercer Overseas Sovereign Bonds	16.3	5.1	1.2%	+1.1	
Mercer Global credit	24.1	7.5	2.4%	+0.1	
Cash	18.5	5.8	0.1%	+0.0	0.0%
Total Portfolio	320.4	100.0%	6.6%		6.6%

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)	135.9	42.4	9.7%	-0.3	4.2%
Emerging Markets	19.3	6.0	10.7%	-0.4	0.7%
Alternatives³	56.7	17.7	2.6%	-2.8	0.5%
Mercer Unlisted Property	13.2	4.1	2.6%	+2.3	
Mercer Unlisted Infrastructure	15.9	5.0	18.5%	+7.3	
Mercer Listed Property	14.9	4.7	-7.1%	+4.6	
Mercer Listed Infrastructure	12.7	4.0	-7.5%	-0.1	
Private Equity	49.6	15.5	13.3%	+5.7	2.1%
Fixed Interest	40.4	12.6	7.0%	+1.6	0.9%
Mercer Overseas Sovereign Bonds	16.3	5.1	5.4%	+0.9	
Mercer Global credit	24.1	7.5	7.3%	+0.3	
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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)	135.9	42.4	9.8%	-0.1	4.5%
Emerging Markets	19.3	6.0	12.2%	+1.4	0.8%
Alternatives³	56.7	17.7	5.0%	-1.3	0.8%
Mercer Unlisted Property	13.2	4.1	7.2%	+2.7	
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Cash	18.5	5.8	1.9%	+0.4	0.2%
Total Portfolio	320.4	100.0	8.3%		8.3%

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.

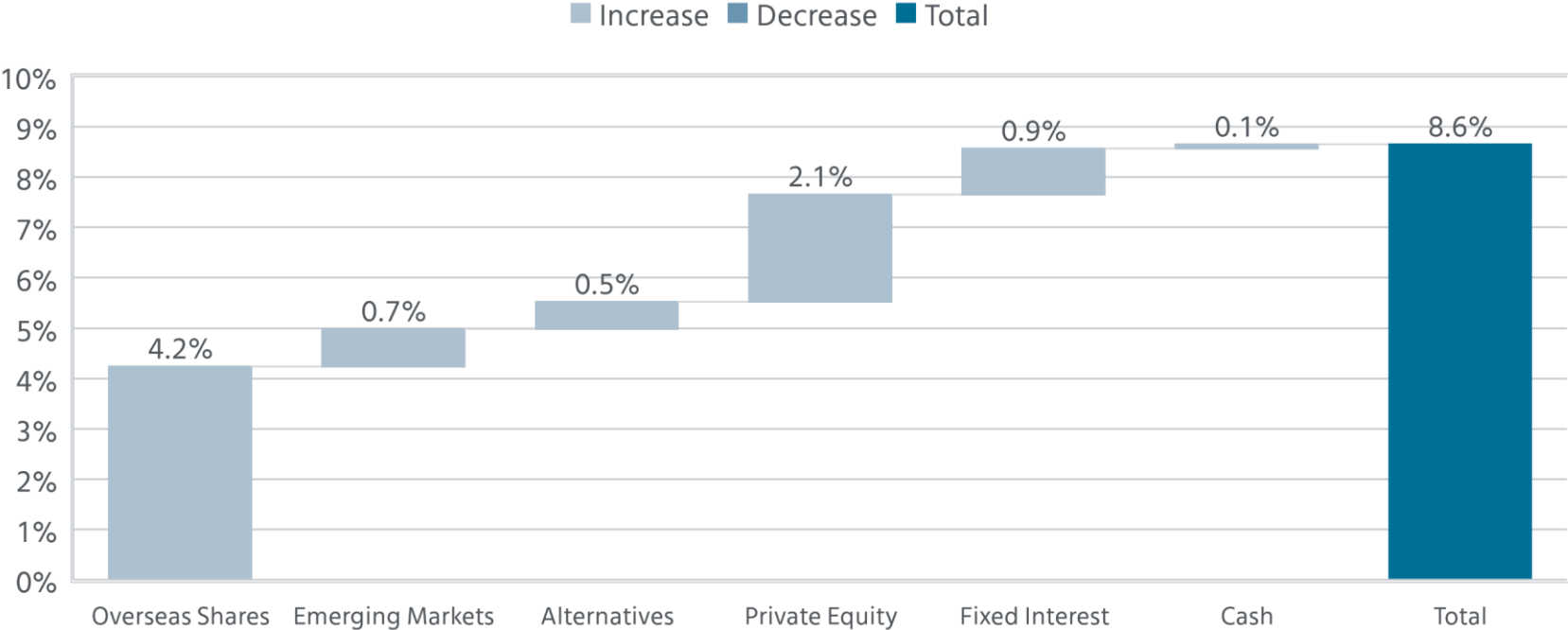
4. Cash includes: Cash, PE Proxy, and TIML cash

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.

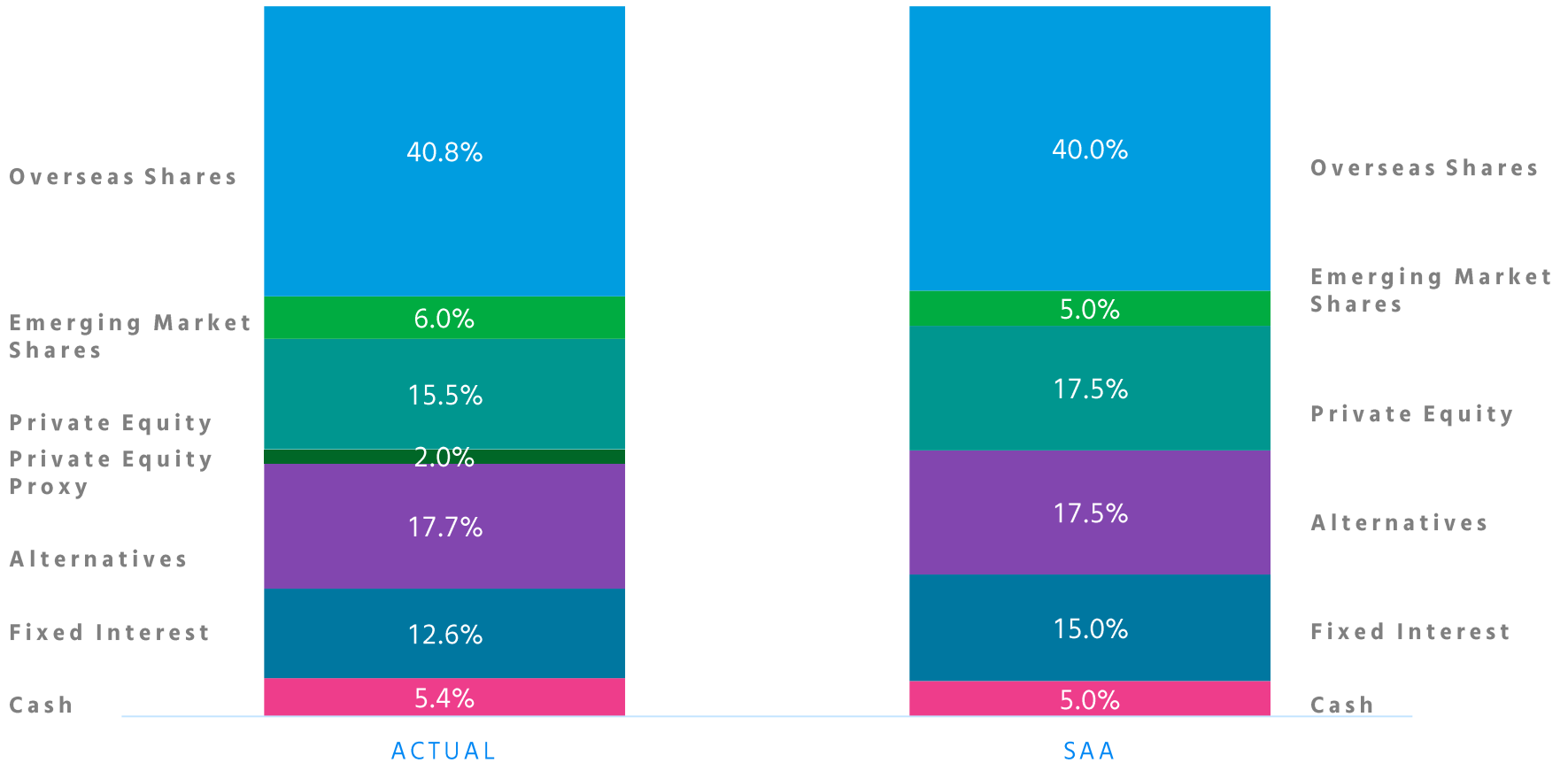
1. Weighted contribution to total fund return.
2. Gross returns for all sectors except Private Equity and Fund of Hedge Funds which are net of fees



Asset Allocation

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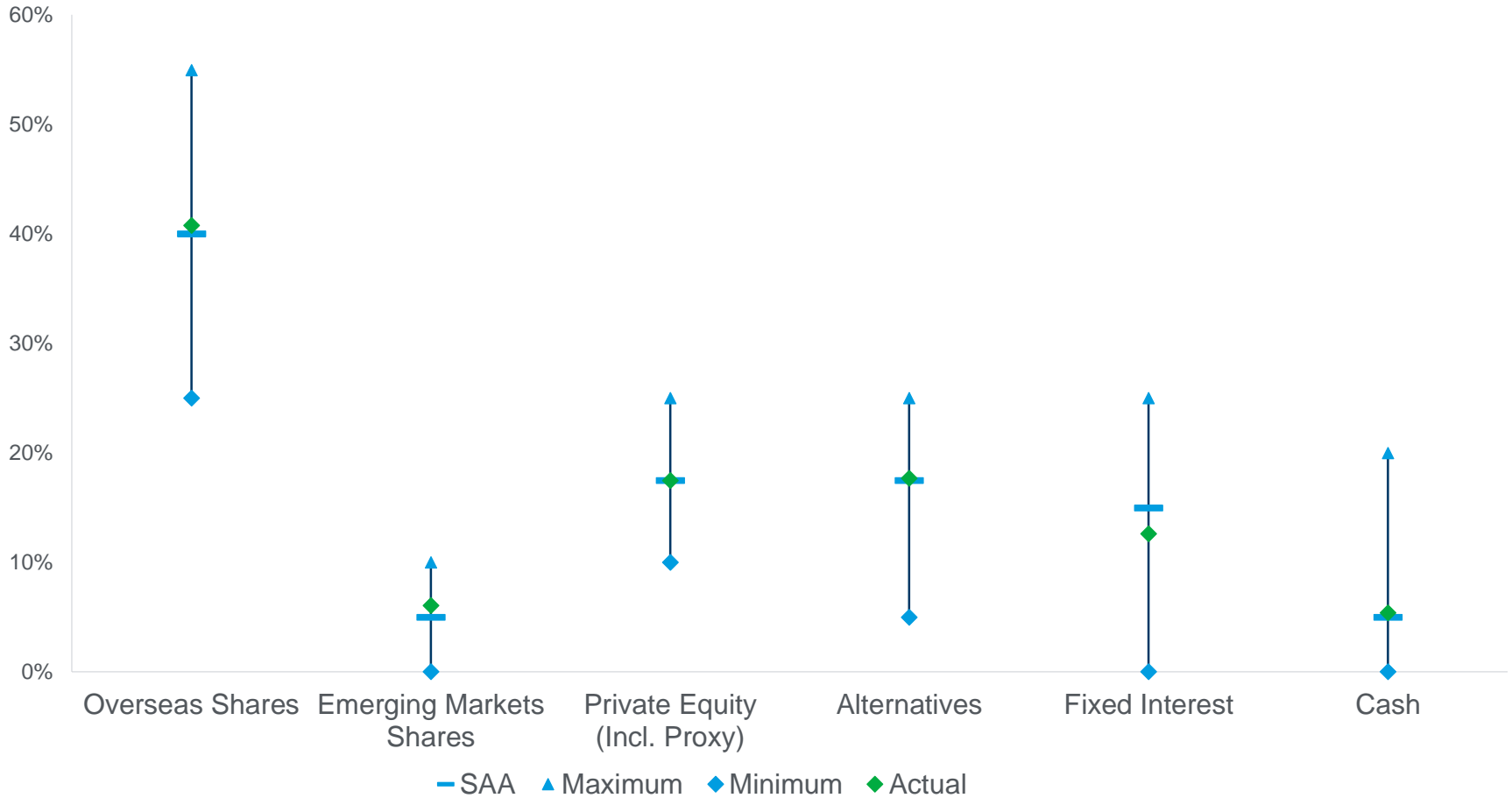
ASSET ALLOCATION



- 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 1.6% Listed Overseas Shares and 0.4% Cash.
- The target hedging ratio for Overseas Shares is now 50% (effective 31 August 2019).
- Cash is 4.9% Mercer Cash and 0.5% TIML Cash

Asset allocation

Ranges

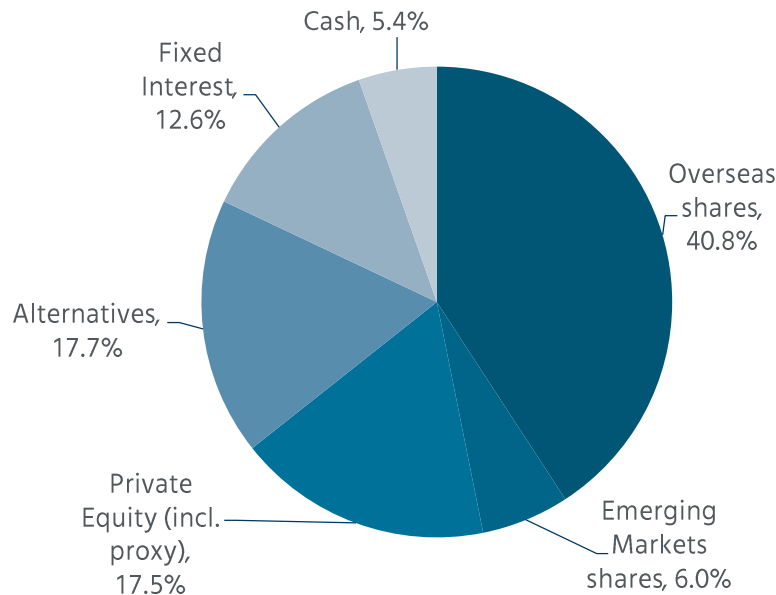


- All asset class allocations are within the ranges specified in the SIPO.

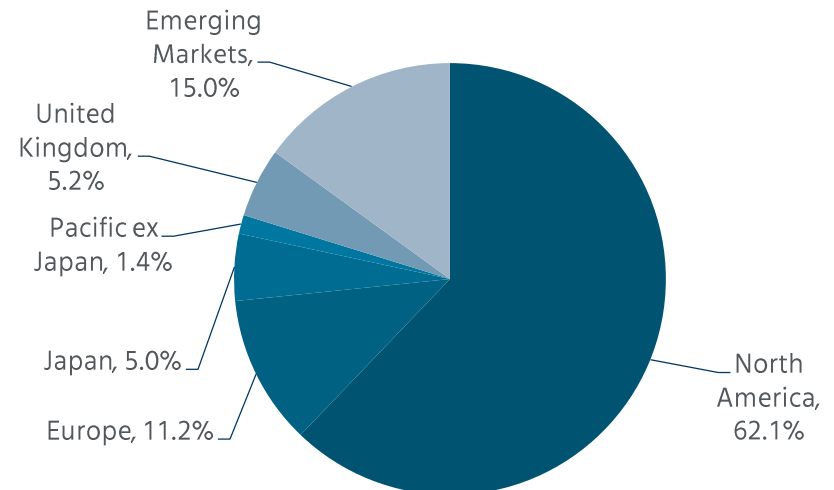
Asset allocation

- 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 Schrodgers, LGIM and EM portfolios.

Portfolio by asset class



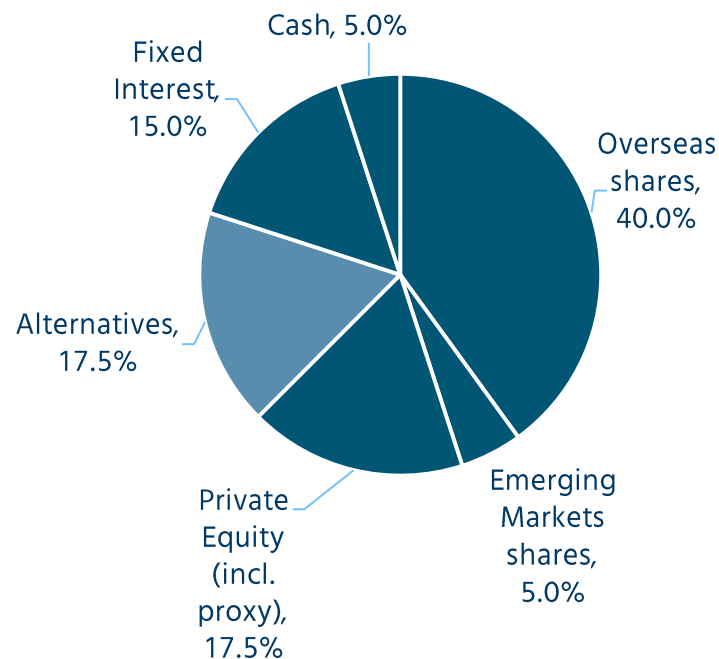
Portfolio by Geography



Sector in Focus

Alternatives

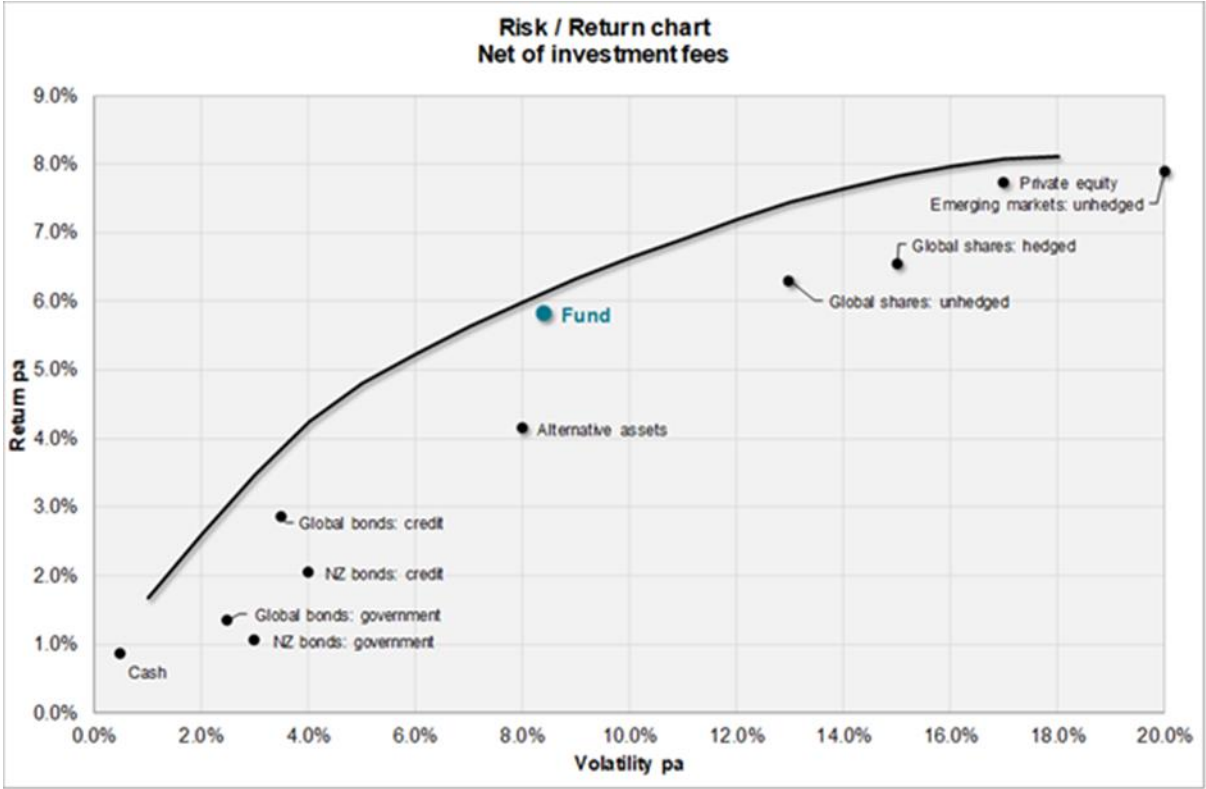
- What are Alternative Assets? The primary purpose of Alternative Assets is to diversify the risk exposure of the Fund, reducing its overall volatility. The PIF's allocation to Alternative Assets may include Real Assets (e.g. Property, Infrastructure, Commodities) both in listed (on the sharemarket) and unlisted form, and any other sectors as agreed from time to time
- Property: Property investments include assets like office buildings, shopping centres, and industrial estates. For listed property, the PIF invests in the Mercer Listed Property Portfolio which provides a diversified exposure to listed property securities globally. For Unlisted, the PIF invests into the Mercer Unlisted Property Portfolio which invests in direct property funds and co-investments across the commercial, retail and industrial sectors in Australia and New Zealand.
- Infrastructure: Infrastructure investments generally provide exposure to a range of infrastructure projects, such as toll roads, railways, airports, ports and public utilities, which are typically capital intensive, long term assets required to fulfil major economic and social needs. The PIF invests in the Mercer Unlisted Infrastructure and Mercer Listed Infrastructure portfolios, both of which invest globally.



Alternatives	Actual %	Target %	Market value \$m	No. of Managers
Unlisted Property	4.1	4.8	13.2	10
Unlisted Infrastructure	5.0	4.8	15.9	8
Listed Property	4.7	4.0	14.9	1
Listed Infrastructure	4.0	4.0	12.7	2
Total	17.7	17.5	56.7	

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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