MERCER

QUARTERLY REPORT
NPDC PERPETUAL INVESTMENT FUND

Q3 2019

CONTENTS

FUND OVERVIEW

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Fund size
$300.5m

Returns (after fees)

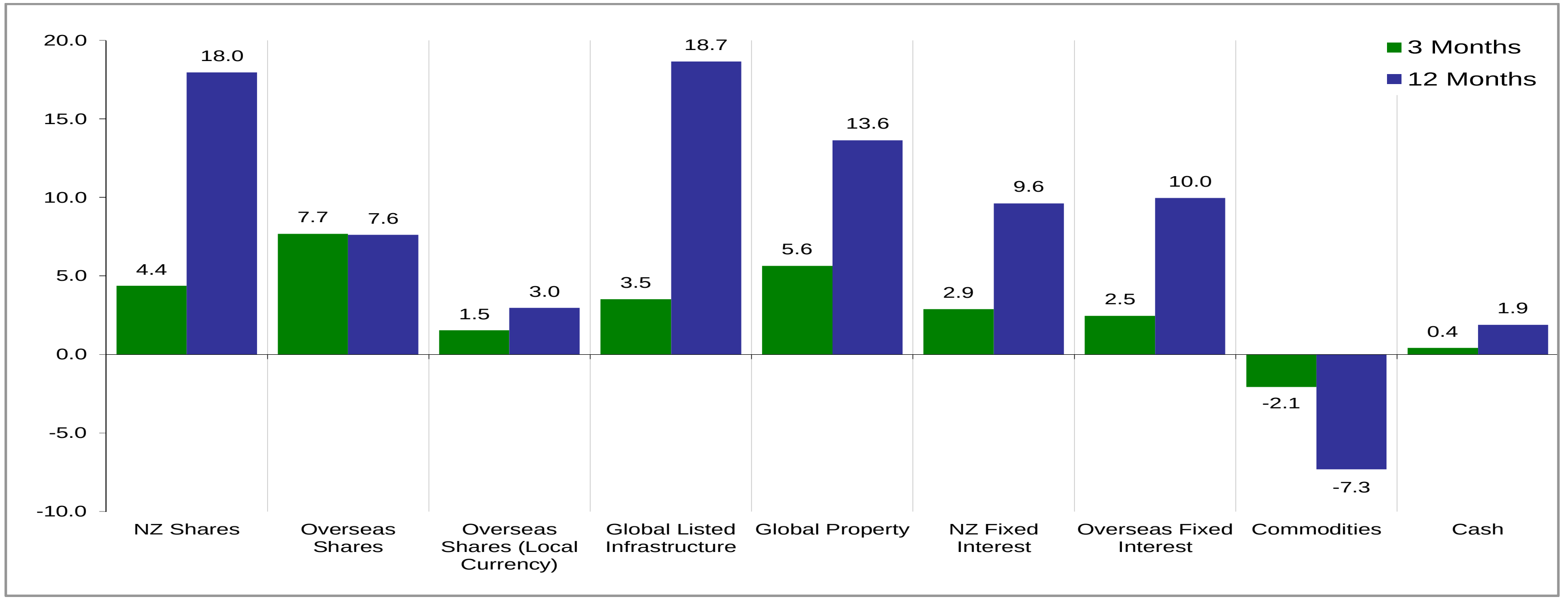
Since inception (Nov 2004)	5 years	1 year	3 months
6.7%p.a.	9.2%p.a.	5.8%p.a.	2.6%p.a.

Distributions to Council (Release payments)

Since inception (Nov 2004)	5 years	1 year
$214.9m	$38.3m	$8.5m

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



- The September 2019 quarter was another volatile quarter that finished on a high note.
- Trade tensions continued to ebb markets back and forth while stimulus from Central Banks did well to alleviate some investors concerns.
- Companies across the globe sold a record amount of bonds in September with bond yields falling to new lows (over US$17 trillion of bonds are now negative yielding)
- Brexit has once again been delayed as Boris Johnson reluctantly accepted an extension to avoid the 31 October “no-deal Brexit”. A UK General Election will be held on 12 December.
- Economic growth and leading indicators have continued to weaken. The IMF have estimates the 2019 global growth will be at its slowest rate of expansion since the GFC.
- The US Federal Reserve cut rates for the first time since the GFC at the end of July. They cut rates further in their September and October meetings taking the target rate to 1.5% – 1.75%
- The New Zealand dollar depreciated against most major currencies over the quarter including a -6.6% fall vs. the USD.

MARKET OUTLOOK
THE FRUITS OF MONETARY POLICY'S LABOUR

- Growth and profit indicators continue to look weak, and equity markets continue to reach new highs. The benefits of easing monetary policy is proving its worth, yet the marginal benefit of further easing experiences diminishing returns.
- The inverted US yield curve reverted back to 'normal' on October 11, calming recessionary fears and signalling that investors are feeling more optimistic about the state of the global economy - which however is still laden with downside risks.
- Trade disputes and Brexit remain sources of uncertainty. Investors are still generally assuming political and economic imperatives will prevail and deals will be made. If this doesn't happen then confidence, profit growth and markets will suffer.
- Central banks (in particular the US Fed) so far have satisfied the markets expectations for lower rates. Should this not continue we should expect markets to exhibit further volatility. The Fed has now paused but is signalling further accommodation if needed.
- The NZ economy remains in positive territory, growing by a slowing 0.5% over the June quarter - in line with forecasts and a general slowdown in economic activity.
- The next Reserve Bank of New Zealand interest rate announcement will be on November 13.

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/US Equities: While the impeachment proceedings against President Trump do not appear to be a major risk, the outlook for the approaching Presidential election is likely to draw more investor attention in the new year. We will continue to monitor the situation as one of the risks to the macro outlook.
  - Emerging Market Equities: Late cycle dynamics would typically favour Emerging Markets with the expectation they achieve improved earnings growth, while a “late-cycle” environment coupled with lower US interest rates would typically be supportive of Emerging Markets, we are concerned that trade tension and slowing global growth is offsetting this. Hence we have reduced the overweight back to neutral.
  - Listed Real Assets: We see the environment as being more benign for interest rate sensitive assets such as Listed Real Assets, which we expect to perform more defensively than the broader share market, hence we have reduced the underweight back to neutral.
  - 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 2.6% for the 3 month period to 30 September 2019 (after fees). The Fund was ahead of its long term objective of CPI+3.3% for the quarter and over the year. The Fund is 4.7% p.a. ahead of the objective over 5 years.
- On a benchmark relative basis, which is the secondary objective, the Fund has lagged over the quarter and the year.

	5 years (p.a.)	1 year	3 months
Fund return (net of fees)	9.2%	5.8%	2.6%
Value add (total portfolio including legacy PE)			
• Relative to CPI + 3.3%	+4.7%	+1.0%	+1.1%
• Relative to benchmark	n/a	-1.6%	-0.2%

SECTOR PERFORMANCE (3 MONTHS)

Gross Returns	$ Value ($M)	Weighting %	3 month (%)	Excess over benchmark 3 month	Return attribution 3 months
Overseas Shares (incl. PE Proxy)	**133.1**	**44.3**	**3.1%**	**-0.1**	**1.5%**
Emerging Markets	**14.9**	**5.0**	**3.3%**	**+0.8**	**0.2%**
Alternatives	**56.3**	**18.7**	**2.2%**	**+0.6**	**0.4%**
Mercer Unlisted Property	8.9	3.0	1.9%	+0.7	
Mercer Unlisted Infrastructure	9.2	3.1	3.8%	-0.2	
Mercer Listed Property	6.0	2.0	5.5%	-0.2	
Mercer Listed Infrastructure	6.0	2.0	5.0%	+1.4	
Fund of Hedge Funds	26.2	8.7	0.7%	+0.7	
Private Equity	**37.4**	**12.4**	**1.8%**	**-2.3**	**0.2%**
Fixed Interest	**32.5**	**10.8**	**3.4%**	**+1.0**	**0.4%**
Mercer Overseas Sovereign Bonds	15.6	5.2	4.5%	+1.5	
Mercer Global credit	16.8	5.6	2.3%	+0.1	
Cash	**26.3**	**8.8**	**0.5%**	**+0.1**	**0.0%**
Total Portfolio	**300.5**	**100.0%**	**2.8%**	**-0.1**	**2.8%**

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 %	12 month (%)	Excess over benchmark 12 month	Return attribution 12 months
Overseas Shares (incl. PE Proxy)	133.1	44.3	4.4%	+0.2	2.1%
Emerging Markets	14.9	5.0	4.8%	+1.2	0.3%
Alternatives	56.3	18.7	6.9%	+1.2	1.4%
Mercer Unlisted Property	8.9	3.0	8.8%	+1.6	
Mercer Unlisted Infrastructure	9.2	3.1	12.2%	+0.4	
Mercer Listed Property	6.0	2.0	18.1%	+4.4	
Mercer Listed Infrastructure	6.0	2.0	23.3%	+4.8	
Fund of Hedge Funds	26.2	8.7	0.8%	+1.8	
Private Equity (ex. PE Proxy)	37.4	12.4	8.0%	-7.2	1.0%
Fixed Interest	32.5	10.8	11.3%	+1.3	1.4%
Mercer Overseas Sovereign Bonds	15.6	5.2	12.1%	+0.7	
Mercer Global Credit	16.8	5.6	10.3%	-0.0	
Cash	26.3	8.8	2.3%	+0.4	0.2%
Total Portfolio	300.5	100.0	6.3%	-1.1	6.3%

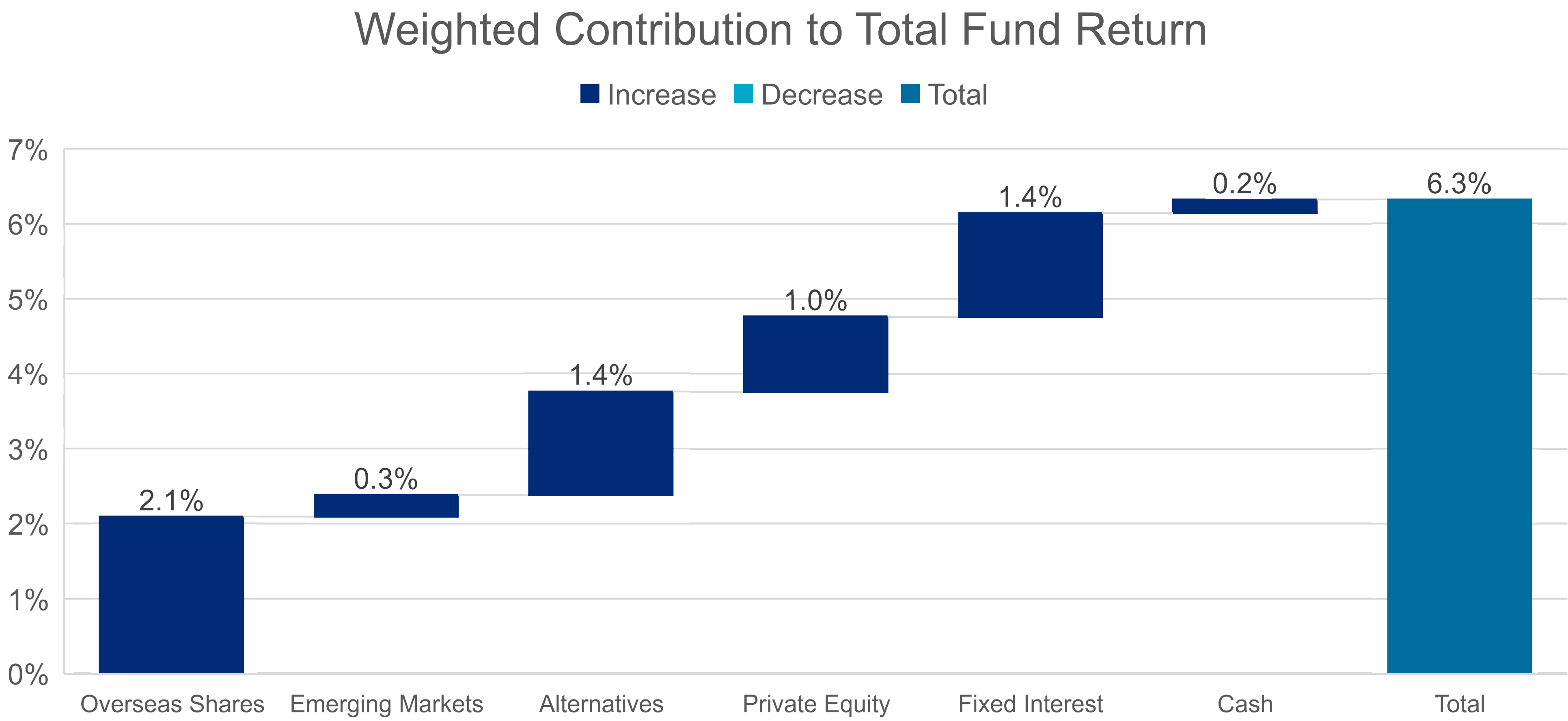
All sectors contributed positively over the 12 months.

[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

[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)



All sectors contributed positively over 12m.

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

ASSET ALLOCATION

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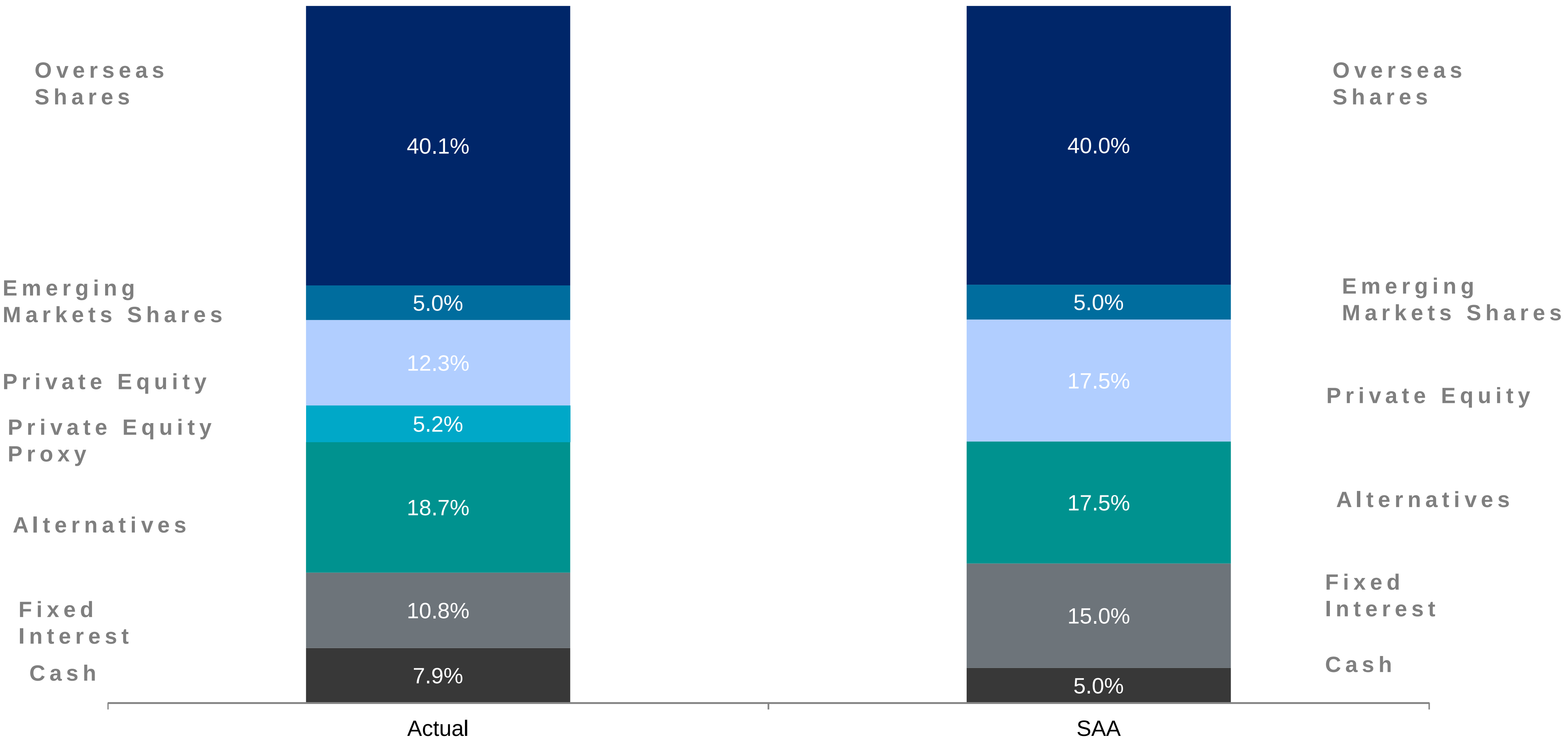
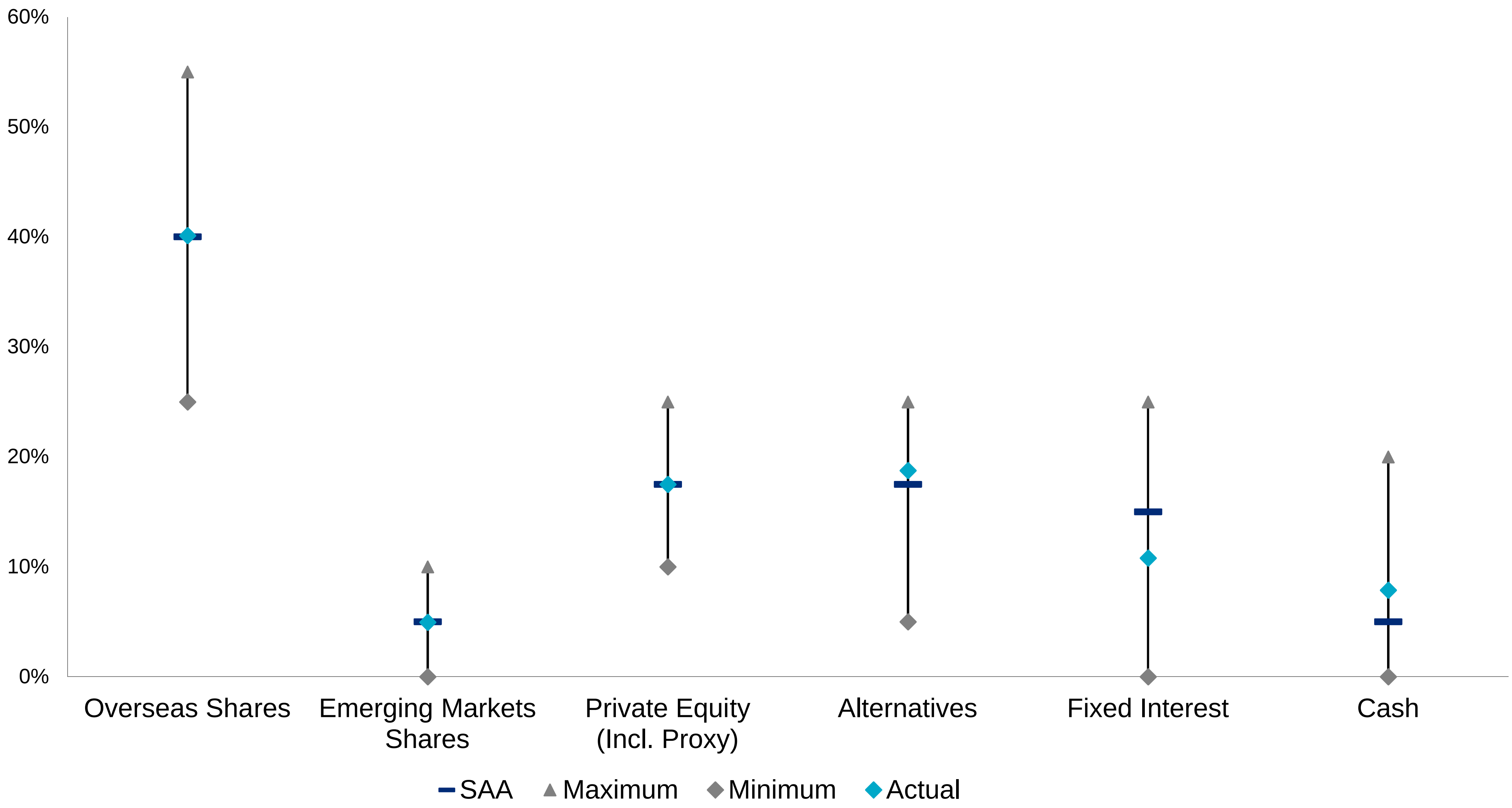


- The NPDC portfolio continues to transition towards the long term Strategic Asset Allocation (SAA) as the Private Equity allocations are built up and the proxy is progressively reduced. Pioneer III and PIP IV made drawdowns, and Direct Capital III made it's final distribution and is now fully realised.
- The Private Equity Proxy consists of 4.2% Listed Overseas Shares and 1.0% Cash.
- The target hedging ratio for Overseas Shares is now 50% (effective 31 August 2019)

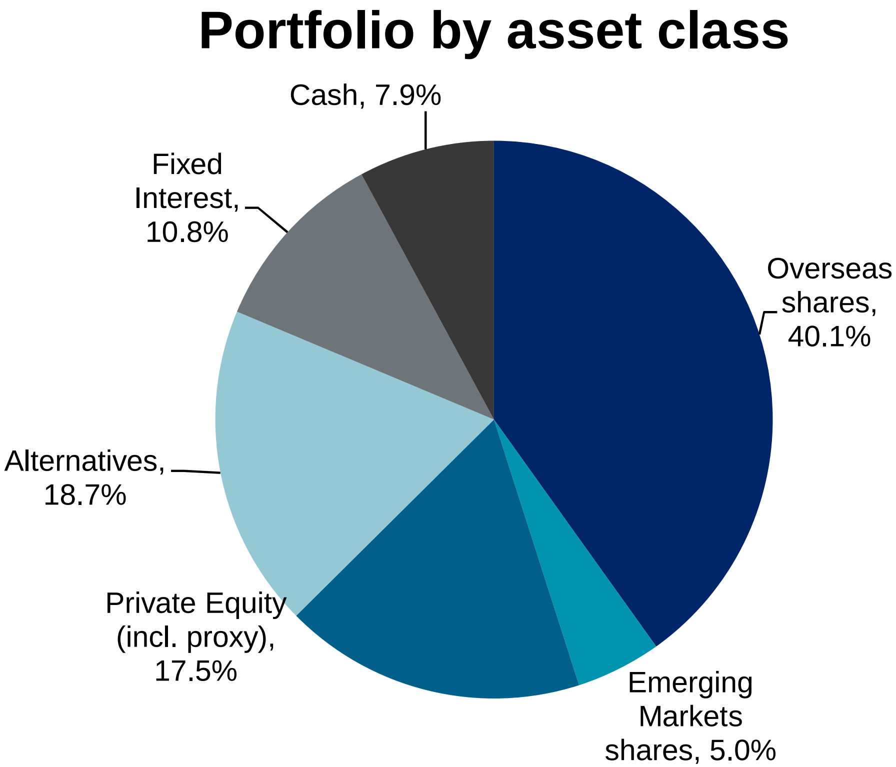
ASSET ALLOCATION
RANGES

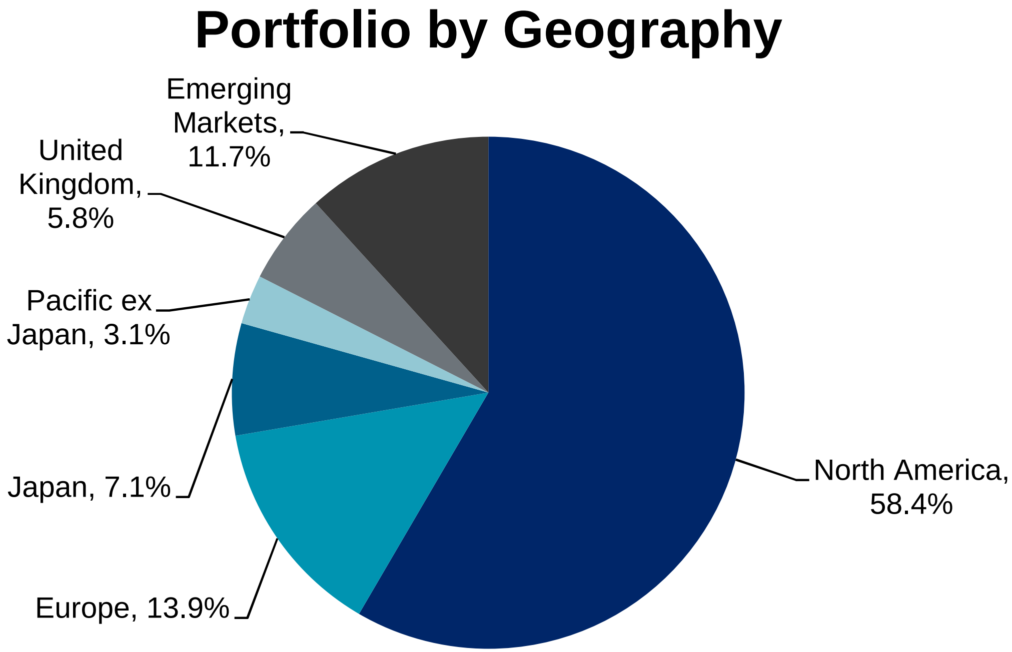


- All asset class allocations are within the ranges specified in the SIPO.

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 North America, Pacific ex Japan, and Japan, and overweight to Europe, UK and Emerging Markets. Note the Portfolio by Geography graph below includes the Schroders, LGIM and EM portfolios.





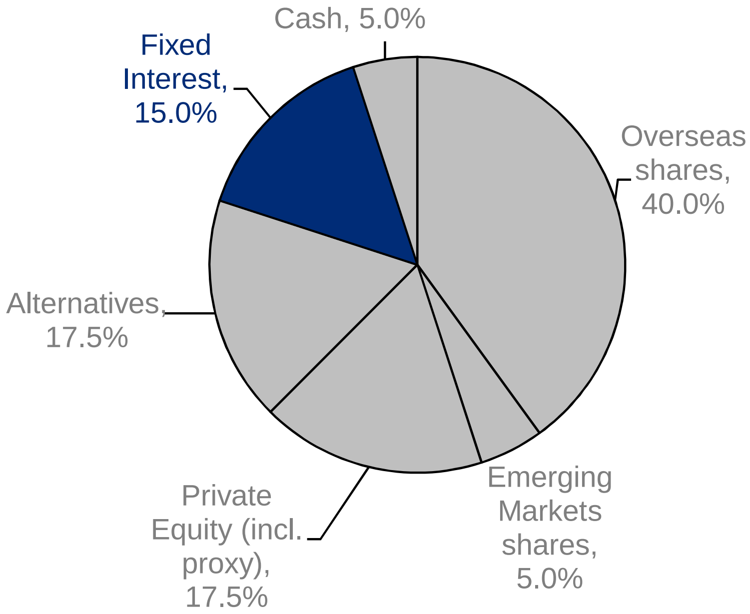
SECTOR IN FOCUS
FIXED INTEREST

- **What is fixed interest?** Fixed interest investments are viewed as Defensive Assets. They offer regular income for a defined period with a contractual obligation to repay the principal at maturity, in the same way as a loan. There are two main types, Sovereign bonds which are issued by Governments and Corporate (Credit) bonds which are issued by companies.

- **Role in portfolio:** Fixed interest helps to diversify a portfolio as it tends to perform well when economic growth and inflation (and growth assets like shares) are weakening. Over the long term, it has a lower expected return than Growth assets, but is also expected to be less risky.

- **Allocation:** The long term fixed interest allocation is 15% (8.25% Overseas Sovereign and 6.75% Global Credit). Given the low levels of interest rates around the world, a lower than normal return is expected from Fixed Interest so the current target is lower at 10.8%.

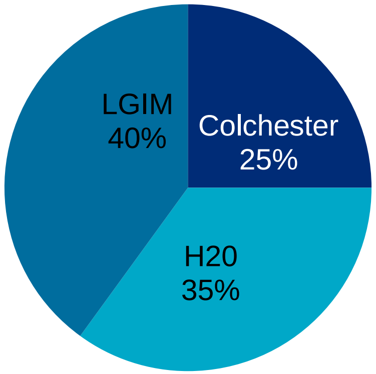
- **What influences fixed interest?** There are two key risks that influence the price of fixed interest: Interest rate risk and Credit risk. Rising rates cause bond prices to fall and falling rates cause bond prices to increase. Credit risk is the risk the borrower defaults and investors aren't repaid.



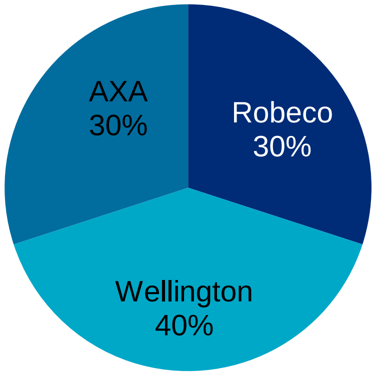
Fixed Interest	Actual %	Long term %
Overseas Sovereign	5.2	8.25
Global Credit	5.6	6.75
Total	**10.8**	**15.0**

Top 5 Holdings			
Overseas Sovereign (by issuer)		**Global Credit**	
United States	25.5%	Fannie or Freddie 3.5 15-AUG-49 SS	3.25%
Japan	16.9%	Ginnie Mae II Pool 3.5 20-MAY-49 N	1.33%
Italy	5.3%	Fannie or Freddie 3 01-AUG-34 SS	0.91%
France	3.0%	Fannie or Freddie 4 15-AUG-49 SS	0.78%
United Kingdom	4.1%	JTDB 0.0000% 08-19-19	0.75%

FUND MANAGERS

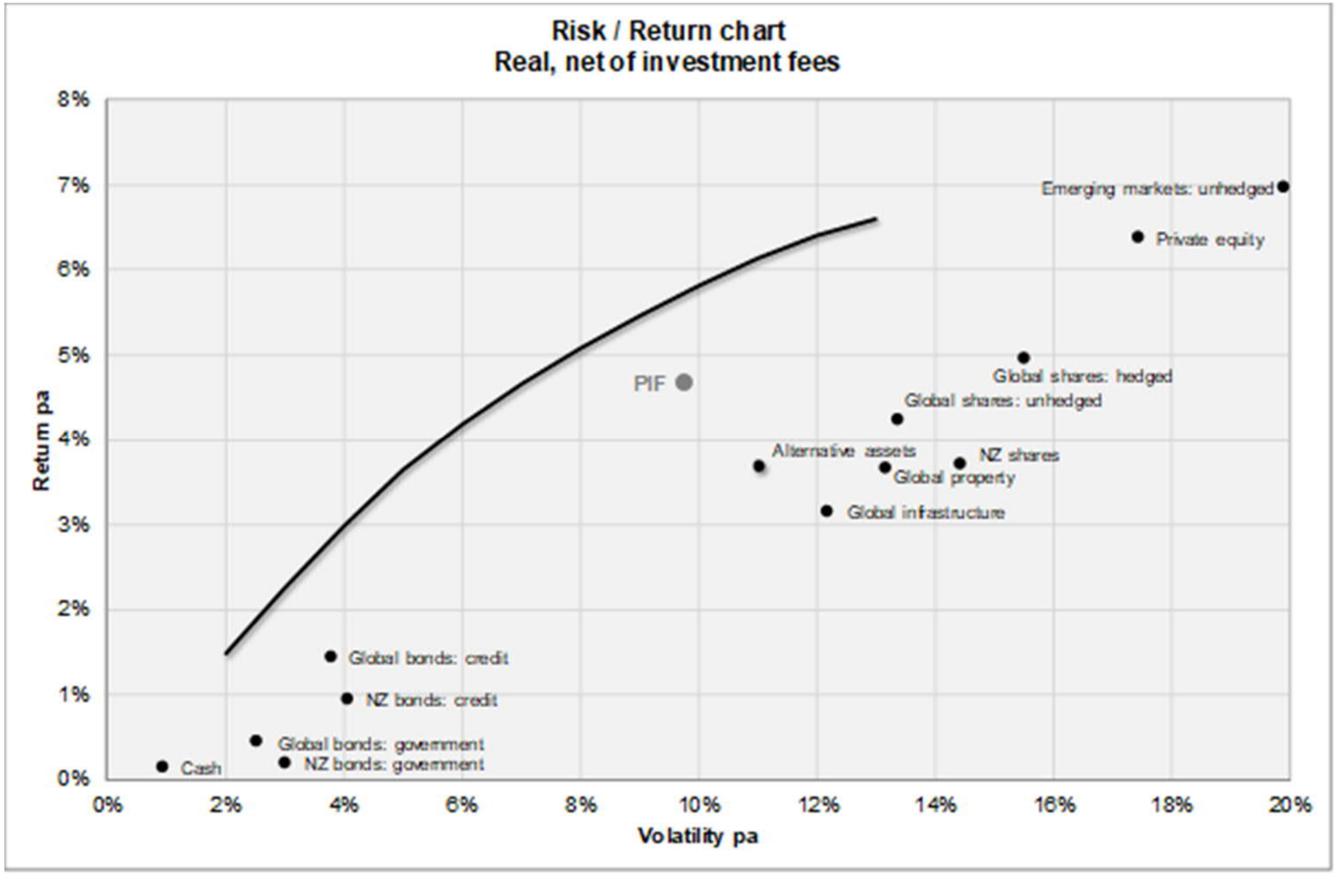


Overseas Sovereign



Global Credit

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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