

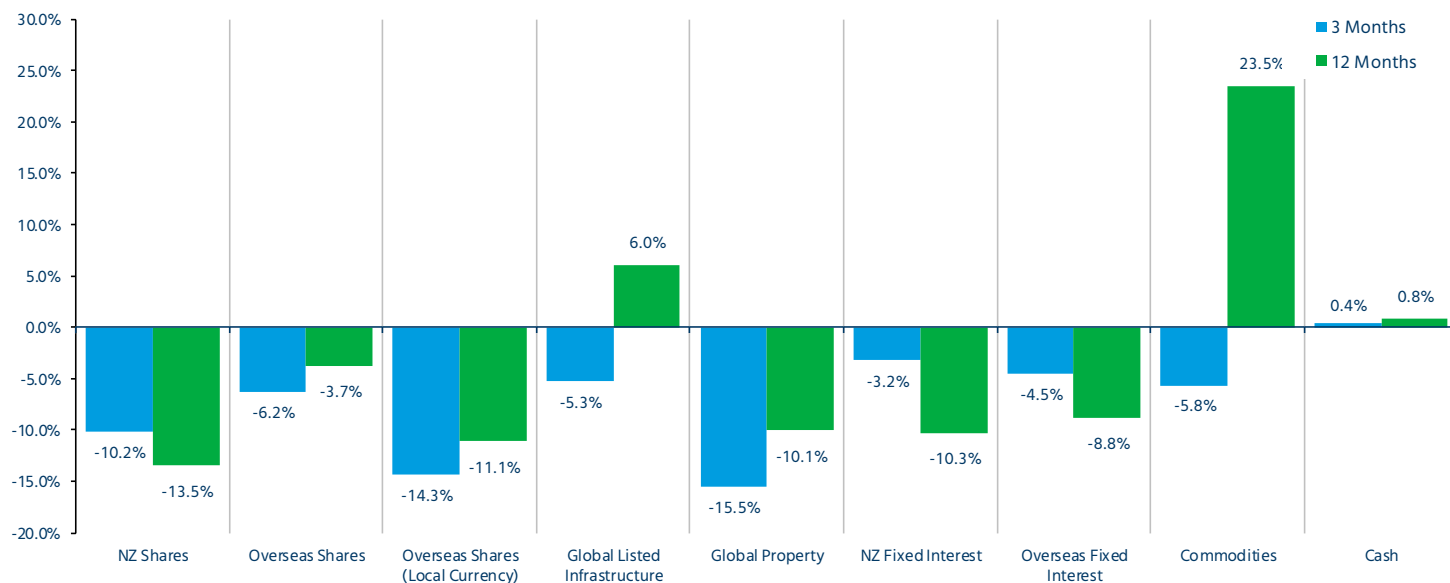
# Quarterly Report

## Quarter Ending 30 June 2022

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# ECONOMY & MARKETS



Global equity markets remained volatile in the second quarter of 2022, as inflation readings remained high and labour markets remained tight. April saw the most difficult month for equity markets since March 2020, as the onset of tightening monetary policy, fading momentum in economic growth and a challenging corporate earnings outlook triggered a “risk-off” response among market participants.

May was relatively unchanged despite large intraday swings in equities and commodity prices (specifically, energy and agricultural prices) soaring through the month. Crude oil prices continued to rise, up 9.9% for the month as the EU deliberated on whether to impose sanctions on Russian oil imports.

The final month of the quarter finished negative as aggressive interest rate increases by global central banks to tame high inflation readings coupled with indications of slowing economic growth sparked a sell-off in global equities as market participants began to assess the risks of an economic recession.

The MSCI World Index finished the quarter down -6.2% (unhedged, NZD). There was a clear rotation from Growth to Value style equities, with the MSCI World Growth and Value Indices returning -11.9% and -1.1% (unhedged, NZD), respectively. The MSCI Emerging Markets Index fell -0.9% (unhedged, NZD) as the impact of China’s strict lockdowns in pursuit of ‘zero-COVID’ weighed on emerging markets. New Zealand’s domestic equity market followed its international counterparts, returning -10.2%.

Rising interest rates globally kept strong downwards pressure on bond prices over the quarter, as yields continued to trend upwards. The US 10-year government bond yield finished the quarter higher at 2.97% after peaking at 3.48% in mid-June. The NZ 10 year followed a similar path, finishing the quarter higher at 3.88% after peaking at 4.30% in mid-June. Rising yields and recessionary fears impacted the listed property sector with the sector declining 15.5% over the

quarter. Listed infrastructure fared better with the sectors link to commodities helping bolster comparative performance.

### Significant Recent Developments Include:

- China’s ‘zero-COVID’ policy continued to place pressure on global supply chains over the quarter. Shipping analytics firm ‘Windward’ calculated that 20% of the active container ships were idle during the lockdown period in Shanghai. A recent report from Logistics UK also found that global and local factors have impacted all elements of the supply chain, with issues such as disruption to shipping containers and a decrease in supply of microchips. However, officials stated that they will continue with their ‘zero-COVID’ strategy for years, with a chance of ‘permanent infrastructure’ being implemented in order to facilitate zero tolerance. Under this infrastructure, cities such as Shanghai, Beijing, and Shenzhen would require citizens to comply with mandatory COVID testing and regional lockdowns.
- New Zealand’s residential mortgage rates continued to rise and house prices have continued to fall across the country compared to Q1 2022. The REINZ Monthly Property Report outlined that sales volume for Auckland declined by 28.4% annually, while sales volume for the rest of New Zealand declining by 22.6% compared to May 2021. The House Price Index (HPI) has shown an annual increase of 3.7%. Property research firm CoreLogic’s latest data has shown a nationwide fall in house value of 0.8% in May, following a 0.8% fall in April. Market commentators expect that the housing market will continue to decline, with major banks economists expecting a more than 10% decrease in house prices by the end of 2022, reflecting lower confidence in the market. Underlining reasons for weak performance in the property market include the front-loaded OCR increases and tightened lending restrictions.

- The US Federal Reserve approved an interest rate hike of 75bps in June, the largest rise since 1994, bringing the interest rate to a range between 1.5% and 1.75%. The S&P 500 soared 1.5% and the Dow Jones rose 1% following the suggestion that the hike was “not expected to be common”. The Reserve Bank of NZ (RBNZ) opted for a 50bps hike, continuing with its front-loading of OCR hikes. The Reserve Bank of Australia (RBA) surprised the market with a 50bps hike to 1.35% to tackle high inflation which is forecasted to be over 7% by December 2022. The RBA reiterated that they would do what is necessary to get inflation back to 2-3% and has signalled more rate rises would come over the year.
- Inflation in New Zealand has continued to surge with the rest of the world. Market commentators are predicting CPI readings to be above 7% in June 2022 compared to the 6.9% increase in March 2022. Annual food price inflation increased by 6.8% year on year in May 2022, with the unemployment rate remaining at record low levels. This resonates with the hawkish tone of the most recent Monetary Policy Statement and paves the way for the RBNZ to continue increasing the OCR. Globally, the US CPI rose at an annual rate of 8.6% in May, representing a 40 year high.

#### **Trans-Tasman Equities**

Trans-Tasman equities continued to be volatile following their tough start to 2022. Despite New Zealand equities following their international counterparts in April, slumping -1.9% on macro-economic factors and global uncertainties, the defensive nature of its capital-intensive constituents managed to limit the damage. The ASX200 was impacted by falls in the prices of metal, oil and iron ore, ultimately shedding 0.9% of its value during the month.

May brought readings of multi-decade high inflation in New Zealand with subsequent rate hikes by the RBNZ putting pressure on borrowers and dampening the economic outlook for the country. Ultimately, New Zealand equities were unable to keep pace with global equities, falling -4.8% on the month. Australian equities performed negatively, albeit better than New Zealand equities, falling -2.6% as an early rally in Technology was sold amid concerns of inflation and rising interest rates.

New Zealand equities kept falling in June, following international markets as investors focussed on aggressive rate hikes globally and the risks of a recession. These recessionary risks also dragged the ASX200 lower by -8.8% as future demand for commodity exports were brought into question. The NZX50 ended the month down -3.8%, finishing the quarter down -10.2%, while the ASX200 finished the quarter down -11.9%.

#### **Global Equities**

Global equities fell -6.9% in April as markets looked past solid earnings in the first quarter and focussed instead on decelerating earnings growth amidst a gloomy market environment.

May saw global equities plunge into bear market territory (a fall of -20% from peaks) to start the month before oversold conditions saw buyers enter the market, driving the MSCI World Index to finish -0.2% for the month.

Persistent inflation together with an aggressive 75bp interest rate hike by the Fed and hawkish communications reinforced the negative sentiment already permeating equity markets in June. The MSCI World finished the month down -7.8% and closed the quarter down -14.3%. Emerging Markets which have been battered since mid-2021 as a result of Chinese crackdowns on their technology industry and zero-COVID policy, managed to perform better, ending the quarter down -8.1%

#### **Listed Property**

Despite US house prices continuing to rise in April, signs began to emerge that demand was slowing as 30-year mortgage rates topped 5%. Global Real Estate Investment Trusts (REITS) declined -4.0% over the month.

In May, interest rate hikes around the world dragged global REITs down further as investors weighted the benefit of the sector's natural hedge against the increased financing costs.

Those financing costs well and truly captured investors' focus in June as the Fed hiked interest rates by 75bp and reiterated their commitment to bring inflation levels down – foreshadowing further interest rate hikes to come. Global REITs fell -7.7% in June in response, closing the month down -15.5%.

#### **Listed Infrastructure**

Listed Infrastructure fared better than its equity and property peers during the quarter. Listed Infrastructure fell -2.1% in April as investors sought the strong pricing power of the sector in the face of high inflation. This came to the fore in May when the sector returned 1.8% at a period when the markets was captured by high inflation and rising interest rates.

Unfortunately, June saw investors take note of the risk of recession and the impact this would have on infrastructure assets. Listed Infrastructure fell -5.0% in June and finished the quarter down -5.3%.

### Global Bonds

Similar to the domestic market, global bond yields rose on the expectation of aggressive interest rate hikes by global central banks in economies experiencing higher inflation. The US headline CPI for May came in at another record high of 8.6% year on year, which is at its highest level since 1981 and significantly above the Fed's long-term target. In response, a number of Fed members, including Chair Jerome Powell, indicated that a more aggressive path of future interest rate hikes would be required. June saw a further slide in bond prices after the announcement of a 75bp hike in interest rates by the Fed in June. The Bloomberg Global Aggregate (Hedged to NZD) Index fell -4.5% over the June 2022 quarter, with the US 10-year yield increasing from 2.33% to finish the quarter at 2.97%.

### Commodities

Commodities continued to outperform other sectors over the June quarter as global supply chain issues were further exacerbated as a result of China's strict 'zero-COVID' policy and the on-going war in Ukraine. The increase in energy prices were focused on exports by Russia and Ukraine. Energy and agricultural commodity prices are expected to remain high in the medium term, according to the World Bank's commodity outlook. Oil prices remained stable in April and May with Brent Crude trading at around \$120 USD per barrel due to the significant decline in supply from Russia. June saw oil prices drop back towards the \$100 USD mark. Wheat remained at almost double its price at the end of the second quarter in 2021. Despite these spots of strength, commodities were sold in June as fears of recession sparked concerns around future demand. The Bloomberg Commodity Index (NZD hedged) returned -5.8% for the June quarter, however remains up 23.5% over 12 months.

### New Zealand Bonds and Cash

New Zealand Government and Corporate bond prices continue to trend downwards as high inflation and aggressive interest rate hikes weighed on the sector. The Bloomberg NZ Bond Composite 0+ Year Index fell -1.9% in April before clawing back 0.2% in May as the RBNZ hiked the OCR by 50bp in each month. The Index closed out the quarter down -2.4%.

The RBNZ has indicated further increases in the OCR, dampening investor confidence. The 10-year NZ Government Bond yield finished the June Quarter at 3.89%, rising sharply from yields of 3.27% at the close of the March quarter.

### Currency

The NZD had a volatile quarter against most major trading partners. Headwinds in the form of rising global interest rate expectations, a strong USD as well as supply chain disruptions coming from New Zealand's largest trading partner China were enough to overpower the tailwind coming from RBNZ OCR hikes.

Notably, the NZD fell -10.6% against the USD in the June quarter, -

5.9% against the Trade Weighted Index, -3.1% against the GBP and -2.4% against the AUD.

The NZD managed to return 0.1% against the JPY as the Bank of Japan reiterated its commitment to easy monetary policy in the face of elevated inflation readings around the world. Inflation readings in Japan came in at 2.4% year on year in May.

# 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	-7.0	-7.7	-	-5.1
Benchmark	-7.8	-7.7	-	-5.1
<b>Excess</b>	<b>+0.9</b>	<b>-0.1</b>	<b>-</b>	<b>-0.0</b>

**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	-6.4	-7.5	3.7	5.4
Benchmark	-7.1	-7.5	2.8	4.7
<b>Excess</b>	<b>+0.7</b>	<b>+0.0</b>	<b>+0.9</b>	<b>+0.7</b>

## Mercer Growth

Gross Returns – Before fees & taxes	3 Months (%)	1 Year (%)	3 Years (% p.a)	5 Years (% p.a)
Mercer Growth	-7.5	-8.0	5.0	6.7
Benchmark	-8.5	-7.9	4.2	6.0
<b>Excess</b>	<b>+1.0</b>	<b>-0.1</b>	<b>+0.8</b>	<b>+0.7</b>

**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	13.5
<b>Trans Tasman Shares</b>	<b>14.0</b>	<b>13.5</b>
Overseas Shares	30.3	28.8
Overseas Shares Low Volatility	4.6	5.4
Overseas Shares Small Caps	3.6	2.6
Emerging Market Shares	4.5	4.6
<b>Overseas Shares</b>	<b>43.0</b>	<b>41.4</b>
Listed Property	3.3	3.0
Unlisted Property	3.3	3.4
Listed Infrastructure	3.3	3.5
Unlisted Infrastructure	3.3	4.6
<b>Real Assets</b>	<b>13.0</b>	<b>14.5</b>
Overseas Sovereign Bonds	8.0	5.6
NZ Sovereign Bonds	7.5	7.6
Global Credit	6.0	6.1
Other Fixed Income	6.0	8.1
<b>Fixed Income</b>	<b>27.5</b>	<b>27.3</b>
Cash	2.5	3.3
<b>Cash</b>	<b>2.5</b>	<b>3.3</b>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>
<b>Growth Assets</b>	<b>70.0</b>	<b>69.4</b>
<b>Defensive Assets</b>	<b>30.0</b>	<b>30.6</b>
<b>Overseas Shares Currency Hedging</b>	<b>50%</b>	<b>50%</b>

## Transaction Summary – Quarter ended 30 June 2022

	Opening Balance (\$)	Applications (\$)	Redemptions (\$)	Investment Gain / (Loss) (\$)	Closing Balance (\$)
Mercer Balanced	9,501,023	-	-	(633,812)	8,867,211
Mercer Growth	9,488,020	-	-	(739,305)	8,748,715
<b>Total</b>	<b>18,989,043</b>	<b>-</b>	<b>-</b>	<b>(1,373,117)</b>	<b>17,615,927</b>

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)*
<b>EQUITIES</b>					
Mercer Trans Tasman Shares**	-10.0	-11.4	4.0	9.0	10.8
Excess	+0.2	+2.1	+2.2	+0.7	+0.2
Mercer Overseas Shares Plus	-4.4	-7.3	9.3	11.4	9.5
Excess	+1.9	-3.6	-0.5	+0.1	+0.7
Mercer Hedged Overseas Shares Plus	-16.3	-17.9	4.6	6.1	8.0
Excess	+2.0	-2.6	-0.8	-0.1	+0.3
Mercer Socially Responsible Global Shares*	-6.1	-8.9	9.0	-	10.4
Excess	+0.1	-5.2	-0.7	-	-1.1
Mercer Hedged Socially Responsible Global Shares*	-18.3	-19.5	4.8	-	5.5
Excess	-0.0	-4.9	-0.9	-	-1.3
Mercer SR Overseas Shares Index*	-6.6	-4.5	-	-	7.1
Excess	-0.1	-0.5	-	-	-0.8
Mercer Hedged SR Overseas Shares Index*	-18.3	-15.6	-	-	2.6
Excess	+0.1	-0.0	-	-	-0.6
Mercer Overseas Small Companies	4.4	-1.7	16.0	13.8	10.4
Excess	+11.6	+10.2	+8.7	+5.3	+3.2
Mercer Emerging Markets	-1.0	-16.7	3.4	6.1	4.9
Excess	-0.2	-1.0	-0.2	+0.3	+0.7
Mercer Low Volatility	1.1	7.3	6.1	8.2	7.6
Excess	+0.2	+2.1	+0.4	-0.8	-0.4
<b>REAL ASSETS</b>					
Mercer Unlisted Property	2.6	18.3	9.6	9.8	10.9
Excess	+0.4	+4.2	+2.4	+2.6	+3.7
Mercer Listed Property	-18.6	-12.8	0.3	4.4	5.8
Excess	-0.1	+0.2	+2.6	+3.5	+2.5
Mercer Listed Infrastructure	-7.4	3.8	3.6	5.6	8.2
Excess	-1.9	-1.7	-0.6	-0.5	+0.1
Mercer Unlisted Infrastructure	4.4	14.7	14.5	13.2	15.0
Excess	+2.4	+1.5	+6.2	+5.0	+7.8
<b>FIXED INTEREST</b>					
New Zealand Sovereign Bonds	-3.7	-10.1	-2.3	0.9	1.9
Excess	-0.4	+0.2	+0.7	+0.3	+0.3
Mercer Overseas Sovereign Bonds	-3.6	-7.1	-0.3	2.1	3.2
Excess	+0.9	+1.3	+1.1	+1.0	+1.0
Mercer Global Credit	-6.5	-12.4	-1.4	0.9	2.4
Excess	-0.1	-0.2	+0.2	+0.0	-0.0
Mercer Absolute Return Bonds*	-2.0	-3.8	0.9	-	1.5
Excess	-2.4	-4.6	+0.1	-	+0.3
Mercer Short Term Bonds*	-	-	-	-	-1.4
Excess	-	-	-	-	-1.7
Mercer Cash	0.4	1.0	1.0	1.6	1.9
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:		30/06/22 Value	Sector Allocation	Heat Map
		Lower	Upper			
Global Equities - Developed	38.5%	25.5%	60.5%	\$6,479,138	36.8%	
Global Equities - Emerging	4.5%			\$814,032	4.6%	
Trans-Tasman Equities	14%	2.5%	25.5%	\$2,377,974	13.5%	
Real Assets	13%	3.5%	26%	\$2,548,144	14.5%	
Alternatives	0%	0%	10%	\$0	0.0%	
<b>Total Growth Assets</b>	<b>70%</b>	<b>40%</b>	<b>90%</b>	<b>\$12,219,287</b>	<b>69.4%</b>	
Global Fixed Income	20%	7%	48%	\$3,480,202	19.8%	
New Zealand Fixed Income	7.5%			\$1,334,759	7.6%	
Cash	2.5%	0%	20%	\$581,678	3.3%	
<b>Total Income Assets</b>	<b>30%</b>	<b>10%</b>	<b>60%</b>	<b>\$5,396,639</b>	<b>30.6%</b>	
<b>Total</b>	<b>100%</b>			<b>\$17,615,927</b>	<b>100.0%</b>	

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 2022.

Document	Breaches
MITNZ SIPO	There were no breaches reported in the quarter.
<b>Investments held in MITNZ</b>	<b>Breaches</b>
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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