Quarterly Report
NPDC Perpetual Investment Fund

Q1 2020

MERCER

Contents

Fund Overview

welcome to brighter

Fund Overview

Fund size
$275.4m

Returns (after fees and taxes)

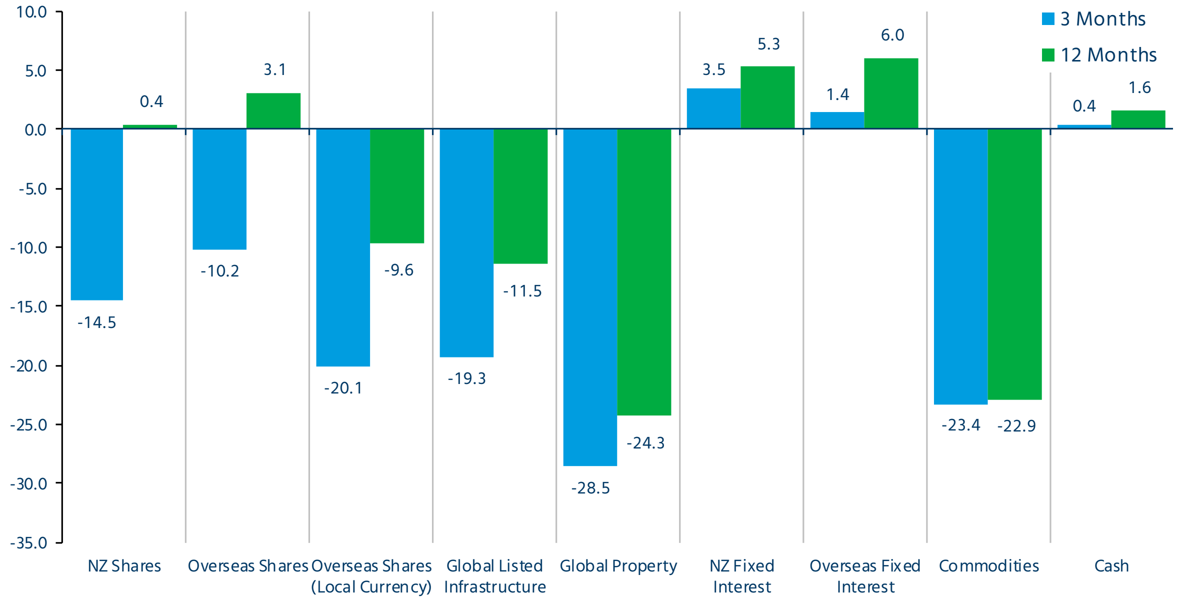
Since inception (Nov 2004)	5 years	1 year	3 months
6.0%p.a.	5.3%p.a.	-2.0%	-8.9%

Distributions to Council (Release payments)

Since inception (Nov 2004)	5 years	1 year
$219.3m	$40.0m	$8.7m

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 Market Update



- The quarter proved to be one of the worst quarters for asset prices in modern history. The first half of January started strong, however things turned sour as the coronavirus epidemic emerged and spooked global equity markets, triggering a sell-off in the final week of the month. As the scale of the outbreak within China continued to intensify, fears over the potential economic fallout from travel and trade restrictions spawned.

- The global impact of the virus started to take effect in February. As the virus spread rapidly to other countries in the latter half of February, economic ripple effects were felt throughout the rest of the world. The lack of ability to predict the true extent of economic damage and the lack of ability to estimate a timeline for an economic recovery was called into question and remains a key driver of investor trepidation.

- The widespread sell-off that began in February continued into March and triggered a sharp liquidity squeeze, causing not only historic daily drops in equities but also safe-haven assets such as government bonds, gold, and defensive currencies. Central Banks and governments were quick to act on the adverse conditions and material downgrades of economic forecasts, implementing a number of monetary and fiscal schemes to stimulate a world in lockdown.

- The US Federal Reserve, in an emergency meeting, cut its Federal Funds rate to 0.00% - 0.25% and implemented a “whatever it takes” quantitative easing (QE) programme. The Bank of England and European Central Bank introduced similar schemes.

- Domestically, the Reserve Bank of New Zealand (RNBZ) acted in-line with its central bank peers over the quarter. After calling for an “extraordinary session” of the Monetary Policy Committee in light of the rapidly deteriorating economic situation relating to the coronavirus, the Committee agreed that additional monetary stability measures were warranted, including the emergency cutting of the Official Cash Rate to 0.25% on 16 March.

Market Outlook

- Looking at the second quarter of the year, the world is facing a sharp economic downturn with a drastic uptick in unemployment, as the choking constraints on global activity remain abundant in an attempt to contain the pandemic. The International Monetary Fund (IMF) has downgraded 2020 global growth projections by 6.3 percentage points from their January estimates – a significant revision over a very short period, to -3.0%. The revisions project an outlook that is the worst downturn since the Great Depression of 1929.

- Considerable volatility in commodities looks likely to remain elevated as demand uncertainty remains. In mid-April, US crude oil prices turned negative, reflecting not only the dual-pronged supply and demand issues occurring in the market, but also the highly unique conditions markets are currently enduring. Consequent commodity pressures have increased credit risk of emerging markets and indices. Countries with larger weightings to the Energy sector, such as India and Brazil, are more exposed to adverse sectoral volatility.

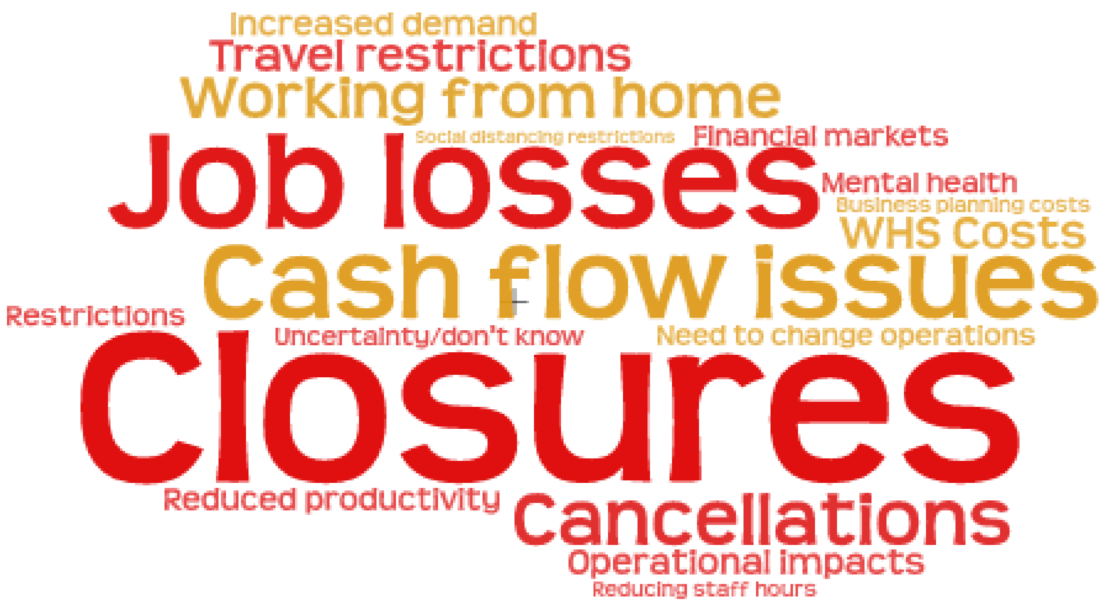
- Fiscal and monetary stimulus measures look likely to remain accommodative throughout the rest of the year. Large-scale spending schemes from the US, UK, Japan, EU member countries and New Zealand to keep money moving through economies and help protect businesses and workers from bankruptcies and job losses. The IMF has also started deploying emergency financing and debt service relief to vulnerable member countries.

- Locally, GDP projections for the June quarter is a -15% contraction, with unemployment expected to rise to 9% in September. The IMF have estimated a -7.2% contraction for the NZ economy over the year, while the New Zealand Treasury forecasts a growth rate of between -13% and -33% under a range of modelling scenarios for the year to March 2021. An effective shutdown of the tourism sector has weighed heavily on the country and while tourism wanes, GDP concentration is at risk of becoming heighted as the local economy relies more heavily on the primary sector, resulting in increased vulnerability to fluctuations in dairy, timber and meat prices – and consequent increased correlation in the NZD to such risks. In light of such events, the RBNZ has indicated that the current OCR of 0.25% will remain in place for at least 12 months.

Market Outlook
Covid-19 – the impact

A deep recession is now under way across the globe.

To an extent this will be offset by government and central bank responses. Those responses and signs of infection curves flattening have since helped reduce some of the extreme stress and volatility in markets.



Covid-19 – Comparison to other shocks

	NATURAL DISASTER	STANDARD	GFC	COVID
Nature of the Shock	Supply	Demand	Financial Markets	Supply Demand Financial Markets
Depth & Duration	Short & deep	Variable length & depth	Long & deep	?
Impact	Localised	Usually localised	Global	Global

Source: Wellington Management

MERCER

Fund Performance

welcome to brighter

Fund performance

- The Fund returned -8.9% for the 3 month period to 31 March 2020 (after fees). The Fund is behind its objective of CPI+3.3% over 1 year but is still ahead over the long term.

- On a benchmark relative basis, which is the secondary objective, the Fund is also underperforming over the quarter and year.

	5 years (p.a.)	1 year	3 months
Fund return (net of fees)	5.3%	-2.0%	-8.9%
Value add (total portfolio including legacy PE)			
• Relative to CPI + 3.3%	+0.5%	-7.8%	-10.5%
• Relative to benchmark	n/a	-2.8%	-2.6%

Sector Performance – (3 Months)

Gross Returns	$ Value ($M)	Weighting %	Return %	Excess over benchmark %	Return attribution[1]
Overseas Shares (incl. PE Proxy)	**117.7**	**42.7**	**-14.9%**	**+0.8**	**-6.5%**
Emerging Markets	**13.3**	**4.8**	**-13.8%**	**-0.7**	**-0.7%**
Alternatives[3]	**50.7**	**18.4**	**-9.0%**	**-10.4**	**-1.7%**
Mercer Unlisted Property	7.7	2.8	-4.2%	-6.4	
Mercer Unlisted Infrastructure	7.7	2.8	-6.5%	-11.5	
Mercer Listed Property	5.2	1.9	-24.6%	+4.0	
Mercer Listed Infrastructure	5.4	2.0	-18.2%	+1.1	
Fund of Hedge Funds	24.7	9.0	-5.8%	-1.0	
Private Equity	**41.8**	**15.2**	**1.6%**	**-0.4**	**0.2%**
Fixed Interest	**33.0**	**12.0**	**-1.8%**	**-3.2**	**-0.2%**
Mercer Overseas Sovereign Bonds	14.5	5.3	0.9%	-3.8	
Mercer Global credit	18.5	6.7	-4.4%	-1.1	
Cash	**18.9**	**6.8**	**0.5%**	**+0.1**	**0.0%**
Total Portfolio	**275.4**	**100.0%**	**-8.8%**		**-8.8%**

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.

MERCER

Sector Performance – (12 Months)

Gross Returns	$ Value ($M)	Weighting %	Return %	Excess over benchmark %	Return attribution[1]
Overseas Shares (incl. PE Proxy)	**117.7**	**42.7**	**-5.5%**	**+0.7**	**-2.2%**
Emerging Markets	**13.3**	**4.8**	**-5.0%**	**+0.3**	**-0.2%**
Alternatives[3]	**50.7**	**18.4**	**-5.0%**	**-10.8**	**-0.7%**
Mercer Unlisted Property	7.7	2.8	0.3%	-0.1	
Mercer Unlisted Infrastructure	7.7	2.8	1.2%	-1.8	
Mercer Listed Property	5.2	1.9	-17.8%	+5.3	
Mercer Listed Infrastructure	5.4	2.0	-8.2%	+0.4	
Fund of Hedge Funds	24.7	9.0	-4.8%	+0.2	
Private Equity	**41.8**	**15.2**	**5.8%**	**-1.9**	**0.8%**
Fixed Interest	**33.0**	**12.0**	**4.4%**	**-1.7**	**0.6%**
Mercer Overseas Sovereign Bonds	14.5	5.3	7.0%	+0.0	
Mercer Global credit	18.5	6.7	1.6%	-0.4	
Cash	**18.9**	**6.8**	**1.9%**	**+0.3**	**0.2%**
Total Portfolio	**275.4**	**100.0**	**-1.5%**		**-1.5%**

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 – (Since Inception with Mercer)

Gross Returns	$ Value ($M)	Weighting %	Return %	Excess over benchmark %	Return attribution[1]
Overseas Shares (incl. PE Proxy)	**117.7**	**42.7**	**3.5%**	**-0.2**	**1.9%**
Emerging Markets	**13.3**	**4.8**	**6.4%**	**+0.6**	**0.4%**
Alternatives[3]	**50.7**	**18.4**	**2.3%**	**-3.6**	**0.5%**
Mercer Unlisted Property	7.7	2.8	6.7%	-0.2	
Mercer Unlisted Infrastructure	7.7	2.8	7.2%	-1.9	
Mercer Listed Property	5.2	1.9	1.1%	+5.1	
Mercer Listed Infrastructure	5.4	2.0	3.2%	+0.4	
Fund of Hedge Funds	24.7	9.0	-0.3%	+0.4	
Private Equity	**41.8**	**15.2**	**5.6%**	**-5.3**	**0.8%**
Fixed Interest	**33.0**	**12.0**	**4.4%**	**-0.2**	**0.6%**
Mercer Overseas Sovereign Bonds	14.5	5.3	5.8%	+0.3	
Mercer Global credit	18.5	6.7	3.1%	-0.4	
Cash	**18.9**	**6.8**	**2.2%**	**+0.4**	**0.2%**
Total Portfolio	**275.4**	**100.0**	**4.4%**		**4.4%**

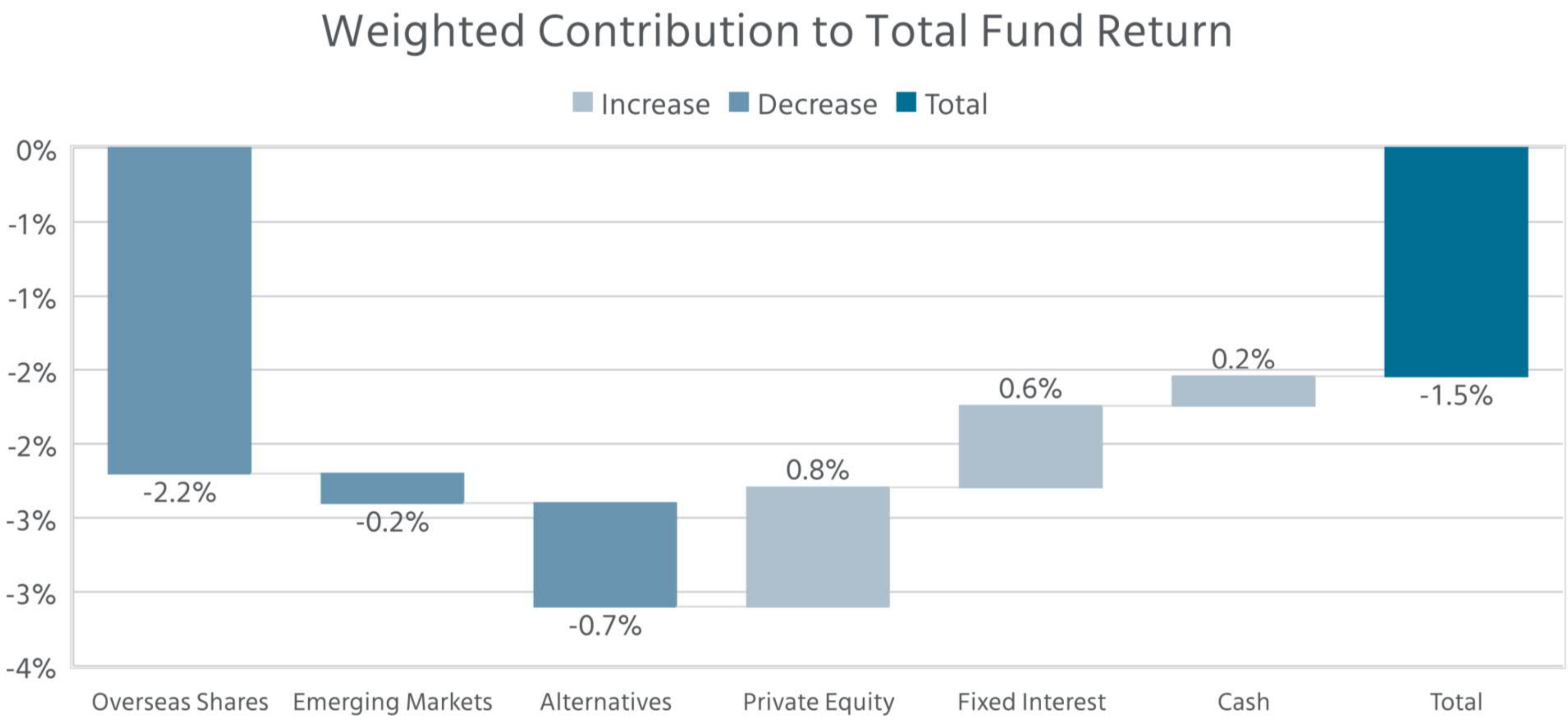
All sectors contributed positively over the quarter.

[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)



The more defensive and long-term sectors contributed positively over the 12 months.

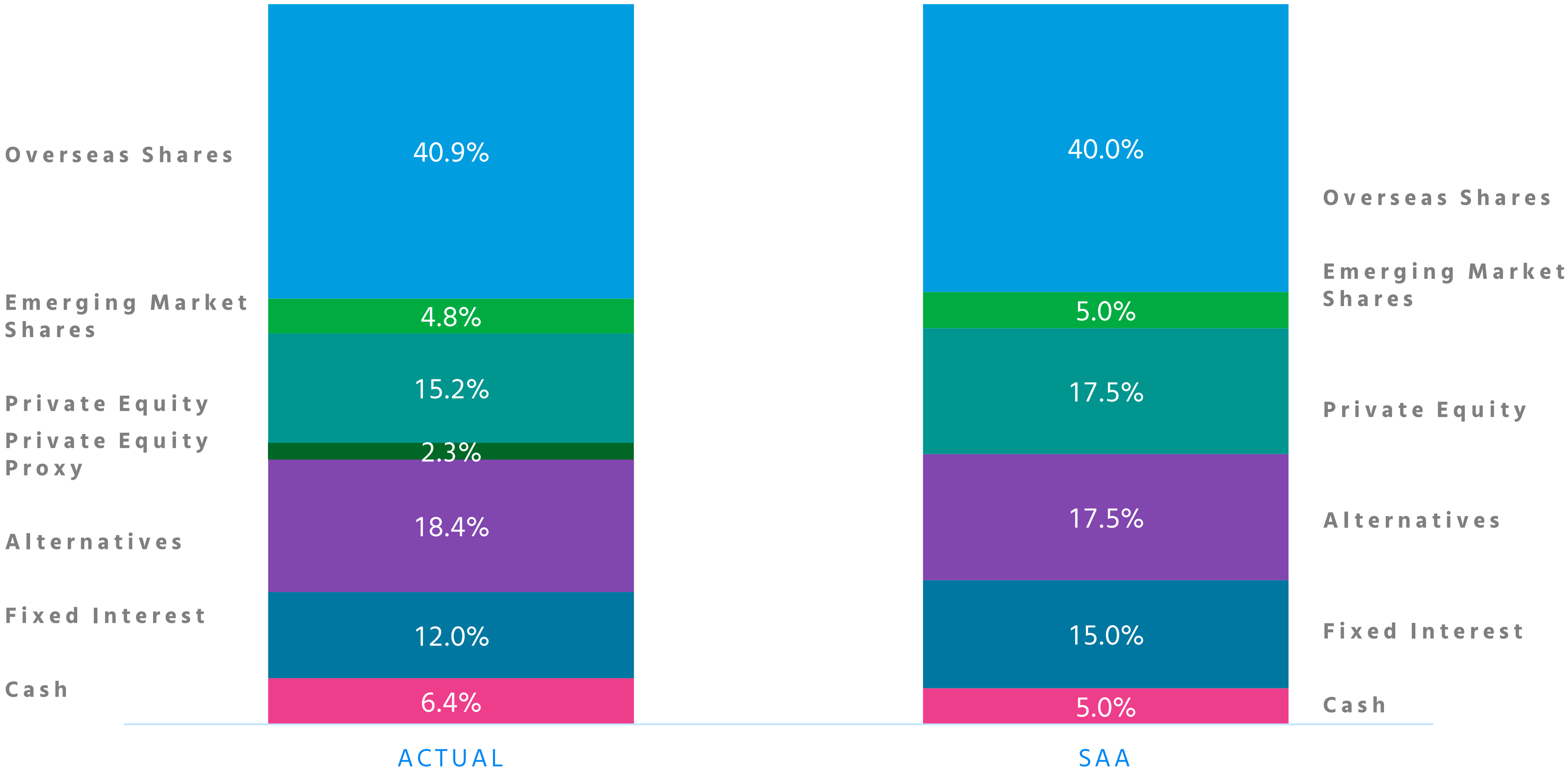
1. Weighted contribution to total fund return.
2. Gross returns for all sectors except Private Equity and Fund of Hedge Funds which are net of fees

MERCER

Asset Allocation

welcome to brighter

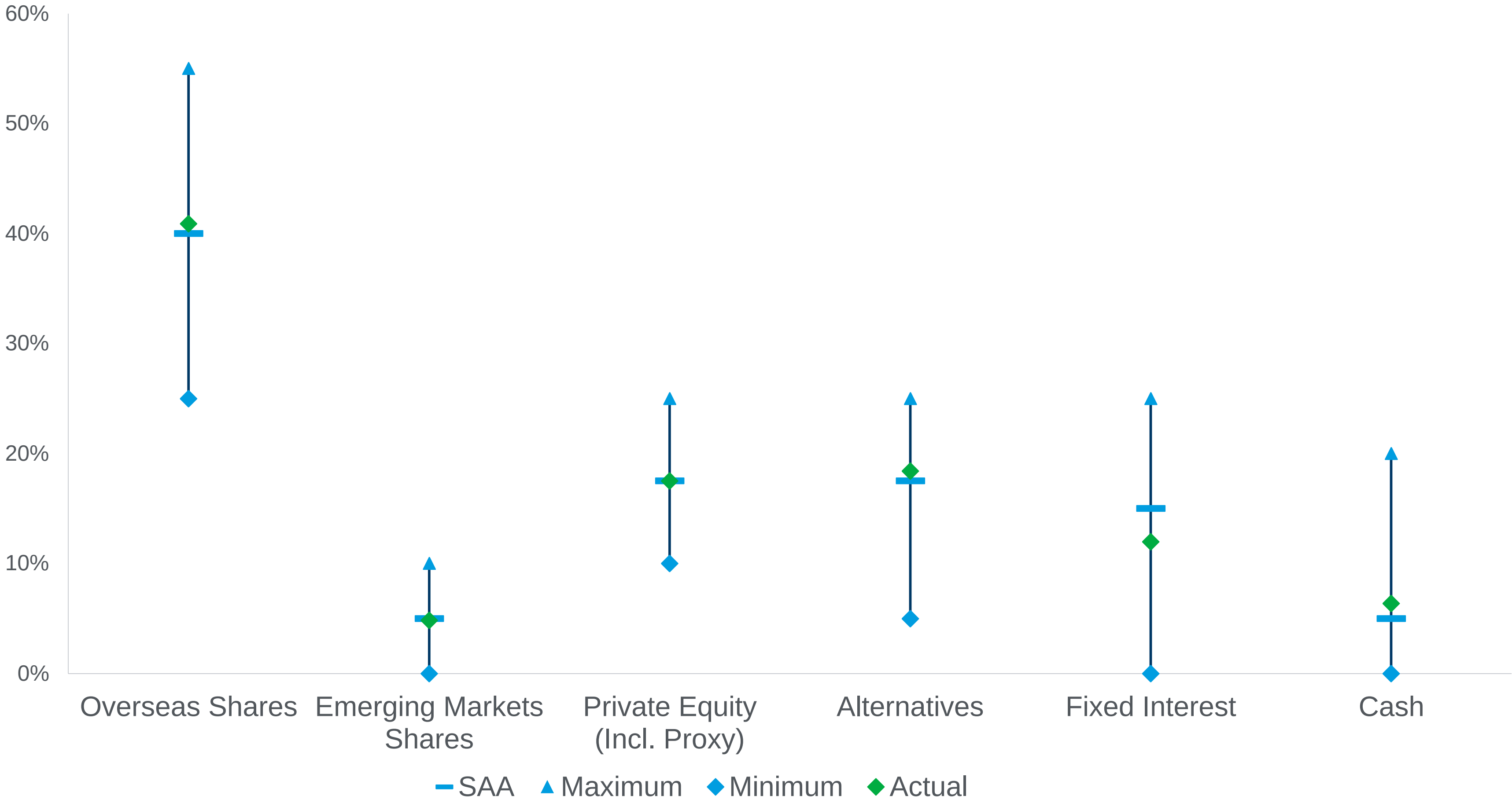
ASSET ALLOCATION



- 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 1.9% Listed Overseas Shares and 0.5% Cash.
- The target hedging ratio for Overseas Shares is now 50% (effective 31 August 2019)

Asset allocation

Ranges

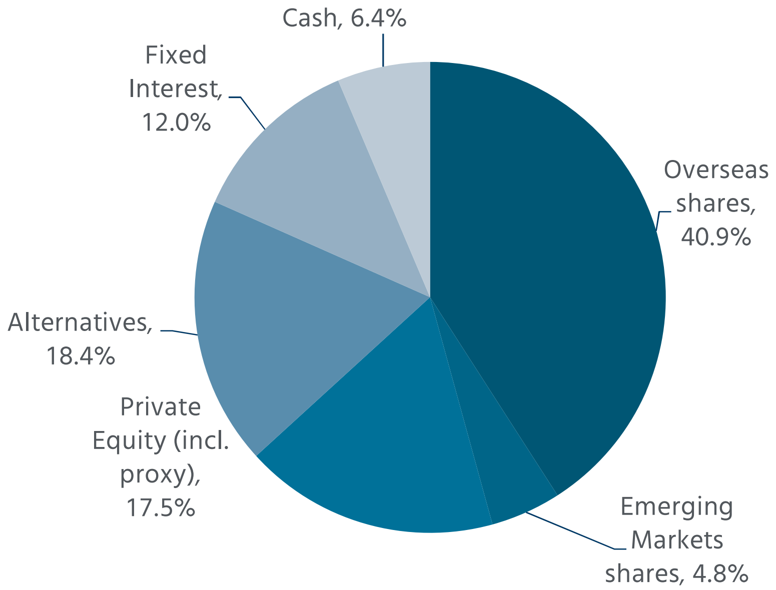


- All asset class allocations are within the ranges specified in the SIPO.

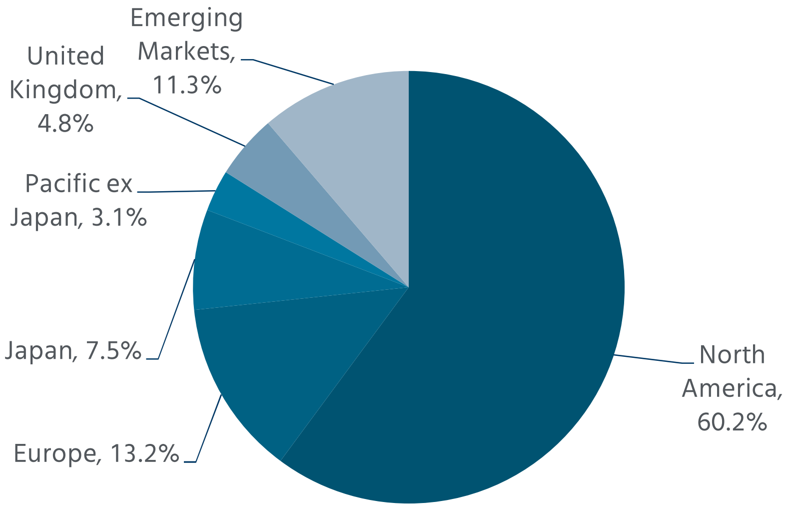
Asset allocation

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

Portfolio by asset class



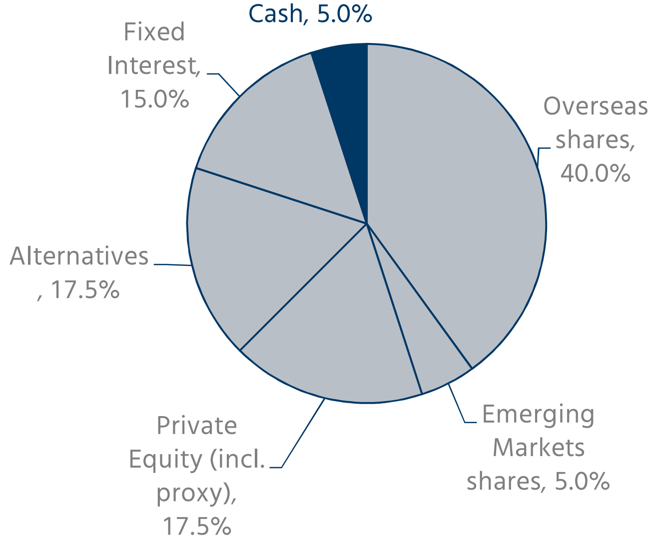
Portfolio by Geography



MERCER

Sector in focus

CASH



- **What is Cash?** Cash is a defensive asset and may include a range of cash related investments including on call cash deposits, term deposits, bank bills, notes, and short term bonds. While there is limited upside return potential for cash, it is expected to generate a steady and positive return. Cash generally performs well relative to other asset classes in periods of rising interest rates and times of market turbulence.

- **Roles in the portfolio:**

  - **Liquidity Management:** The Fund will have regular quarterly cash flow requirements (release payments) and in the first instance, these are paid from the Cash allocation.

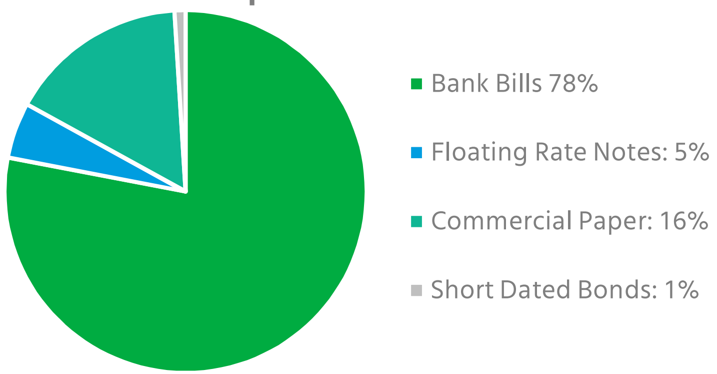
  - **Reduced Portfolio Volatility:** An allocation to Cash can help anchor the portfolio when markets decline and limit losses. However the opposite is true as the lower expected return can be a drag on returns over the longer term as markets appreciate.

  - **Dynamic tilts/Opportunity:** The allocation to Cash can be increased or decreased as part of the dynamic asset allocation process. When other asset classes are unattractive, more cash can be held, and vice versa. After a sell-off in markets, Cash can also be used opportunistically to invest at more attractive or distressed levels.

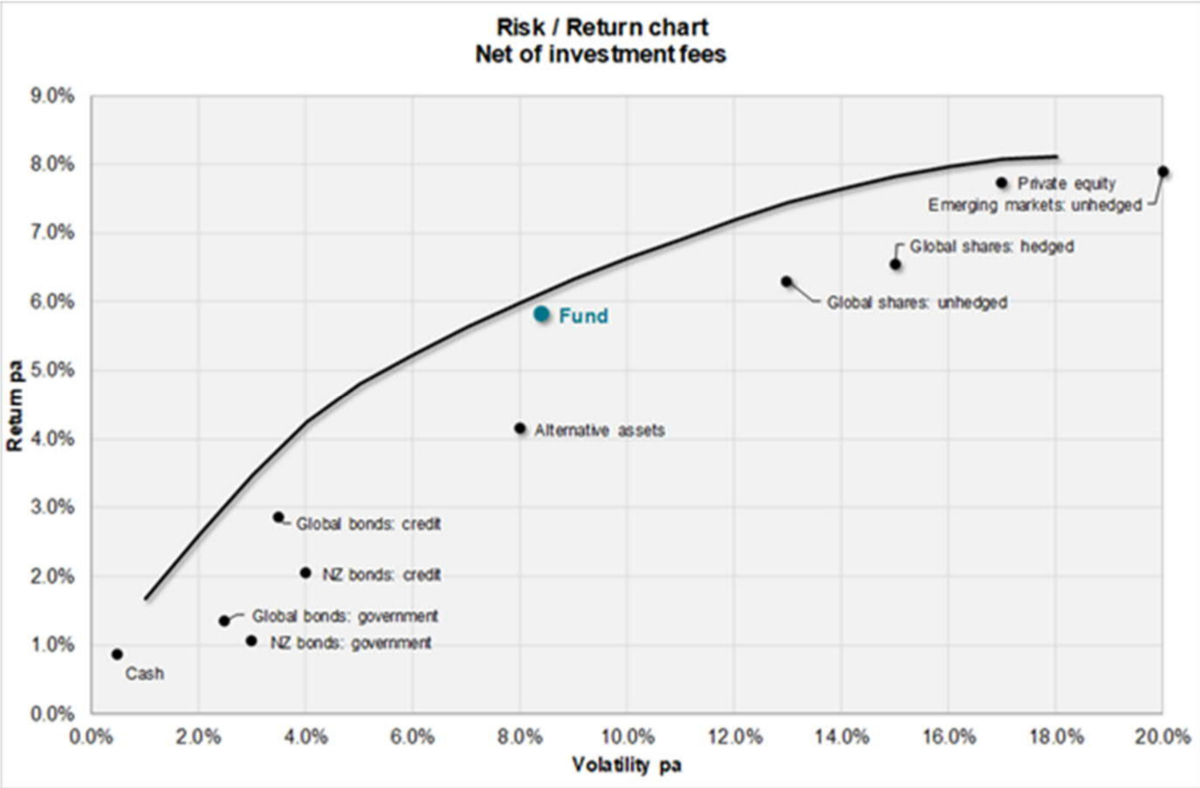
- **Allocation:** The long term Cash allocation is 5% (currently 6.8%). The overweight tilt is due to the underweight tilt to Fixed Interest. There is also a small allocation to cash (0.5%) as part of the proxy allocation while the Private Equity allocation is being built up. The majority of the cash portfolio consists of deposits with and securities issues by NZ registered banks.

Manager	AMP Capital
Benchmark	S&P/NZX Bank Bill 90-Day Index
Current Running Yield	0.62%
Current Portfolio Duration	19 Days

Cash: Asset Composition



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

This document contains confidential and proprietary information of Mercer and is intended for the exclusive use of the named recipient. The document, and any opinions it contains, may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity without Mercer's prior written permission.

All services provided in this report are delivered strictly on the basis of advice to a wholesale client in terms of the Financial Advisers Act 2008.

Information on organisations contained herein has been obtained from the organisations themselves and other sources. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability, including for consequential or incidental damages, can be accepted for any error, omission or inaccuracy in this report or related materials.

Opinions contained herein are not intended to convey any guarantees as to future performance. The value of any investments can go down as well as up and you may not get back the amount you have invested. In addition, past performance cannot be relied on as a guide to future performance.

MERCER