

# Quarterly Report NPDC Perpetual Investment Fund



Q2 2021

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# Fund Overview

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# Fund Overview

## Fund size\*

\$346.1m

Returns (after fees and taxes)

Since inception p.a. (Nov 2004)	5 years p.a.	1 year p.a.	3 months
7.3%	8.6%	23.1%	5.9%

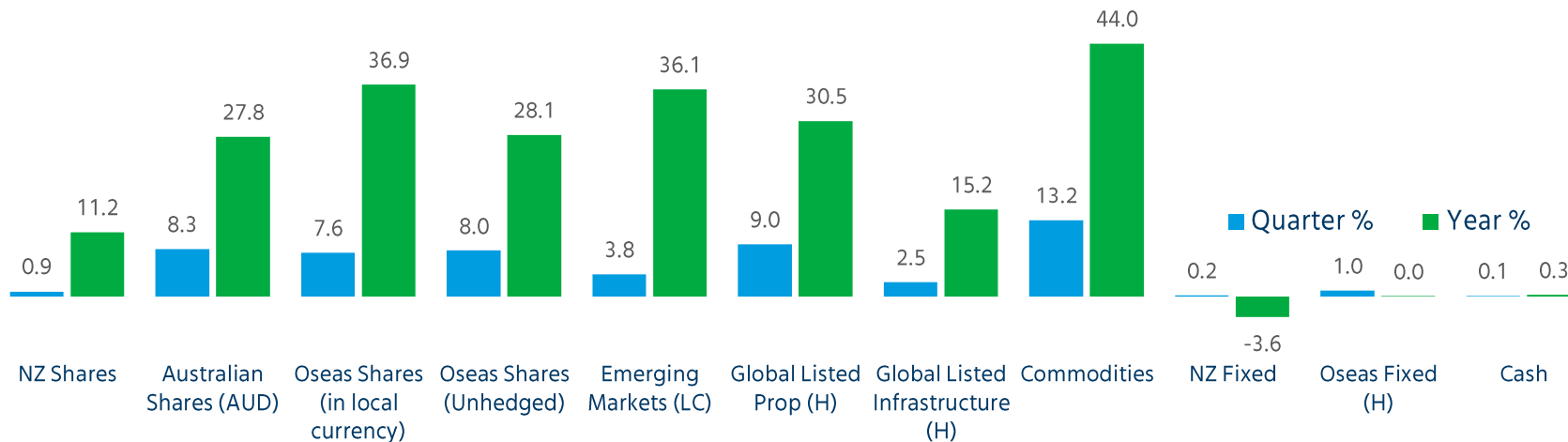
Distributions to Council (Release payments)

Since inception (Nov 2004)	5 years	1 year
\$230.6m	\$42.1m	\$9.1m

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 \$103k

# Financial Market Update



Global equities continued their rally throughout the second quarter with New Zealand lagging global peers.

Global markets were driven by sustained accommodative monetary and fiscal stimulus with the Biden administration continuing its extremely accommodative positioning, in May revealing a \$6 trillion federal spending plan, the largest expansionary budget proposal since World War II. The budget will aim to drastically upgrade the nation’s infrastructure, education system and target climate change.

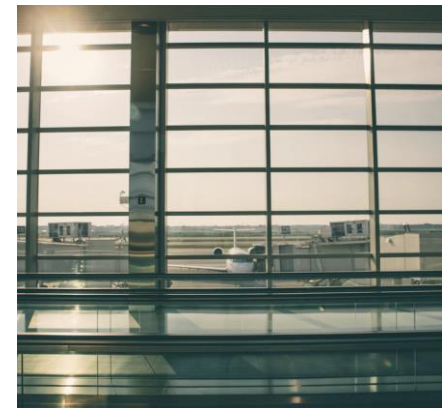
Early announcements from US Federal Reserve (Fed) Chair Jerome Powell in June had what seemed like hawkish tones as he expressed openness to discussing tapering of supportive monetary policy. This resulted in heightened volatility for both

equities and bonds in the middle of the month. Equities recovered towards the end of the month following Powell’s dismissal of this perceived hawkish sentiment, stating “we will not raise rates pre-emptively because we fear the possible onset of inflation, we will wait for evidence of actual inflation or other imbalances”.

The RBNZ opened the door for interest rate hikes at their July meeting by confirming the end of their LSAP program. Markets have now priced in an interest rate hike in August.

# Market Outlook

- The NPDC portfolio remains positioned for an economic recovery, which should benefit risk assets like shares. We acknowledge that after five consecutive quarters of strong performance, valuations for most assets are stretched. Nevertheless, we believe we are still in the early stages of a strong recovery.
- Our medium term outlook remains positive for the following reasons:
  - Vaccines have been rolled at a tremendous pace in the US and UK. The EU and Japan have been catching up and roll-out has started in a number of emerging market countries. Also, in most regions, vaccine programs have been targeted at the most vulnerable parts of the population.
  - We are therefore in the middle of a mini boom as pent-up demand is released and savings are spent. Re-openings have broadened the recovery as the service sector is increasingly benefiting from the rebound.
  - There has been a fast rebound in inflation, driven by base effects, supply chain pressure and the tightening labour market. This has led to some worries about monetary accommodation (low interest rates) ending earlier than expected however we expect this to be gradual.





# Fund Performance

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# Fund performance

- The Fund returned 5.9% for the 3 month period to 30 June 2021 (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 year.

	5 years % (p.a.)	1 year %	3 months %
Fund return (net of fees)	8.6	23.1	5.9
Value add (total portfolio including legacy PE)			
• Relative to CPI + 3.3%	+3.3	+16.5	+3.7
• Relative to benchmark	n/a	+7.0	+1.6
Fund Listed Sector Return	-	24.3	6.2
Relative to benchmark	-	+2.9	+0.8
Fund Unlisted Sector Return	-	21.8	5.5
Relative to benchmark	-	+15.2	+3.4



# Sector Performance – (3 Months)

Gross Returns	\$ Value (\$M)	Weighting %	Return %	Excess over benchmark %	Return attribution <sup>1</sup>
<b>Overseas Shares (incl. PE Proxy)</b>	<b>150.6</b>	<b>43.5</b>	<b>8.2%</b>	<b>+0.4</b>	<b>3.6%</b>
<b>Emerging Markets</b>	<b>21.5</b>	<b>6.2</b>	<b>5.6%</b>	<b>+0.3</b>	<b>0.3%</b>
<b>Alternatives<sup>3</sup></b>	<b>60.8</b>	<b>17.6</b>	<b>5.1%</b>	<b>+3.2</b>	<b>0.9%</b>
Mercer Unlisted Property	13.8	4.0	2.3%	-0.2	
Mercer Unlisted Infrastructure	16.9	4.9	4.8%	+3.2	
Mercer Listed Property	16.4	4.7	9.5%	+0.5	
Mercer Listed Infrastructure	13.7	3.9	3.1%	+0.6	
<b>Private Equity</b>	<b>56.0</b>	<b>16.2</b>	<b>5.9%</b>	<b>+3.6</b>	<b>0.9%</b>
<b>Fixed Interest</b>	<b>44.1</b>	<b>12.7</b>	<b>1.7%</b>	<b>+0.7</b>	<b>0.2%</b>
Mercer Overseas Sovereign Bonds	17.7	5.1	1.0%	+0.0	
Mercer Global credit	26.4	7.6	2.1%	+0.0	
<b>Cash</b>	<b>13.2</b>	<b>3.8</b>	<b>0.1%</b>	<b>-0.0</b>	<b>0.0%</b>
<b>Total Portfolio</b>	<b>346.2</b>	<b>100.0%</b>	<b>6.0%</b>		<b>6.0%</b>

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 <sup>1</sup>
<b>Overseas Shares (incl. PE Proxy)</b>	<b>150.6</b>	<b>43.5</b>	<b>33.8%</b>	<b>+1.7</b>	<b>14.6%</b>
<b>Emerging Markets</b>	<b>21.5</b>	<b>6.2</b>	<b>30.6%</b>	<b>+0.4</b>	<b>1.8%</b>
<b>Alternatives<sup>3</sup></b>	<b>60.8</b>	<b>17.6</b>	<b>16.4%</b>	<b>+10.9</b>	<b>2.8%</b>
Mercer Unlisted Property	13.8	4.0	8.3%	+1.3	
Mercer Unlisted Infrastructure	16.9	4.9	17.6%	+6.1	
Mercer Listed Property	16.4	4.7	29.6%	+4.0	
Mercer Listed Infrastructure	13.7	3.9	12.8%	+0.2	
<b>Private Equity</b>	<b>56.0</b>	<b>16.2</b>	<b>28.0%</b>	<b>+20.4</b>	<b>4.4%</b>
<b>Fixed Interest</b>	<b>44.1</b>	<b>12.7</b>	<b>1.8%</b>	<b>+1.8</b>	<b>0.2%</b>
Mercer Overseas Sovereign Bonds	17.7	5.1	-0.2%	+0.6	
Mercer Global credit	26.4	7.6	3.1%	+0.2	
<b>Cash</b>	<b>13.2</b>	<b>3.8</b>	<b>0.5%</b>	<b>+0.2</b>	<b>0.0%</b>
<b>Total Portfolio</b>	<b>346.2</b>	<b>100.0</b>	<b>23.7%</b>		<b>23.7%</b>

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5. Alternatives include MSAS attribution

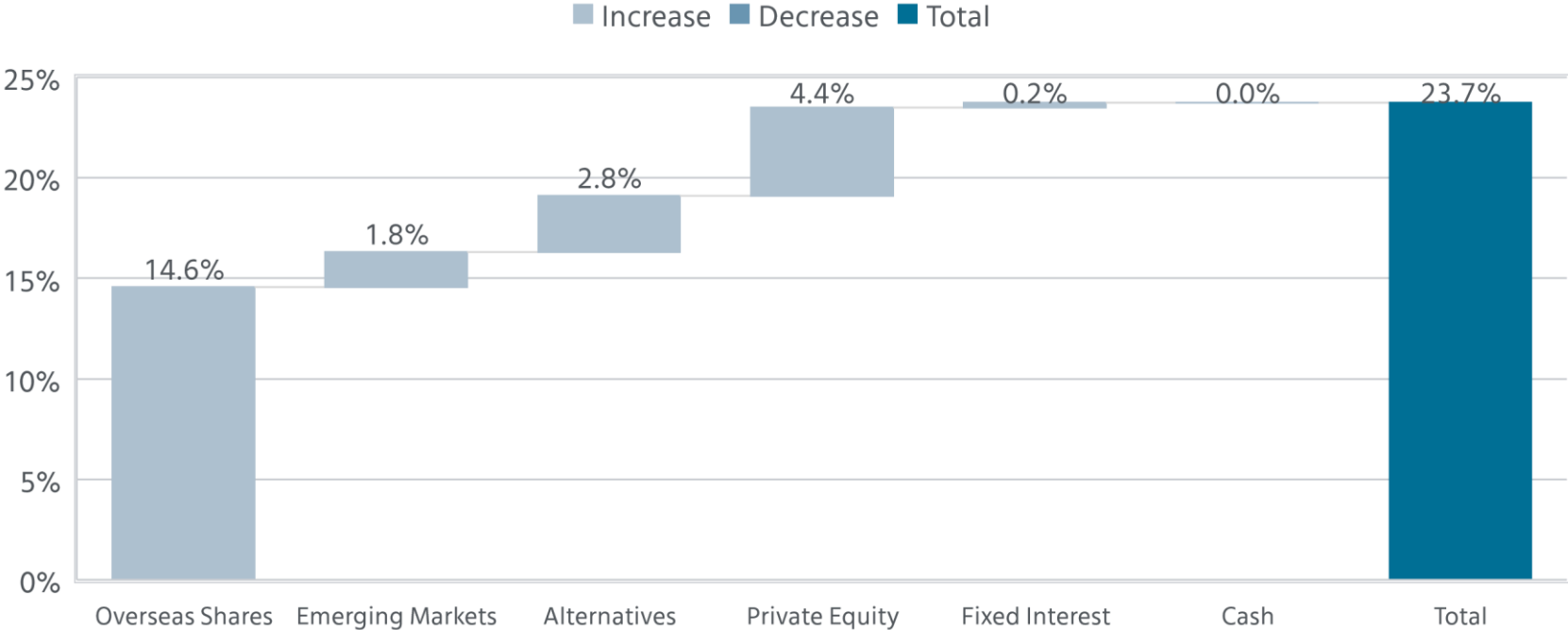
# Sector Performance – (Since Inception with Mercer)

Gross Returns	\$ Value (\$M)	Weighting %	Return %	Excess over benchmark %	Return attribution <sup>1</sup>
<b>Overseas Shares (incl. PE Proxy)</b>	<b>150.6</b>	<b>43.5</b>	<b>12.7%</b>	<b>+0.8</b>	<b>5.5%</b>
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<b>Fixed Interest</b>	<b>44.1</b>	<b>12.7</b>	<b>4.8%</b>	<b>+1.3</b>	<b>0.7%</b>
Mercer Overseas Sovereign Bonds	17.7	5.1	4.6%	+1.0	
Mercer Global credit	26.4	7.6	4.7%	+0.1	
<b>Cash</b>	<b>13.2</b>	<b>3.8</b>	<b>1.7%</b>	<b>+0.3</b>	<b>0.1%</b>
<b>Total Portfolio</b>	<b>346.2</b>	<b>100.0</b>	<b>10.0%</b>		<b>10.0%</b>

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.

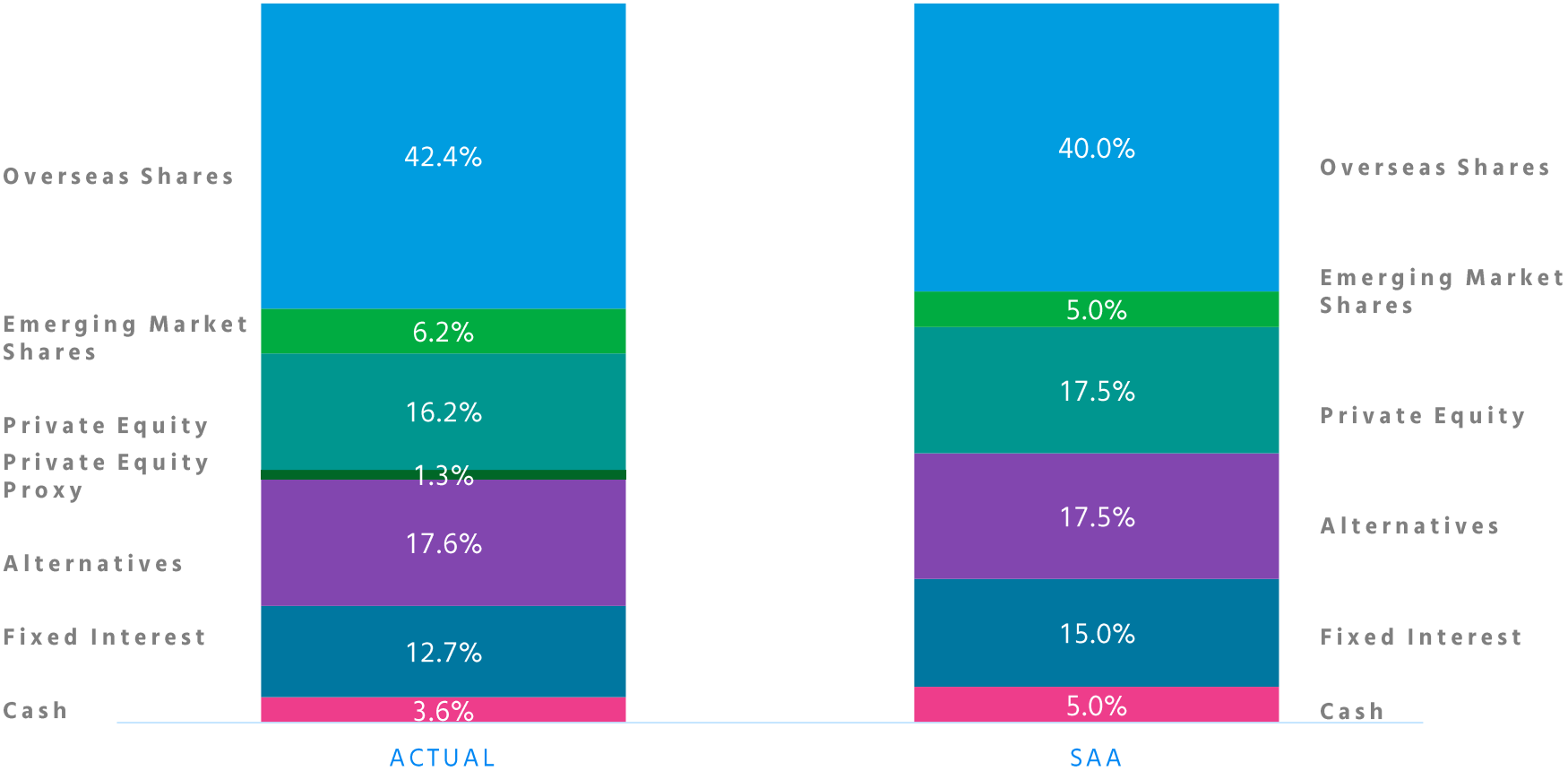
1. Weighted contribution to total fund return.
2. Gross returns for all sectors except Private Equity and Fund of Hedge Funds which are net of fees.



# Asset Allocation

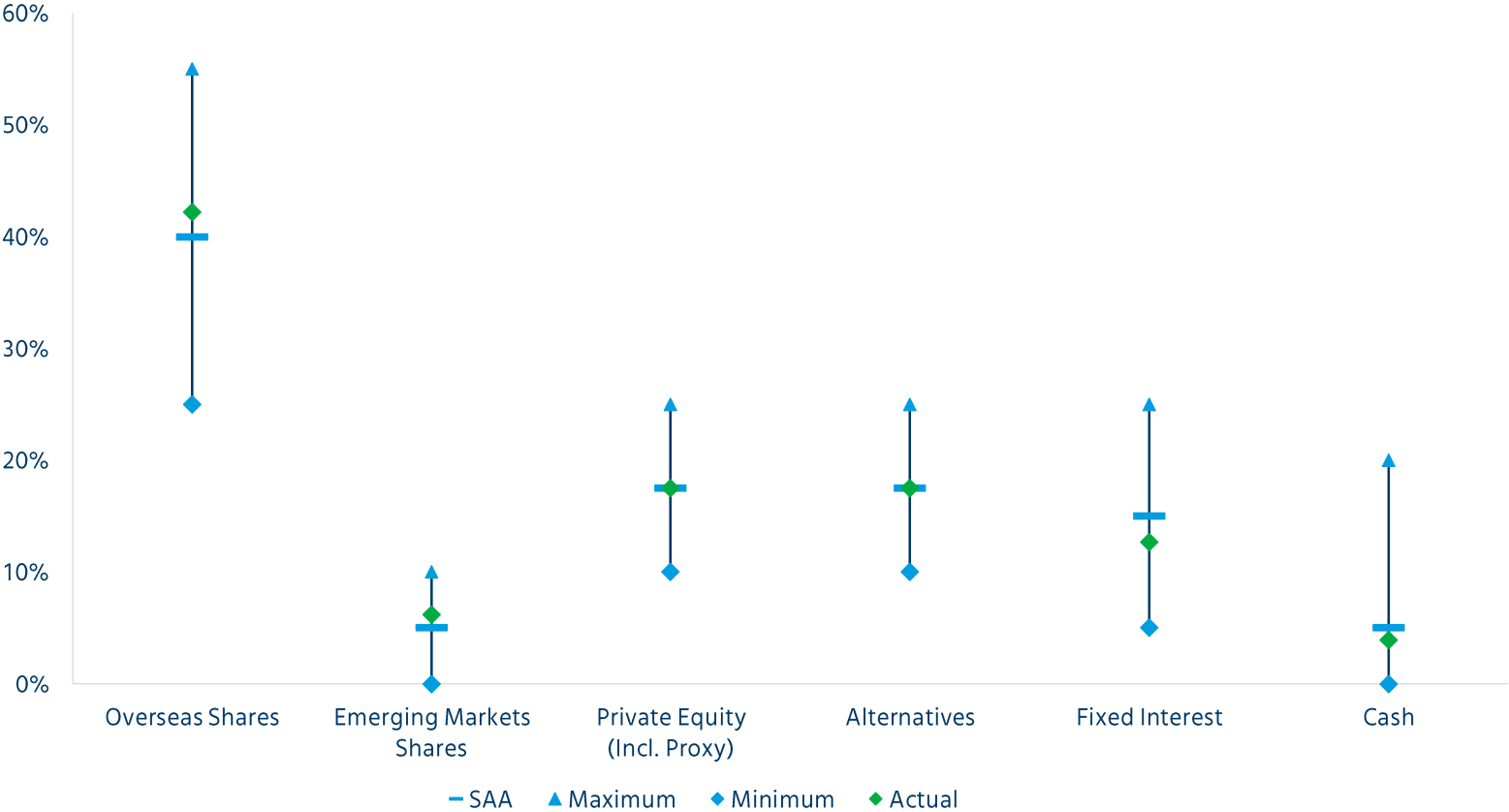
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# Asset Allocation



- 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 1.1% Listed Overseas Shares and 0.3% Cash.
- The target hedging ratio for Overseas Shares is now 50% (effective 31 August 2019).
- Cash is 3.5% Mercer Cash and 0.03% TIML Cash.

# Asset allocation Ranges

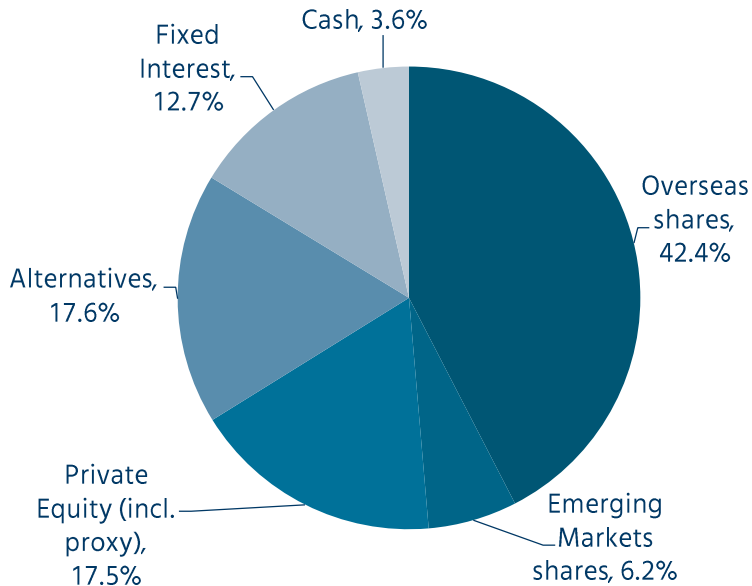


- All asset class allocations are within the ranges specified in the SIPO.

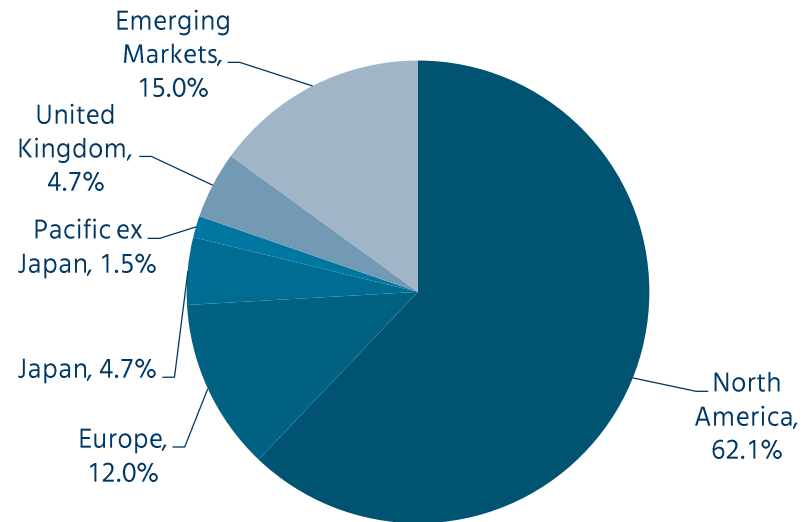
# Asset Allocation

- 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 Schroders, LGIM and EM portfolios.

## Portfolio by asset class



## Portfolio by Geography

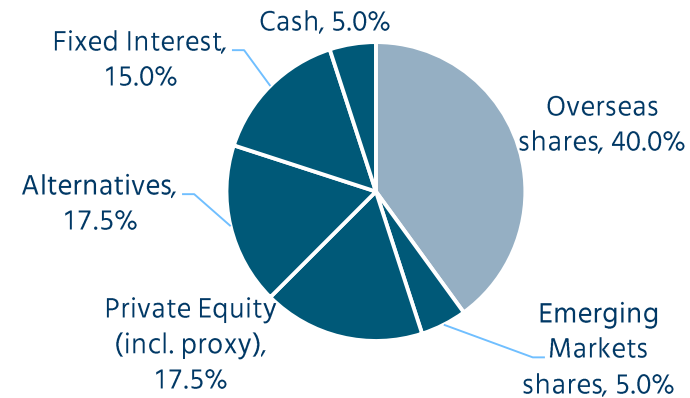




# Sector in Focus

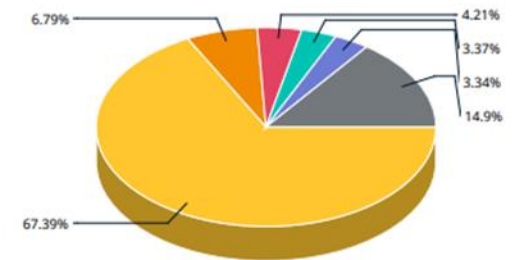
## Overseas Shares

- What are Overseas Shares?** Overseas Shares are a growth asset and can be defined as equity securities issued by entities listed on a public exchange. The sector is benchmarked against the MSCI World Index which is made up of 1,563 constituents across 23 Developed Markets countries. A breakdown of top 10, country weights and sector weights of the index are to the right. These do not necessarily reflect what is held in the NPDC Portfolio.
- Currency Hedging:** The return of Overseas Shares is impacted by currency movements. When the NZ dollar goes up, they fall in NZD terms (and vice versa). Currency hedging effectively neutralizes the impact of currency movements. This is done by buying contracts that will change in value to offset the currency return. The long term NPDC Overseas Shares allocation is 50% hedged.
- Role in the portfolio:** The primary purpose of Overseas Shares is to provide capital growth over the long-term, taking advantage of the equity risk premium.
- Allocation:** The long term Overseas Shares allocation is 40%. There is also an allocation (1.1%) as part of the proxy allocation while the Private Equity allocation is being built up.



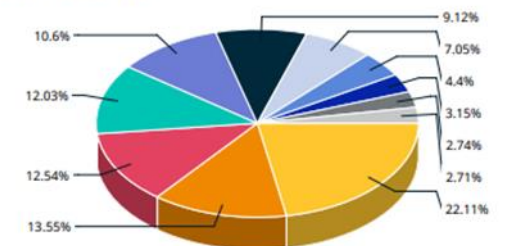
**Benchmark** MSCI World 50% Hedged

### COUNTRY WEIGHTS



United States 67.39% Japan 6.79% United Kingdom 4.21% France 3.37%  
Canada 3.34% Other 14.9%

### SECTOR WEIGHTS



Information Technology 22.11% Financials 13.55% Health Care 12.54%  
Consumer Discretionary 12.03% Industrials 10.6% Communication Services 9.12%  
Consumer Staples 7.05% Materials 4.4% Energy 3.15% Utilities 2.74%  
Real Estate 2.71%

### Top 10 Index Constituents

Company	Float Adj Mkt Cap (USD Billions)	Index Wt. (%)	Sector
APPLE	2,299.30	3.97	Info Tech
MICROSOFT CORP	1,941.03	3.35	Info Tech
AMAZON.COM	1,472.49	2.54	Cons Discr
FACEBOOK A	836.40	1.44	Comm Svcs
ALPHABET C	738.87	1.28	Comm Svcs
ALPHABET A	734.34	1.27	Comm Svcs
TESLA	521.93	0.90	Cons Discr
NVIDIA	495.26	0.86	Info Tech
JPMORGAN CHASE & CO	474.63	0.82	Financials
JOHNSON & JOHNSON	433.05	0.75	Health Care
<b>Total</b>	<b>9,947.29</b>	<b>17.18</b>	

# Sector in Focus

## Overseas Shares

- **NPDC Guardians’ Investment Beliefs:** Overseas Shares are managed with a passive or enhanced passive (low active risk) approach, reflecting the Guardians’ belief that developed equity markets are relatively efficient.
- **Passive Investment:** Passive investing is investing in a strategy that aims to match the index return by tracking/replicating the index. This type of management is contrary to active management which aims to outperform a market index by holding larger amounts in securities that a manager expects to outperform, and fewer in those expected to underperform.

- **Overseas Shares Managers :**

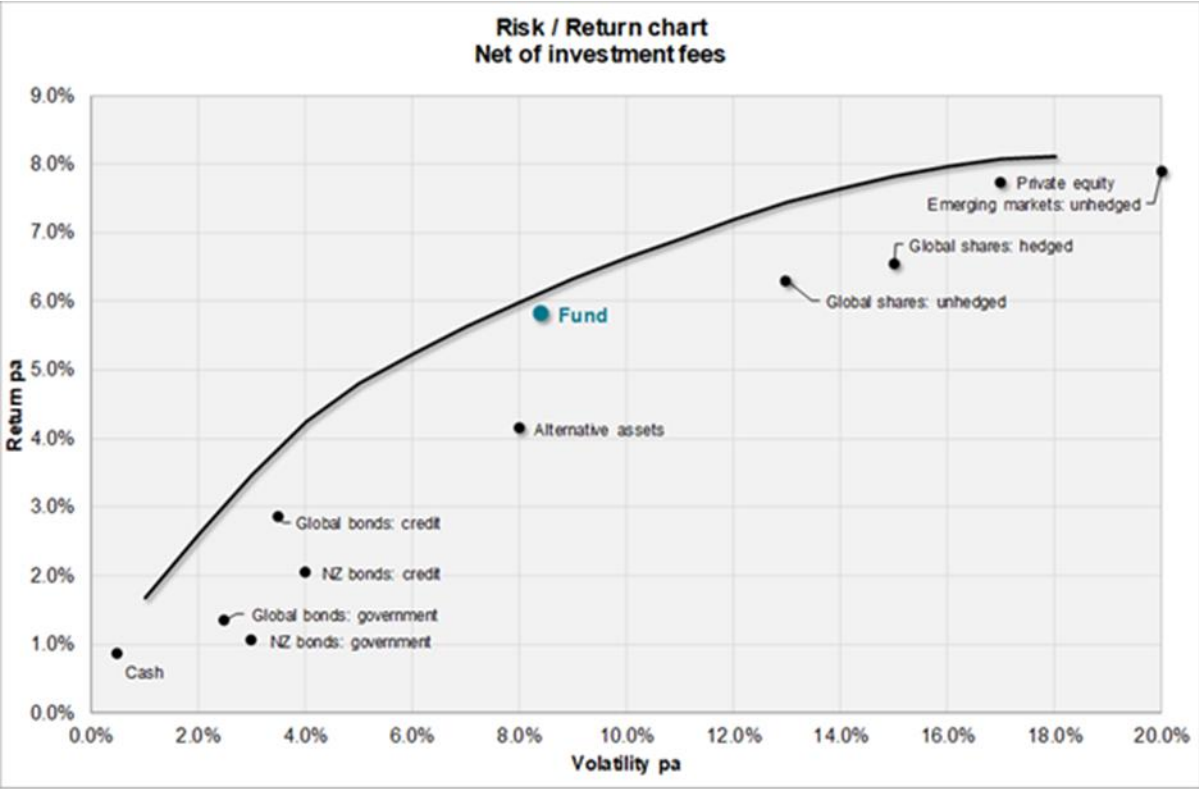
Weight	Manager	Approach	Rating	ESG Rating
50%	LGIM	Passive	A	ESG1
50%	Schroders	Low Active Risk	B+	ESG2

- **LGIM:** LGIM is a passive manager within the portfolio and has Mercer’s highest ESG rating reflecting their strong approach to stewardship (voting and engagement).
- **Schroders:** Schroders use a low active risk approach. This type of strategy is modestly active meaning it only takes small active positions in securities.
- **Schroders strategy change:** The underlying Schroders strategy recently changed. This change has resulted in increased Environmental, Social, and Governance (ESG) integration within the portfolio by ranking and adjusting the portfolio weight of a company in accordance with Schroders sustainability score. The strategy also has an extended exclusions list beyond Tobacco and Controversial Weapons that includes Adult Entertainment, Alcohol, Fossil Fuels, and Gambling.

Gross Returns	1 MONTH(%)	3 MONTHS(%)	12 MONTHS(%)	3 YEARS P.A. (%)
Overseas Shares	4.2	8.2	33.8	14.1
Benchmark - MSCI World Index 50% Hedged	4.1	7.8	32.1	13.3
Excess	+0.1	+0.4	+1.7	+0.8

# 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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