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Waitara Perpetual Community Fund

Quarterly Report

Quarter Ending 31 March 2023

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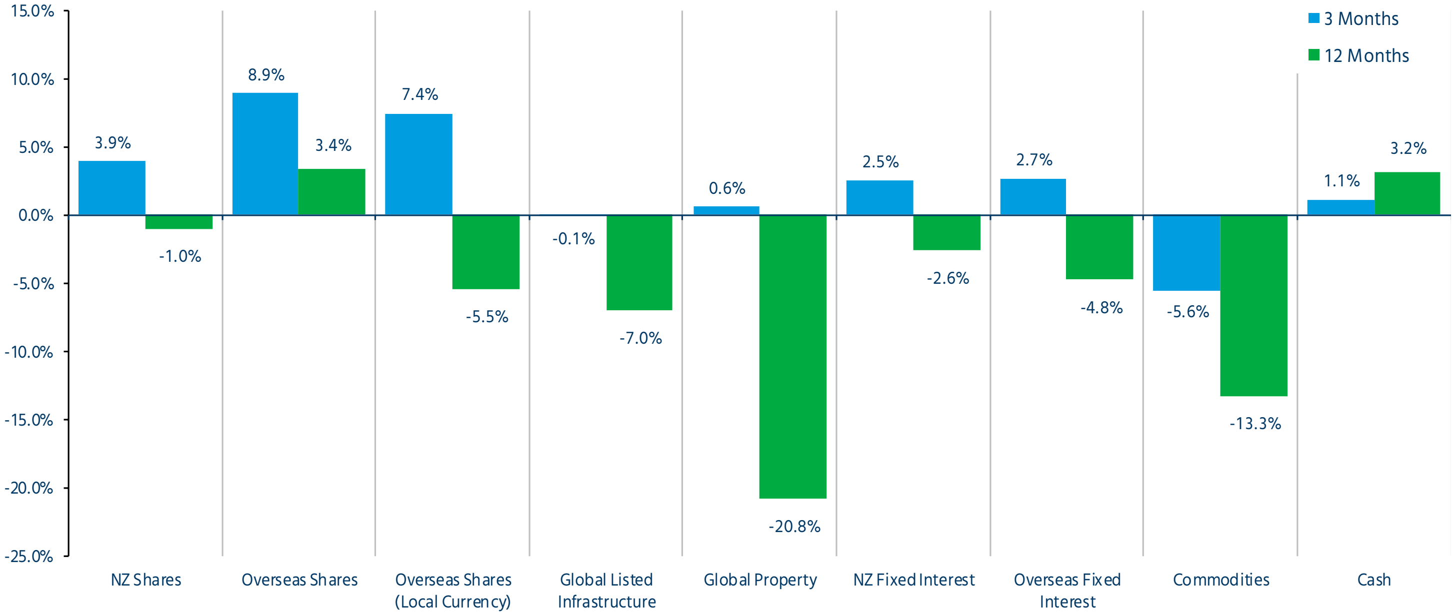
ECONOMY & MARKETS



Q1 started positively as capital markets experienced their strongest January gains in recent years. The 'risk-on' sentiment resumed as inflation continued to moderate in developed regions (with easing energy and food prices the most obliging) and peak interest rates moved back into focus. In the US, headline inflation cooled for a sixth successive month to 6.5% year-on-year (y/y) in December from 7.1% a month earlier. The market upswing was also supported by China's economic re-opening and the possibility of further fiscal and monetary support from central government. In fixed income, bond yields fell after encouraging news on the inflation front.

Q1's strong early advances were slightly upended in February as resilient economic data led many to reassess their expectations for both the peak in interest rates and the subsequent pace of rate cuts. Labour market data was particularly damning, with a half-decade low in the US unemployment rate and strong US jobs growth leaving investors second-guessing the prevailing disinflation narrative. US payrolls increased by over half a million in January, far exceeding concensus expectations of around 200,000 and nearly doubling December's total, while US retail sales also surprised to the upside – posting an increase of 3.2% month-on-month. In the UK and Eurozone, risks of a deep recession decreased significantly on the back of falling energy prices and an improved economic outlook. Elsewhere, a re-escalation in US-China tensions and a resurgent US dollar posed a slight mid-quarter headwind for emerging market equities.

In a dramatic close to Q1, the collapse of Silicon Valley Bank (SVB) and resulting concerns around the financial sector more broadly, hit bank shares hard in March. SVB found themselves in hot water after they were forced to sell their investments at a loss to cover large depositor outflows. US federal regulators were ultimately forced to intervene by setting up a short-term lending facility to guarantee deposits and limit the risk of contagion on other regional banks. Government bonds rallied as a flight to safety trade occurred, while the wider impact on equity markets was largely restricted to the Financial sector. Despite stresses in the banking industry, the US Federal Reserve (Fed) forged ahead with raising rates by a quarter percentage point for the second time in Q1 – bringing it to a target range of 4.75% – 5% at quarter end. Regardless of another turbulent ride, all major asset classes posted healthy returns in Q1 except global listed infrastructure and commodities (with the latter negatively impacted by a dip in energy prices).

Significant Recent Developments Include:

- The fallout of Silicon Valley Bank (SVB) consumed all major headlines towards the tail end of Q1. At the heart of SVB's downfall was the poor management of their interest rate risk and the extreme reliance on institutional/venture capital funding rather than traditional retail deposits. Ultimately, SVB found itself with a highly concentrated customer base and sitting on a large bond portfolio relative to its deposits (which left the bank facing large unrealised losses due to the dramatic rise in yields since 2021). As tighter financial conditions developed over the last year, several SVB customers (many of whom are technology start-ups) hit financial troubles and began to withdraw funds. SVB's unrealised losses (as a result of large scaled monetary tightening) would not have necessarily been a problem if their bonds were held to maturity. However, fronting extreme liquidity pressure, SVB were forced to sell their available-for-sale (AFS) bond holdings at hefty losses (approx. $1.8 billion) in order to cover large depositor outflows. After a failed bid to raise capital, liquidity concerns quickly turned into solvency concerns. US federal regulators were ultimately required to intervene by shutting down the bank and announcing steps to protect SVB depositors.

With other US regional banks liquidity positions coming into question, the Fed also announced a short-term lending facility where it will offer loans of up to 1 year to banks and other deposit-taking institutions (backed by collateral). This move reduced the risk of contagion as banks will now be able to meet depositor withdrawals without being forced to sell their bond portfolios at such steep losses. SVB was the 16th largest bank in the US and is the largest bank to fail since the financial crisis of 2008.

- Markets were somewhat taken aback mid-quarter after data showed that the US economy wasn't exactly keeping to the disinflationary story that many had been articulating. Inflation figures continued to subside in developed regions, however, economic data otherwise remained strong. US payrolls increased by half a million in January, nearly double December's total and almost triple the consensus forecast of 185,000. This left the unemployment rate at a 53-year low of 3.4%. When asked about the enduring strength of the US labour market, Fed Chair Jerome Powell stated that the Fed may have to raise rates "more than is priced in" by financial markets. An annual increase in the personal consumption expenditures (PCE) index (the Fed's preferred measure of inflation) and strong US retail sales also supported recent data which showed inflation is falling at a slower pace than investors had been hoping. March saw the release of another robust employment report for February (albeit taking a back seat to banking sector troubles), with the US economy adding 311,000 new jobs and the unemployment rate still hovering near a multi-decade low. This data would ordinarily be considered as reflecting a healthy economy, however, in the current environment, it bears the cost of potentially stickier inflation and higher long-term rates. Despite the ongoing signs of resilience in the US economy, the general consensus is that further rate hikes from the Fed will be limited.

- A few significant developments unfolded in New Zealand during Q1. To the surprise of many, New Zealand's now former Prime Minister, Jacinda Ardern, announced her resignation in January quoting that she "no longer had enough left in the tank to do the job justice." Seasoned politician Chris Hipkins took the reins in February and will contest opposition leader Christopher Luxon for the top job in this year's election, which is set to take place on the 14th of October. Market reaction was largely muted in response to the news. Any reaction to a shift in the balance of power may come closer to October with many of the opinion that Hipkins' chances will hinge on the state of the economy come polling day. Changes at the helm aside, Hipkins was called into action early after New Zealand was hit with devastating flooding and weather events in February. The trivialities of financial markets don't compare to what many of the impacted New Zealander's are facing, however, the lengthy rebuild and the expected cost of recovery is likely to pile on pricing pressures and potentially prolong the RBNZ's monetary tightening regime (which is already a pain point for many New Zealand households). The RBNZ raised the official cash rate (OCR) by 50bps to 4.75% in February quoting that "it is too early to accurately assess the monetary policy implications of these weather events, given that the scale of destruction and economic disruption are only now becoming evident." At the time of writing, the RBNZ has surprised the nation by increasing the OCR by another 50bps (bringing it to 5.25%), stating that inflation is still too high, and employment is beyond sustainable levels.

Trans-Tasman Equities

Australasian share markets performed positively over Q1, with the S&P/NZX 50 and the S&P ASX 200 (local currency) up 3.9% and 3.5% respectively. The key release in New Zealand was Q4 CPI, which was close to market expectations of 7.2% y/y but undershot the Reserve Bank of New Zealand's (RBNZ) estimate of 7.5% y/y. Tradeable and non-tradeable inflation both registered smaller increases from the prior quarter, with food prices still the main contributor to annualised CPI figures (up 11%). The RBNZ raised the OCR by 50bps to 4.75% in February, noting signs of easing pricing pressures but elevated near-term inflation expectations. The Reserve Bank of Australia (RBA) issued two 25bp rate rises in Q1 (bringing the cash rate to 3.6% at quarter-end). The RBA hinted at a pause in the minutes from March's meeting which stated that "members agreed to reconsider the case for a pause at the following meeting, recognising that pausing would allow additional time to reassess the outlook for the economy." Australasian earnings results were mixed across the quarter, with good revenue growth largely being offset by increased operating expenses and interest costs.

Global Equities

Global equities looked past inflationary pressures and banking sector turmoil to make rather impressive gains in Q1. The MSCI World finished the quarter up 7.4% (in local currency) and 8.9% (in unhedged NZD). Despite posting strong gains, the quarter wasn't exactly smooth sailing. Resilience in the US economy, the collapse of SVB and further financial disruption in Europe led to a mid-quarter dip before recovering to finish March strongly. Growth heavily outperformed value, with the NASDAQ up 17% for the quarter as investor appetite for big-name tech stocks returned. At the sector level, Information Technology (21.1%) and Consumer Discretionary (16.2%) were the best performing sectors, while Financials (-1.8%) and Energy (-3.5%) were the largest detractors.

Listed Property

Listed property made a modest gain of 0.6% during the quarter. After a strong start to the year, negative returns in February (-3.5%) and March (-3.7%) nearly cancelled out all the progress made in January. Quarterly returns were generally defined by modestly declining inflation rates and speculation of an end to the Fed's rate-hiking cycle. However, the recent failure of several regional US banks and Credit Suisse triggered concerns about the impacts for commercial real estate markets (especially given their dependence on debt market funding).

Listed Infrastructure

Listed infrastructure had a mixed Q1. Infrastructure assets initially trended higher after better-than-expected US GDP growth in the December quarter, however, dipped in February on the back of strong labour market data which fuelled fears of higher-for-longer interest rates. A strong pull back in March wasn't enough to avoid ending the quarter narrowly in the red, with the FTSE Global Core Infrastructure 50/05 (Hedged NZD) Index down -0.1%. At a sub-sector level, airports and toll roads performed strongly after seeing positive trends in passenger traffic and healthy earnings numbers.

Global Bonds

Global bonds were positive over Q1, with the Bloomberg Global Aggregate Index (NZD Hedged) up 2.7% and slightly outperforming the domestic fixed income market. Strong economic data posed a mid-quarter headwind for government bonds as markets began to unwind their expectations for rate cuts. However, the collapse of SVB and the aftermath that followed saw a sharp rally in government bond markets as investors rushed to move their capital to largely risk-free assets. Amongst the fallout, short-dated US Treasury yields experience their biggest one-day drop since the financial crisis of 2008. Longer-dated US yields also moved lower, with the 10-year US Treasury yield ending the quarter at 3.48% (down from 3.83%). Federal Reserve (Fed) Chair Jerome Powell noted that the recent banking turmoil had the "equivalent" impact of at least one quarter-point rate increase as banks naturally reduce lending and credit becomes less easy to come by. This comment was seen as further evidence that the Fed may be near a pause in its monetary tightening regime. Other central banks raised key policy rates during the quarter, including the European Central Bank and Bank of England. The 10-year yields on German and UK Government debt ended the quarter at 2.31% and 3.49% respectively.

Commodities

Commodities, as measured by the Bloomberg Commodity Index (Hedged NZD), were the only major asset class to experience negative returns in Q1 (-5.6%). Energy was the worst performing component of the index, while precious and industrial metals achieved strong price gains. Within energy, oil prices were down -5.7% and ended the quarter at $74 a barrel. Within precious metals, gold soared 8.8% over the quarter on the back of uncertainty in the banking sector and a sharp decline in real yields.

New Zealand Bonds and Cash

Domestic fixed income posted a 2.4% gain in the Q1. Local bond yields fluctuated heavily during the quarter, with the New Zealand 10-year government bond yield initially moving 30bps lower in January to 4.18% before rising in February to 4.64%, only to fall again in March (finishing the quarter at 4.20%). Looking at bond market volatility on a month-to-month basis, there clearly remains considerable uncertainty around inflation and economic outcomes in the New Zealand market. Cash, represented by the S&P/NZX Bank Bills 90-Day Index, increased 1.1% in Q1.

Currency

The NZD was weaker against most major currencies over Q1. An early USD downturn (driven by the stronger risk appetite backdrop) initially drove the NZD/USD 2.2% higher in January, before falling back -4.1% in February on renewed US rate-rise bets. The NZD/USD ultimately ended the quarter down -1.1% as March saw the expectations for further rate hikes from the Fed diminish significantly amid SVB and other regional US banks entering administration. The USD was weaker against most other G-10 peers and emerging market currencies, except the Australian dollar. The NZD fell -3.8% and -2.8% against the GBP and EUR respectively, while making a modest 0.2% gain on the AUD as the RBA softened its policy guidance.

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	3.9	-1.7	-	0.8
Benchmark	4.2	-2.9	-	0.6
Excess	*-0.3*	*+1.1*	-	*+0.1*

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	3.7	-1.7	7.2	5.2
Benchmark	3.9	-2.8	5.7	4.6
Excess	*-0.2*	*+1.1*	*+1.5*	*+0.6*

Mercer Growth

Gross Returns – Before fees & taxes	3 Months (%)	1 Year (%)	3 Years (% p.a)	5 Years (% p.a)
Mercer Growth	4.2	-1.8	10.0	6.4
Benchmark	4.5	-3.0	8.6	6.0
Excess	*-0.3*	*+1.2*	*+1.4*	*+0.4*

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	14.8
Trans Tasman Shares	14.0	14.8
Overseas Shares	30.3	29.0
Overseas Shares Low Volatility	4.6	4.8
Overseas Shares Small Caps	3.6	3.5
Emerging Market Shares	4.5	4.6
Overseas Shares	43.0	41.9
Listed Property	3.3	3.1
Unlisted Property	3.3	3.3
Listed Infrastructure	3.3	3.2
Unlisted Infrastructure	3.3	3.3
Real Assets	13.0	12.9
Overseas Sovereign Bonds	8.0	6.6
NZ Sovereign Bonds	7.5	7.5
Global Credit	6.0	6.1
Other Fixed Income	6.0	7.8
Fixed Income	27.5	28.0
Cash	2.5	2.3
Cash	2.5	2.3
Total	100.0	100.0
Growth Assets	70.0	69.7
Defensive Assets	30.0	30.3
Overseas Shares Currency Hedging	**50%**	**50%**

Transaction Summary – Quarter ended 31 March 2023

	Opening Balance ($)	Applications ($)	Redemptions ($)	Investment Gain / (Loss) ($)	Closing Balance ($)
Mercer Balanced	9,154,779	-	-	309,808	9,464,587
Mercer Growth	89,102,307	-	-	352,867	9,455,173
Total	**18,257,085**	**-**	**-**	**662,674**	**18,919,760**

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)*
EQUITIES					
Mercer Trans Tasman Shares**	4.1	-1.0	8.9	9.2	9.7
Excess	*+0.2*	*+0.0*	*+1.5*	*+0.9*	*+0.3*
Mercer Overseas Shares Plus	7.2	4.9	14.6	10.7	11.9
Excess	*-1.7*	*+1.5*	*+0.3*	*-0.4*	*+0.6*
Mercer Hedged Overseas Shares Plus	5.1	-9.3	16.0	6.0	9.5
Excess	*-1.7*	*+1.9*	*+0.2*	*-0.6*	*+0.3*
Mercer Socially Responsible Global Shares*	6.4	2.0	12.8	9.9	10.6
Excess	*-2.5*	*-1.3*	*-1.5*	*-1.2*	*-1.2*
Mercer Hedged Socially Responsible Global Shares*	4.3	-12.7	11.3	5.8	6.0
Excess	*-2.5*	*-1.5*	*-2.9*	*-1.5*	*-1.5*
Mercer SR Overseas Shares Index*	9.6	3.0	-	-	9.1
Excess	*+0.5*	*-0.0*	*-*	*-*	*-0.6*
Mercer Hedged SR Overseas Shares Index*	7.4	-11.1	-	-	5.2
Excess	*+0.4*	*+0.4*	*-*	*-*	*-0.3*
Mercer Overseas Small Companies	6.2	16.9	28.0	13.8	13.4
Excess	*+0.7*	*+15.7*	*+12.0*	*+5.9*	*+3.7*
Mercer Emerging Markets	5.5	0.3	6.5	2.7	7.3
Excess	*+0.3*	*+0.6*	*+0.2*	*+0.5*	*+0.6*
Mercer Low Volatility	4.3	6.4	8.7	7.6	7.9
Excess	*+1.0*	*+1.3*	*+1.4*	*-0.9*	*+0.2*
REAL ASSETS					
Mercer Unlisted Property	1.5	9.5	12.4	9.5	10.2
Excess	*+1.7*	*+3.3*	*+5.9*	*+2.3*	*+3.5*
Mercer Listed Property	1.0	-24.3	6.9	1.9	3.5
Excess	*+1.0*	*-0.2*	*+0.5*	*+2.1*	*+2.6*
Mercer Listed Infrastructure	0.9	-8.1	8.5	6.3	6.9
Excess	*+1.2*	*-0.7*	*-1.0*	*+0.3*	*+0.2*
Mercer Unlisted Infrastructure	2.4	11.7	18.1	12.8	13.4
Excess	*+0.1*	*+2.3*	*+11.7*	*+3.7*	*+5.7*
FIXED INTEREST					
New Zealand Sovereign Bonds	3.1	-2.1	-2.6	0.7	1.3
Excess	*+0.6*	*+0.5*	*+1.2*	*+0.6*	*+0.5*
Mercer Overseas Sovereign Bonds	2.1	-3.1	-1.4	1.5	2.2
Excess	*-0.9*	*+2.6*	*+2.3*	*+1.1*	*+1.2*
Mercer Global Credit	2.0	-6.6	-1.0	0.7	1.6
Excess	*-0.9*	*-0.4*	*+0.3*	*-0.0*	*-0.1*
Mercer Absolute Return Bonds*	1.7	0.9	2.6	1.8	1.8
Excess	*+0.2*	*-2.2*	*+1.3*	*+0.2*	*+0.3*
Mercer Short Term Bonds*	1.5	-	-	-	1.9
Excess	*+0.0*	*-*	*-*	*-*	*-1.2*
Mercer Cash	1.2	3.4	1.5	1.8	2.0
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: Lower	Rebalancing Ranges: Upper	31/03/23 Value	Sector Allocation	Heat Map
Global Equities - Developed	38.5%	25.5%	60.5%	$7,072,206	37.4%	
Global Equities - Emerging	4.5%			$862,363	4.6%	
Trans-Tasman Equities	14%	2.5%	25.5%	$2,807,882	14.8%	
Real Assets	13%	3.5%	26%	$2,447,649	12.9%	
Alternatives	0%	0%	10%	$0	0.0%	
Total Growth Assets	**70%**	**40%**	**90%**	**$13,190,100**	**69.7%**	
Global Fixed Income	20%	7%	48%	$3,870,604	20.5%	
New Zealand Fixed Income	7.5%			$1,417,468	7.5%	
Cash	2.5%	0%	20%	$441,587	2.3%	
Total Income Assets	**30%**	**10%**	**60%**	**$5,729,660**	**30.3%**	
Total	**100%**			**$18,919,760**	**100.0%**	

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 31 March 2023.

Document	Breaches
MITNZ SIPO	There were no breaches reported in the quarter.
Investments held in MITNZ	**Breaches**
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

BRIAN KEARNEY
t: +64 9 928 3193
e: brian.l.kearney@mercer.com

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