NPDC Perpetual Investment Fund

4th Quarterly Report for the year ending 30 June 2020

MERCER

Contents

MERCER

Fund Overview

welcome to brighter

Fund Overview

Fund size
$292.1m

Returns (after fees and taxes)

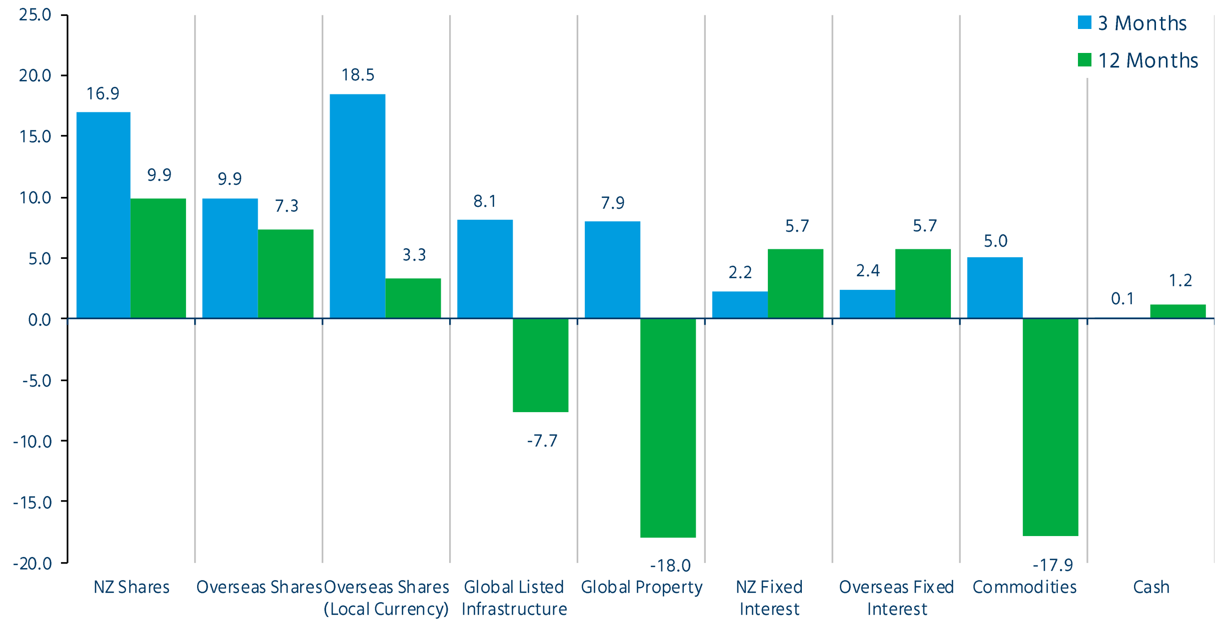
Since inception (Nov 2004)	5 years	1 year	3 months
6.4%p.a.	6.5%p.a.	2.4%	7.1%

Distributions to Council (Release payments)

Since inception (Nov 2004)	5 years	1 year
$221.5m	$40.3m	$8.8m

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



- Despite the ongoing global pandemic, markets delivered sharply positive returns in the second quarter of 2020. April provided a strong rebound for markets, with US equity markets having their best performance since 1987, while the prospect of the gradual re-opening of various economies sustained the rally in risk assets off their March nadir. Market sentiment remained more focused on an eventual economic rebound than the weak near-term picture - large drops in global GDP and drastic increases in unemployment are expected before any true return to normality.

- Positive market sentiment continued throughout May; investors seemingly brushed aside re-infection risks and political turmoil in the US, banking on a rapid return to economic normality. The VIX index, a measure of expected US equity market volatility and widely considered a gauge of general market fear, dropped to its lowest level since late February, while the MSCI All Countries World Index (a measure of global equity performance) rose to within 10% of its highs touched earlier in the year.

- Global equity markets extended their remarkable gains throughout June. Developed equities were up +2.4% over the month, and the NZ market had a remarkable month, up +5.3%. Despite the market gains, the end of the quarter was marked by rising re-infection rates in large economies such as the US, Brazil and India, with government bonds falling modestly as investors re-trained their focus on the economic fallout from the virus. Global cases of Covid-19 topped 10 million, with over 500,000 deaths at quarter-end, as the rate of new daily cases started to increase in many parts of the world towards the end of the month.

- Domestically, the Reserve Bank of New Zealand (RBNZ) was highly active, bolstering domestic monetary stimulus with an increase in its quantitative easing (QE) programme from $33bn to a maximum of $60bn over the next 12 months. Fiscal support was also notable, where the NZ Government announced a large fiscal bill in the form of the Budget 2020, including a sizeable $50bn relief package to address the fallout from Covid-19. This was on top of the $12.1bn support package initially outlined in March. Real economic benefits are not expected to flow through immediately, thus improving the speed of the recovery rather than reducing the depth of the downturn.

Market Outlook

- As the second half of the year begins, the global economy continues to look increasingly stressed by the economic fallout of virus-induced lockdowns. In their June forecast, the International Monetary Fund (IMF) has projected global growth at -4.9% for 2020, a sizeable -1.9% lower than the April 2020 World Economic Outlook forecast. The global pandemic continues to have an increasingly severe impact on activity than initially anticipated, with the recovery projected to be more gradual than previously forecast. Emerging markets are projected to outperform, with a -3.0% annual contraction versus -8.0% for their advanced developed counterparts.

- Fiscal and monetary stimulus continues to provide a partial floor to markets. Unconventional monetary policy is now widespread, with the continuation of quantitative easing packages from many central banks including the Reserve Bank of New Zealand (RBNZ), the US Federal Reserve (the Fed), and the European Central Bank (ECB). Cash rates remain at historically low levels, and continue to sit in negative territory for many nations, particularly in Europe.

- The RBNZ has reiterated its forward guidance that the OCR will remain at 0.25% until early 2021, although caveated that all policy options, including a negative OCR, are possible from that point onwards. Additionally, the Reserve Bank of Australia (RBA) has decided to implement yield curve control (effectively capping long term interest rates), targeting the yield on 3-year Australian Government bonds at 25 basis points. The Fed decided against implementing a similar programme at this stage, with its officials considering the benefits of such a tool to be “an open question”.

- The NZ economy continues to face headwinds, notably within the tourism sector, despite relative success in removing the spread of Covid-19. GDP in the first quarter fell -1.6% quarter-on-quarter, a sharper drop than the market expected, although was a less severe drop than the RBNZ May forecast of a -2.4% contraction. Fiscal support in the form of the 2020 Budget is projected to be highly stimulatory, offsetting a large degree of the Covid-19 fallout and cumulatively worth around 20% of GDP. Stimulus on this scale will result in an increased debt to GDP ratio, with net debt expected to peak at 53% of GDP (from around 20% today). While this level is high by historic levels, it is relatively low by global standards (OECD average is c.100%). Additionally, the NZD has found a tailwind in the form of central bank liquidity and a shift to a more risk-on environment. This recent strength is likely to put pressure on export earnings, with an added flow-on effect of a diminished inflation outlook, compounding an already globally deflationary environment.

Fund Performance

welcome to brighter

Fund performance

- The Fund returned 7.1% for the 3 month period to 30 June 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 year and is line for the quarter.

	5 years (p.a.)	1 year	3 months
Fund return (net of fees)	6.5%p.a.	2.4%	7.1%
Value add (total portfolio including legacy PE)			
• Relative to CPI + 3.3%	+1.8%	-2.4%	+6.7%
• Relative to benchmark	n/a	-2.6%	0.0%

Sector Performance – (3 Months)

Gross Returns	$ Value ($M)	Weighting %	Return %	Excess over benchmark %	Return attribution[1]
Overseas Shares (incl. PE Proxy)	**128.0**	**43.8**	**13.1%**	**-0.9**	**5.6%**
Emerging Markets	**14.6**	**5.0**	**9.6%**	**+0.9**	**0.5%**
Alternatives[3]	**53.6**	**18.3**	**5.4%**	**+3.7**	**1.0%**
Mercer Unlisted Property	8.0	2.7	3.9%	+8.7	
Mercer Unlisted Infrastructure	8.8	3.0	13.6%	+21.9	
Mercer Listed Property	5.8	2.0	10.4%	+1.8	
Mercer Listed Infrastructure	5.8	2.0	8.0%	-0.4	
Fund of Hedge Funds	25.1	8.6	1.9%	-0.1	
Private Equity	**41.2**	**14.1**	**-3.7%**	**-6.0**	**-0.5%**
Fixed Interest	**38.0**	**13.0**	**5.5%**	**+3.1**	**0.7%**
Mercer Overseas Sovereign Bonds	14.8	5.1	2.3%	+1.6	
Mercer Global credit	23.2	7.9	7.8%	+1.5	
Cash	**16.8**	**5.7**	**0.2%**	**+0.1**	**0.0%**
Total Portfolio	**292.1**	**100.0%**	**7.2%**		**7.2%**

All sectors contributed positively over the quarter with the exception of 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
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 %	Return %	Excess over benchmark %	Return attribution[1]
Overseas Shares (incl. PE Proxy)	**128.0**	**43.8**	**3.4%**	**+0.1**	**1.6%**
Emerging Markets	**14.6**	**5.0**	**1.7%**	**+0.9**	**0.2%**
Alternatives[3]	**53.6**	**18.3**	**-1.2%**	**-7.8**	**-0.2%**
Mercer Unlisted Property	8.0	2.7	2.7%	+2.8	
Mercer Unlisted Infrastructure	8.8	3.0	11.4%	+5.6	
Mercer Listed Property	5.8	2.0	-10.6%	+5.6	
Mercer Listed Infrastructure	5.8	2.0	-5.5%	+0.0	
Fund of Hedge Funds	25.1	8.6	-3.3%	-0.1	
Private Equity	**41.2**	**14.1**	**0.6%**	**-6.2**	**0.1%**
Fixed Interest	**38.0**	**13.0**	**6.9%**	**+1.2**	**1.0%**
Mercer Overseas Sovereign Bonds	14.8	5.1	6.4%	+0.5	
Mercer Global credit	23.2	7.9	6.3%	+0.1	
Cash	**16.8**	**5.7**	**1.5%**	**+0.3**	**0.1%**
Total Portfolio	**292.1**	**100.0**	**2.8%**		**2.8%**

All sectors contributed positively over the year with the exception of Alternatives

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)

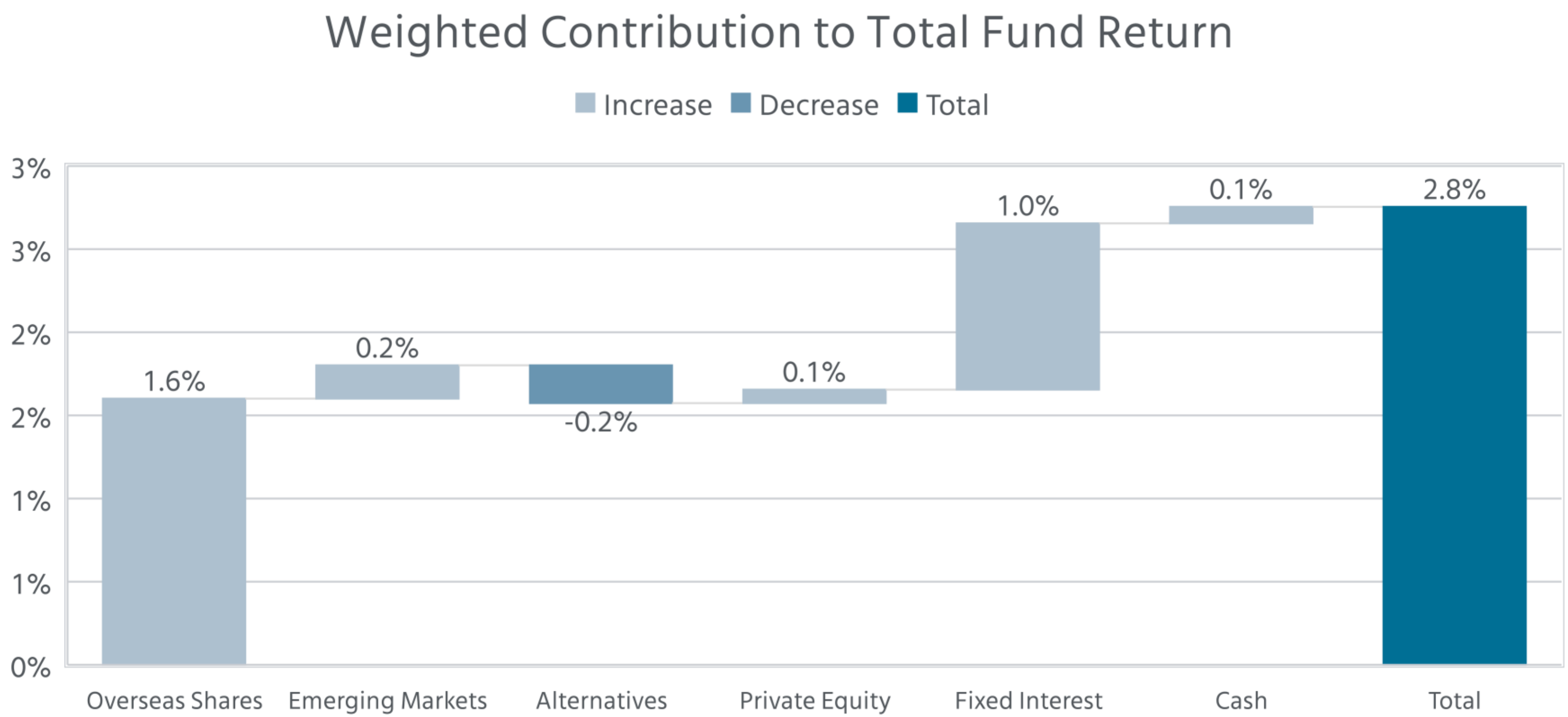
Gross Returns	$ Value ($M)	Weighting %	Return %	Excess over benchmark %	Return attribution[1]
Overseas Shares (incl. PE Proxy)	**128.0**	**43.8**	**7.1%**	**-0.0**	**3.3%**
Emerging Markets	**14.6**	**5.0**	**8.9%**	**+1.1**	**0.6%**
Alternatives[3]	**53.6**	**18.3**	**3.7%**	**-2.2**	**0.9%**
Mercer Unlisted Property	8.0	2.7	7.4%	+2.6	
Mercer Unlisted Infrastructure	8.8	3.0	10.8%	+5.2	
Mercer Listed Property	5.8	2.0	4.1%	+5.4	
Mercer Listed Infrastructure	5.8	2.0	5.4%	+0.2	
Fund of Hedge Funds	25.1	8.6	0.3%	+0.3	
Private Equity	**41.2**	**14.1**	**4.0%**	**-6.1**	**0.6%**
Fixed Interest	**38.0**	**13.0**	**5.7%**	**+0.7**	**0.7%**
Mercer Overseas Sovereign Bonds	14.8	5.1	6.1%	+0.8	
Mercer Global credit	23.2	7.9	5.2%	+0.1	
Cash	**16.8**	**5.7**	**2.1%**	**+0.4**	**0.1%**
Total Portfolio	**292.1**	**100.0**	**6.2%**		**6.2%**

All sectors contributed positively since inception

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)



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

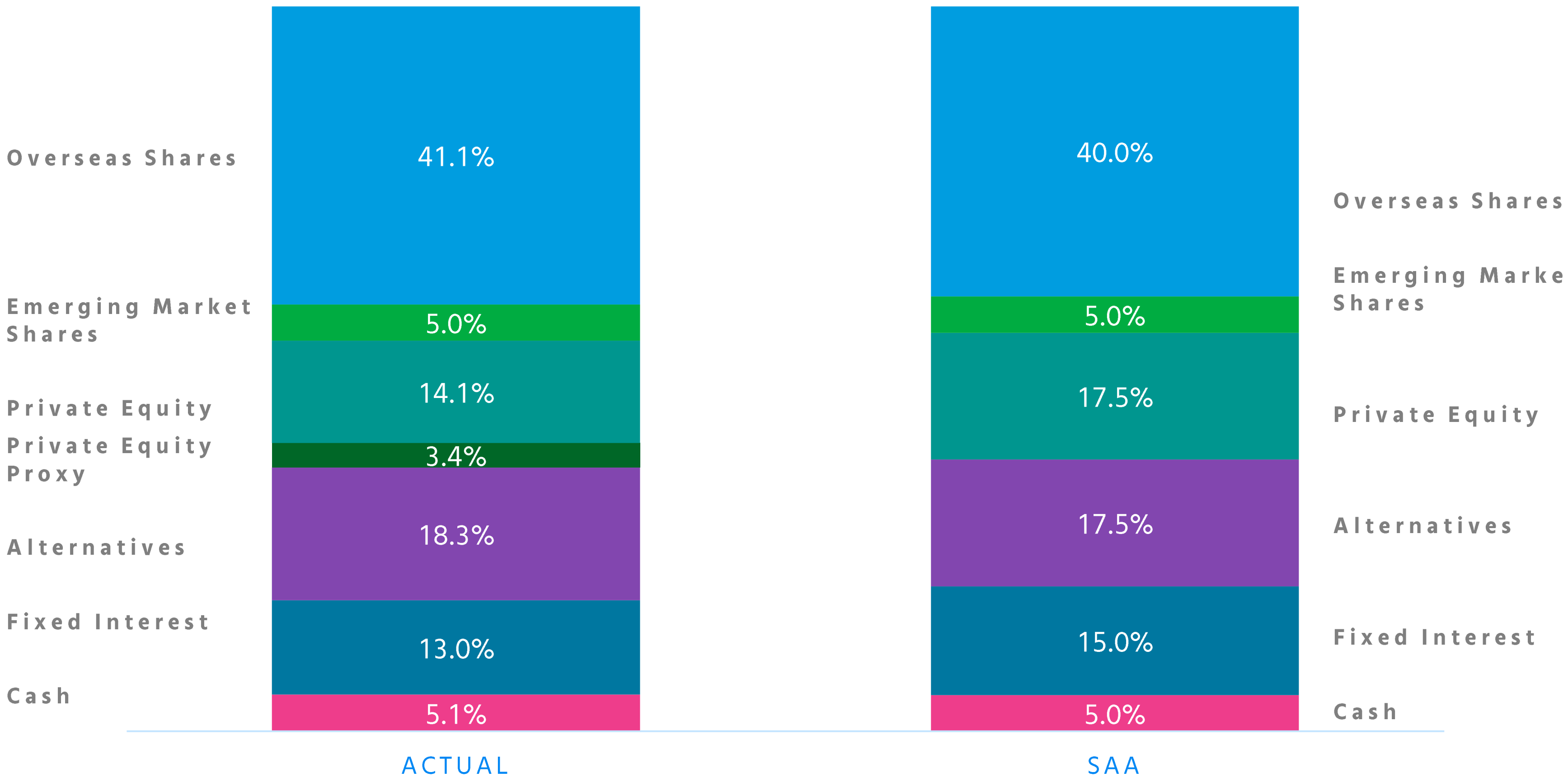
MERCER

MERCER

Asset Allocation

welcome to brighter

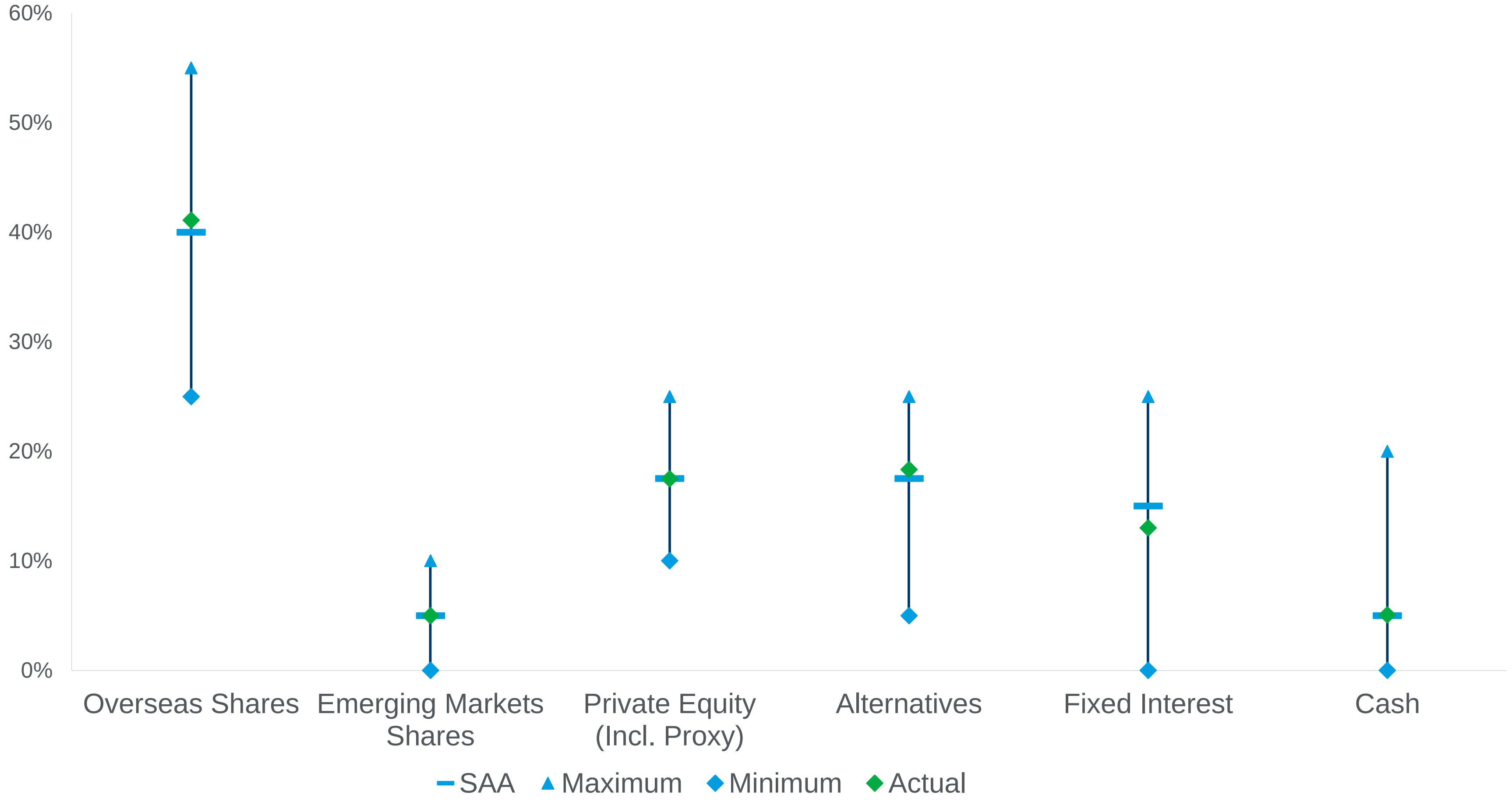
ASSET ALLOCATION



- 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 2.7% Listed Overseas Shares and 0.7% Cash.
- The target hedging ratio for Overseas Shares is now 50% (effective 31 August 2019)

Asset allocation

Ranges

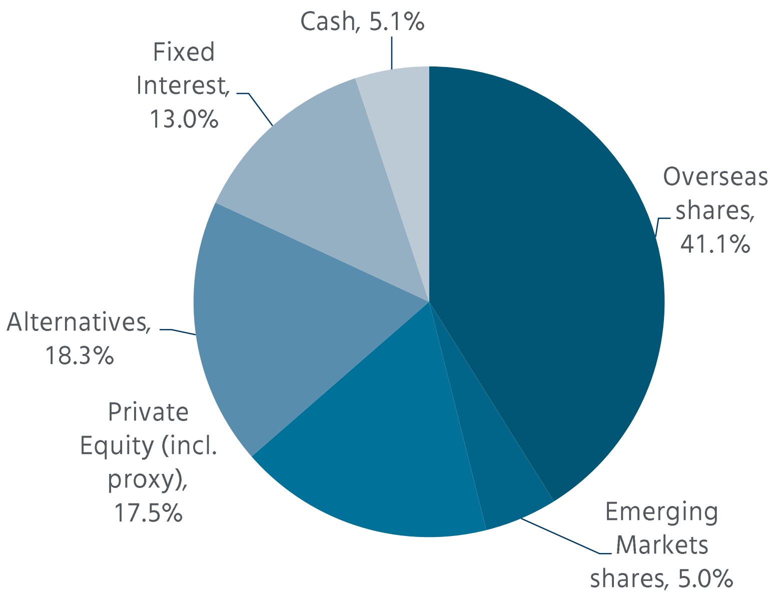


- All asset class allocations are within the ranges specified in the SIPO.

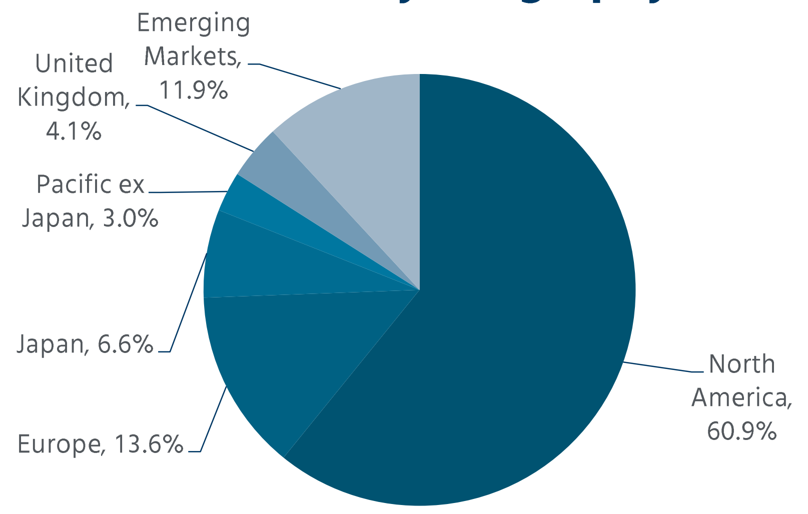
Asset allocation

- 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



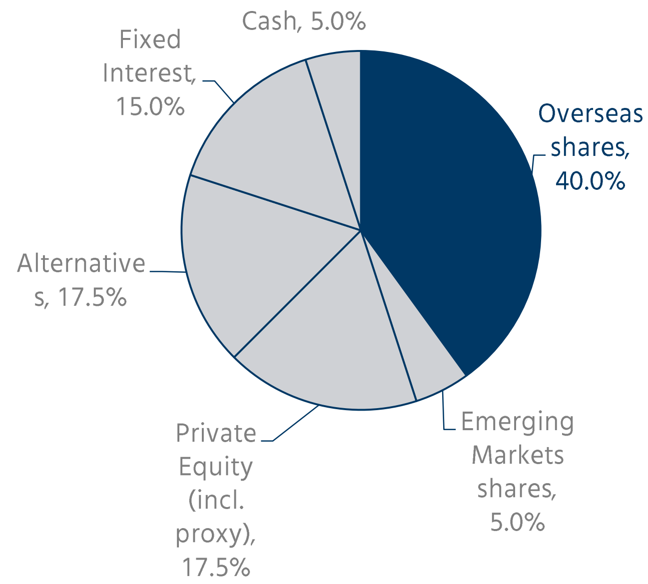
Sector in focus
Overseas shares

- **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 1,603 constituents across 23 Developed Markets countries.

- **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 derivatives that will change in value to offset the currency return. The long term NPDC Overseas Shares allocation is 50% hedged (currently 49.4%).

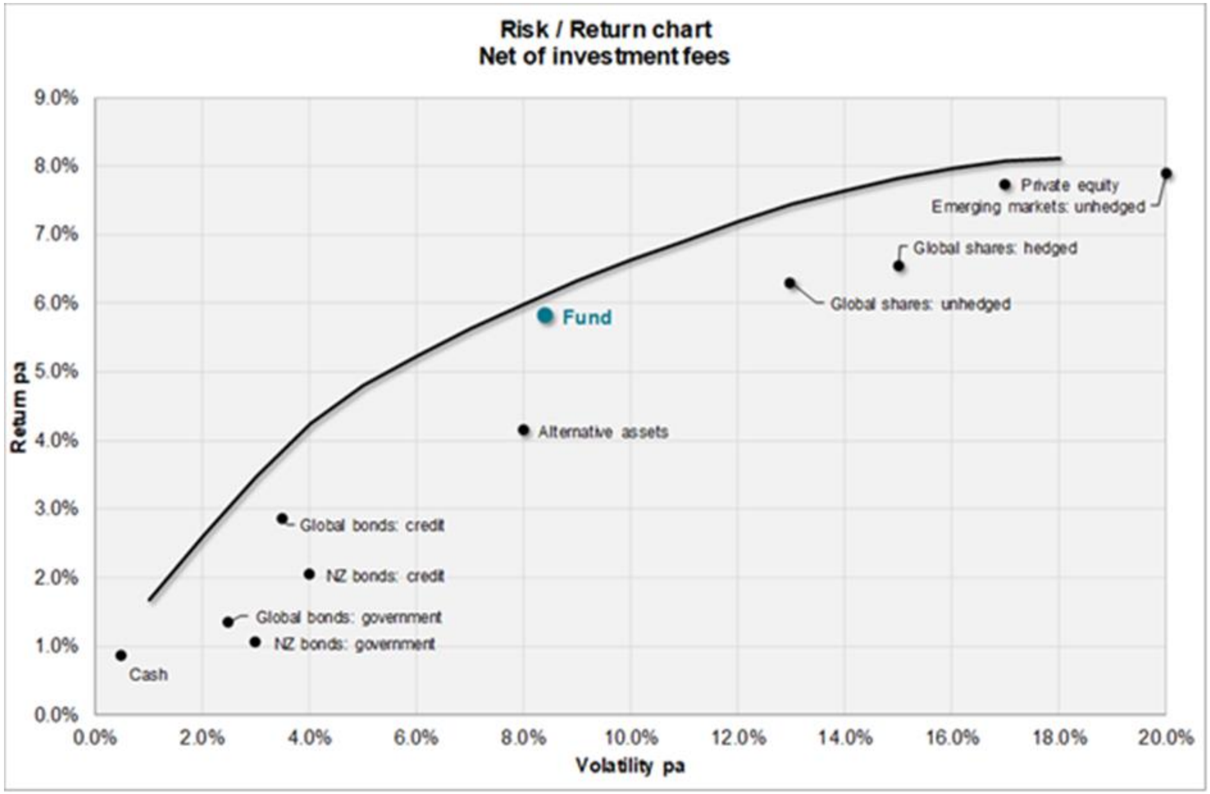
- **Role in the portfolio:** The primary purpose of Overseas Shares is to provide capital growth over the long-term, taking advantage of the equity risk premium.

- **Allocation:** The long term Overseas Shares allocation is 40%. There is also an allocation (2.7%) as part of the proxy allocation while the Private Equity allocation is being built up.



Managers	Schroders (Enhanced Passive) LGIM (Passive)
Benchmark	MSCI World 100% Hedged

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