Mercer
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Waitara Perpetual Community Fund

Quarterly Report

Quarter Ending 30 September 2023

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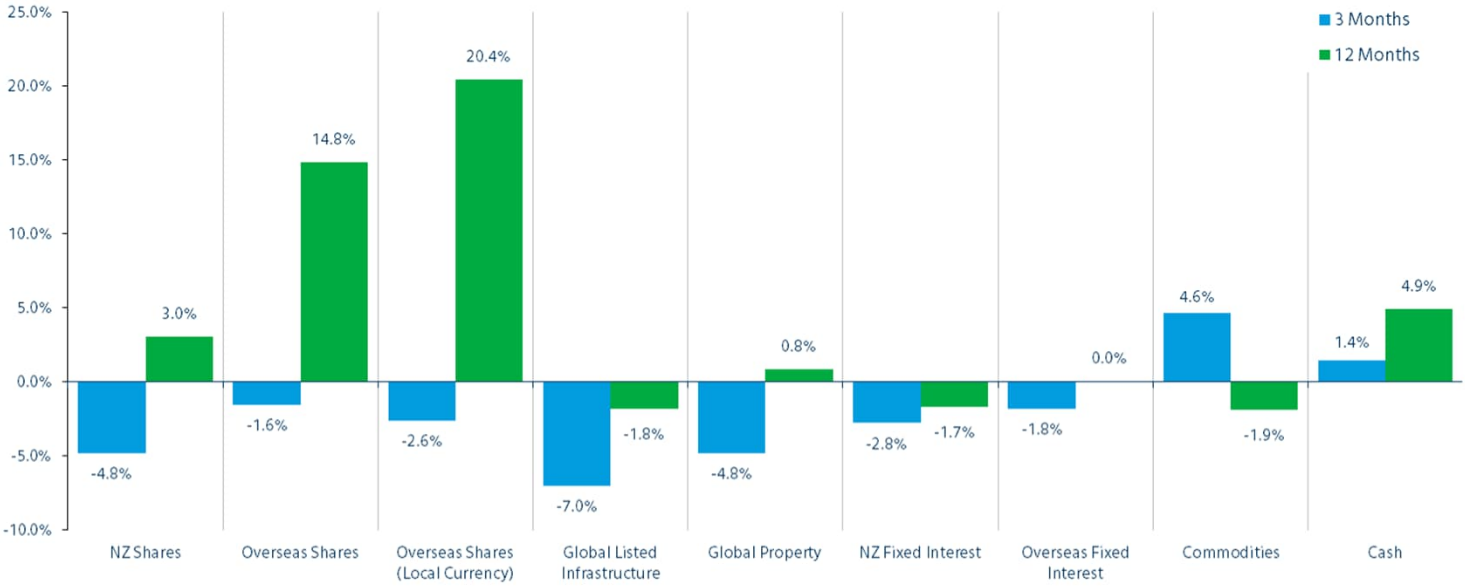
ECONOMY & MARKETS



Despite a great start in July, both equities and bonds ended the September quarter (Q3) on a down note, supporting the latter month's reputation for delivering "seasonably weaker" returns.

US markets underperformed both developed and emerging markets, as Value outperformed Growth, with a retreat among the "Magnificent Seven" stocks who had provided the majority of the gains during the first half of the year. Negative market sentiment was driven by a "higher-for-longer" rates narrative in an environment of weak economic growth. This was more pronounced in interest rate sensitive sectors, driving negative returns for fixed income and gold.

Advanced economies keep progressively readjusting the balance between supply and demand, leading to a gradual reduction in inflationary pressures. Although growth is slowing, it's doing so at a more moderate pace compared to any declines in inflation. US headline inflation (raw measure) moved higher mostly due to base effects, while core inflation (which removes key volatile commodities) continued to trend lower. Both inflation measures in the UK and Eurozone decreased as their respective central banks maintained their hawkish stances. This resulted in the status quo being maintained or rates being increased further, which put upwards pressure on yields.

Energy prices surged during the September quarter on the back of extended supply cuts by OPEC+ and Russia, resulting in large gains in WTI Crude oil. This resulted in the energy sector being the only one to deliver strong positive returns overall. The listed property sector underperformed equities by a large margin due to rate sensitivity and concerns surrounding the Chinese property debt crisis.

Closer to home, Australasian equities posted similarly weak returns with the NZX and ASX returns dominated by the negative impact of higher long-term government bond yields on equity valuations.

Significant Recent Developments Include:

- The US is home to the world's largest and most liquid bond and equity markets, as well as the most widely utilised currency in international trade and financial dealings. Therefore, when there is activity in the US Government, you can be sure the ramifications will be felt across the world. During Q3, credit rating agency, Fitch, downgraded the US government's credit rating from AAA (the highest investment grade) to AA+. Fitch cited unsustainable debt and political dysfunction as the main reasons for the downgrade. Supporting this downgrade, a US government shutdown was imminent towards the end of September. This caused a frenzy as the Senate raced to draft a bill to fund the government through to November 17th. President Biden signed the bill only hours before the October 1st deadline.

- Pessimism towards China's economic recovery was factored into markets during Q3. Although economic stimulus was provided to the property sector early in the quarter, the announcement provided only temporary relief. It was soon feared that it wouldn't be enough to manage the debt crisis overwhelming several major Chinese property developers, and kickstart the second-largest economy back to pre-pandemic levels. Because of this, China's economic performance fell short of expectations as various indicators continued to signal a lacklustre recovery. While limited policy measures were announced by the government, macroeconomic data released at the close of the quarter exceeded expectations.

- "Higher for longer" became a familiar turn of phrase during Q3 as central banks around the world opted for smaller-than-usual rate hikes or chose to leave rates unchanged all together. Such decisions indicate many central banks in developed markets may have approached the peak of their tightening cycles, although, many doubt the likelihood of a subsequent easing cycle to follow anytime soon. During the quarter both New Zealand and Australia's Reserve Banks decided to leave their Official Cash Rates unchanged. In July, the US Federal Reserve ("Fed") opted to raise the federal funds rate to a target range of 5.25%-5.50%. This is the highest level in more than 22 years. Although inflation is moderating, many economists believe that one final rate move is needed. The Bank of England, and the European Central Bank each made two rate hikes each, totalling 75bps and 50bps respectively. Although signalling the end of rate hikes, no central bank definitively closed the door for further hike announcements as inflation remains front of mind.

Trans-Tasman Equities

Trans-Tasman equities delivered poor returns in Q3 as the S&P/NZX 50 and S&P/ASX 200 returned -4.8% and -0.8% (AUD) respectively. Driving this was Australia's reporting season which showed significant but not unexpected falls in reported profits, particularly in the mining sector. New Zealand companies' earnings results were mostly in line with expectations. However, many were impacted negatively due to increasing operating costs and interest rate impacts.

Global Equities

Global equities delivered negative returns in Q3 as the market positioned itself for rates to remain elevated for longer. The S&P 500 ended the quarter down -3.3% (in local currency). Driving this was the cooling of the "magnificent seven" following their major rally which occurred during the first half of the year. Emerging markets outperformed developed markets, but still delivered negative returns on an absolute basis. Emerging market central banks are ahead of the curve, having hiked interest rates earlier than developed market central banks. With disinflation firmly underway some are in a position to begin cutting rates – something many developed market counterparts are not in a position to do. Loosening monetary policy should create a decent tailwind for emerging markets going forward.

Listed Property

The real estate sector experienced sharp falls as a result of declining transaction activity and price softening persisting in the US property market. This is valid in the context of expectations of a higher for longer interest rate environment. Furthermore, European real estate transaction activity also continued a downward trend. Office fundamentals continue to be an area of concern due to the uncertainty regarding when and to what extent work-from-home employees will eventually return to the office.

Listed Infrastructure

Listed Infrastructure saw a decrease during the September quarter as the market anticipated higher interest rates, which impacted valuations. The Railroads and Airports sectors were able to minimize their losses due to favourable passenger volume trends for Japanese passenger rail and European/Latin American airport stocks. However, the Towers sector, as well as Water/Waste and Utilities/Renewables, were affected by the increase in the US 10-year treasury yield. Japan was the top-performing infrastructure region for the second consecutive quarter, while Australia and New Zealand underperformed due to declines in their toll road and airport stocks.

Global Bonds

Many central banks continued to raise rates during Q3. The sharp rise in global interest rates has mainly been driven by expectations of policy rates remaining elevated for the foreseeable future, high government budget deficits and rising energy prices. The Bank of England (BoE) raised its base rate 50bps to 5% in July, then again by 25bps in August to conclude at 5.25%. The BoE sighted signs of slowing inflation as the reason to leave the rate unchanged in September. The European Central Bank delivered rate hikes as well, increasing 25bps in August and again in September to end the quarter with an official cash rate of 4%. However, the US Federal Reserve made only one change in July, increasing its range 25bps to 5.25-5.50%. Global government bond yields peaked in September before slightly retreating at the end of the quarter which was led by the US 10-year yield rising by almost 75 basis points over the course of the quarter to its highest level since 2007.

Commodities

Energy was the only sector to achieve a positive return for the second consecutive month, with the WTI crude oil price temporarily reaching $90 per barrel in September. This move caused a rise in gas prices for consumers and renewed inflationary pressures. However, the strong returns from the energy sector were offset by weakness in other commodities, leaving the overall sector roughly flat. Locally over the medium term, a greater slowdown in global economic demand, particularly in China, could weigh more on commodity prices and New Zealand export revenue.

New Zealand Bonds and Cash

During all meetings which occurred during Q3, the Reserve Bank of NZ (RBNZ) agreed to maintain the Official Cash Rate at 5.50%. Supporting this decision was easing demand and spending growth which is expected to decline further into the year. Interest rates are constraining economic activity and reducing inflationary pressure as required, however a prolonged period of subdued activity is still needed. In the August Monetary Policy Statement (MPS), the RBNZ pushed out its expectations for rate cuts from late 2024 to early 2025, six months later than what was signalled in the May MPS.

Currency

The US dollar appreciated in Q3 against most major developed and emerging market currencies amid risk off sentiment and expectations for US rates to remain elevated. Despite positive economic data, the British Pound hit lows not seen since early June, whereas the Euro also fell but in response to disappointing economic data from Germany. The growth sensitive Australian dollar continued to struggle in Q3 as well as the NZ dollar which was amongst the worst performers due to the weight of a domestic recession, China's lack of economic recovery and fresh US dollar highs.

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	-2.4	8.5	-	0.9
Benchmark	-2.4	8.2	-	0.7
Excess	*-0.0*	*+0.2*	-	*+0.2*

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	-2.2	7.4	3.3	4.2
Benchmark	-2.2	7.1	2.4	3.7
Excess	*+0.0*	*+0.3*	*+0.9*	*+0.6*

Mercer Growth

Gross Returns – Before fees & taxes	3 Months (%)	1 Year (%)	3 Years (% p.a)	5 Years (% p.a)
Mercer Growth	-2.6	9.6	5.2	5.3
Benchmark	-2.5	9.3	4.4	4.9
Excess	*-0.1*	*+0.2*	*+0.8*	*+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	13.7
Trans Tasman Shares	14.0	13.7
Overseas Shares	30.3	28.8
Overseas Shares Low Volatility	4.6	4.5
Overseas Shares Small Caps	3.6	3.8
Emerging Market Shares	4.5	4.8
Overseas Shares	43.0	41.8
Listed Property	3.3	4.3
Unlisted Property	3.3	3.3
Listed Infrastructure	3.3	3.0
Unlisted Infrastructure	3.3	3.5
Real Assets	13.0	14.1
Overseas Sovereign Bonds	8.0	8.0
NZ Sovereign Bonds	7.5	8.0
Global Credit	6.0	6.1
Other Fixed Income	6.0	6.3
Fixed Income	27.5	28.4
Cash	2.5	2.0
Cash	2.5	2.0
Total	100.0	100.0
Growth Assets	70.0	69.6
Defensive Assets	30.0	30.4
Overseas Shares Currency Hedging	**50%**	**50%**

Transaction Summary – Quarter ended 30 September 2023

	Opening Balance ($)	Applications ($)	Redemptions ($)	Investment Gain / (Loss) ($)	Closing Balance ($)
Mercer Balanced	9,674,713.92	-	-	(234,605.90)	9,440,108.02
Mercer Growth	9,759,221.91	-	-	(275,471.45)	9,483,750.46
Total	**19,433,935.83**	**-**	**-**	**(510,077.35)**	**18,923,858.48**

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**	-4.9	4.0	0.8	5.4	7.7
Excess	*-0.1*	*+1.0*	*+1.3*	*+0.7*	*+0.4*
Mercer Overseas Shares Plus	-1.8	15.0	11.3	9.3	12.8
Excess	*-0.2*	*+0.2*	*-0.3*	*-0.1*	*+0.5*
Mercer Hedged Overseas Shares Plus	-3.1	22.7	7.3	5.7	8.7
Excess	*-0.3*	*+0.2*	*-0.1*	*-0.2*	*+0.3*
Mercer Socially Responsible Global Shares*	-4.2	7.8	7.0	7.2	10.0
Excess	*-2.7*	*-7.0*	*-4.5*	*-2.2*	*-2.0*
Mercer Hedged Socially Responsible Global Shares*	-5.7	14.2	2.4	3.6	5.2
Excess	*-2.8*	*-8.4*	*-4.6*	*-2.5*	*-2.3*
Mercer SR Overseas Shares Index*	-1.5	15.2	11.3	-	10.1
Excess	*-0.0*	*+0.3*	*-0.2*	*-*	*-0.5*
Mercer Hedged SR Overseas Shares Index*	-2.9	23.0	7.3	-	5.6
Excess	*-0.1*	*+0.3*	*-0.1*	*-*	*-0.3*
Mercer Overseas Small Companies	2.4	20.0	22.1	12.6	14.8
Excess	*+4.8*	*+12.1*	*+11.9*	*+7.0*	*+5.2*
Mercer Emerging Markets	-0.5	6.7	1.9	3.1	6.8
Excess	*+0.4*	*+1.1*	*+0.1*	*+0.2*	*+0.4*
Mercer Low Volatility	-1.8	7.3	8.4	5.4	8.7
Excess	*-0.7*	*+3.4*	*+1.9*	*-0.5*	*+0.5*
REAL ASSETS					
Mercer Unlisted Property	-1.1	2.6	10.6	8.5	9.0
Excess	*+1.1*	*+2.9*	*+2.9*	*+2.3*	*+3.0*
Mercer Listed Property	-4.9	2.4	0.1	0.1	1.9
Excess	*+0.3*	*-0.1*	*-0.5*	*+2.3*	*+2.7*
Mercer Listed Infrastructure	-8.5	-0.3	2.4	3.4	4.2
Excess	*-1.3*	*+1.0*	*-0.5*	*+0.3*	*+0.0*
Mercer Unlisted Infrastructure	2.3	11.0	14.9	13.5	12.3
Excess	*-0.8*	*+0.3*	*+3.3*	*+3.6*	*+4.0*
FIXED INTEREST					
New Zealand Sovereign Bonds	-2.9	-0.8	-6.1	-0.6	0.2
Excess	*-0.2*	*+0.9*	*+0.5*	*+0.6*	*+0.4*
Mercer Overseas Sovereign Bonds	-0.8	-0.1	-3.4	0.9	1.3
Excess	*+1.6*	*+0.2*	*+1.7*	*+1.1*	*+1.4*
Mercer Global Credit	-2.2	2.9	-4.4	0.3	0.6
Excess	*-0.2*	*-0.4*	*-0.1*	*+0.1*	*-0.0*
Mercer Absolute Return Bonds*	-0.1	4.5	1.4	2.0	1.9
Excess	*-1.5*	*-0.4*	*-0.8*	*+0.2*	*+0.1*
Mercer Short Term Bonds*	1.8	6.9	-	-	3.4
Excess	*+0.4*	*+2.0*	*-*	*-*	*-0.6*
Mercer Cash	1.4	5.1	2.4	2.1	2.2
Excess	*+0.0*	*+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	30/09/23 Value	Sector Allocation	Heat Map
Global Equities - Developed	38.5%	25.5%	60.5%	$7,012,236	37.1%	
Global Equities - Emerging	4.5%			$903,614	4.8%	
Trans-Tasman Equities	14%	2.5%	25.5%	$2,599,760	13.7%	
Real Assets	13%	3.5%	26%	$2,660,127	14.1%	
Alternatives	0%	0%	10%	$0	0.0%	
Total Growth Assets	**70%**	**40%**	**90%**	**$13,175,736**	**69.6%**	
Global Fixed Income	20%	7%	48%	$3,843,436	20.3%	
New Zealand Fixed Income	7.5%			$1,522,424	8.0%	
Cash	2.5%	0%	20%	$382,262	2.0%	
Total Income Assets	**30%**	**10%**	**60%**	**$5,748,122**	**30.4%**	
Total	**100%**			**$18,923,858**	**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 30 September 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

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