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Waitara Perpetual Community Fund

Quarterly Report

Quarter Ending 31 December 2022

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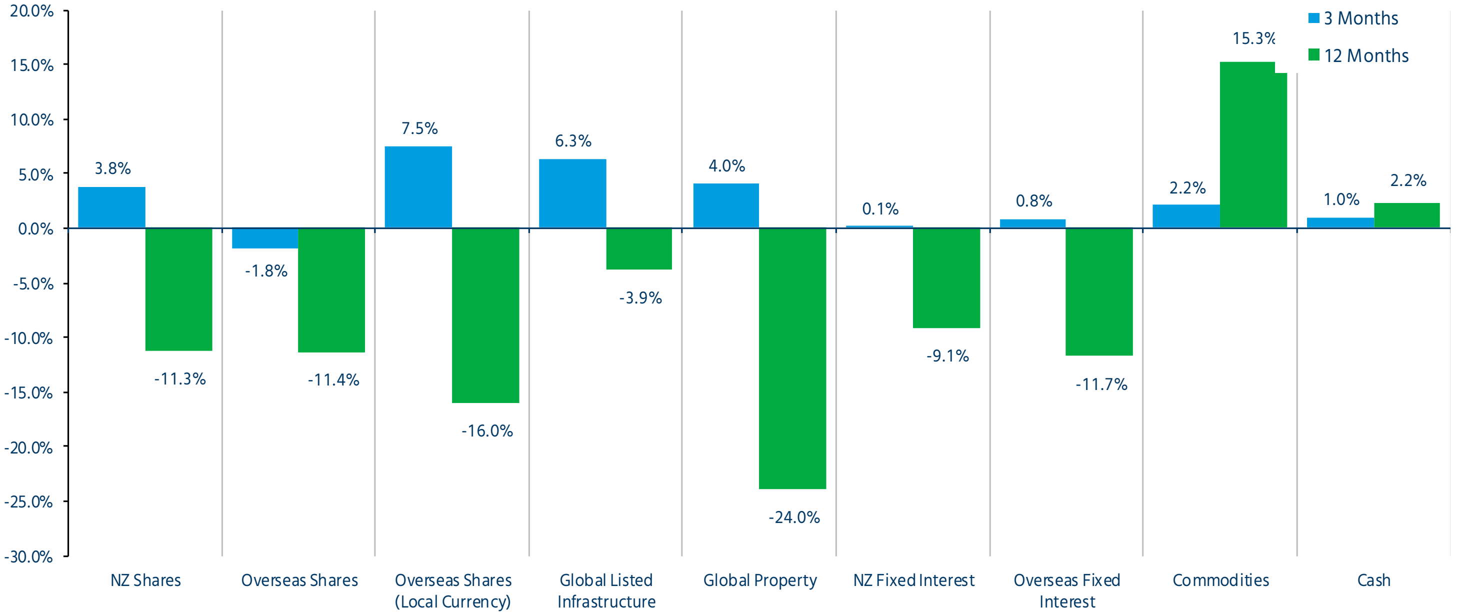
ECONOMY & MARKETS



After two consecutive months of drawdowns across most asset classes, Q4 showed early promise with a notable rally in developed market equities, emerging market debt and high yield bonds. Investor sentiment generally improved on better than envisaged US earnings data and an expected slowdown in policy tightening, despite inflation readings and US labour market growth refusing to budge. Coming in at a revised figure of 3.2% year-on-year (y/y), Q3 US GDP sprung back from the negative territory seen in Q2, while Q3 Eurozone GDP kept its head above water at 0.2% quarter-on-quarter (q/q) amid a harsh economic backdrop. The appointment of Rishi Sunak as Prime Minister seemingly brought the UK's chaotic political scene to a close, while Xi Jinping broke the norm by cementing a third term as the President of China.

Global equity markets experienced back-to-back monthly gains over the first two months of Q4 as inflation pressures showed signs of plateauing. US inflation clocked a 0.4% rise in October, resulting in the smallest y/y increase since January. Even so, the economic outlook remained soft with major US companies, including tech-heavyweight Meta, revealing large scaled corporate layoffs as higher-pegged interest rates began to take their drawn-out effect on projected earnings performance. The continuation of this recovery rally throughout November was built upon the same rationale, as investors saw further evidence that would perhaps allow the US Federal Reserve (Fed) to take their foot off the brakes. Equities aside, fixed income returns were supported by lower real yields, while the US dollar saw a sharp decline against most major currencies amidst an increased appetite for risk assets.

The positive momentum seen over the first two months of Q4 did not last into December. Although job creation has fallen back and the signs of a slowing economy are evident, data showed that the US economy added more jobs than expected in November. Non-farm payrolls grew by 263,000 versus the 200,000 anticipated, while wage price growth shot up 0.6% to 5.1% y/y, adding further complications to the Fed's task at hand. Another round of encouraging US inflation figures gave investors a short-lived confidence boost before the Fed forged ahead with ramping up the overnight borrowing rate by half a percentage point (taking it to a targeted range between 4.25% and 4.5%), while simultaneously issuing a revised 'dot plot' which suggested a higher terminal federal funds rate and fresh tightening to come in 2023. Despite a lacklustre culmination, Q4 registered positive returns across all major asset classes to see out the year on a slightly more optimistic note, in what has been a decidedly difficult 2022 for financial markets through and through.

Significant Recent Developments Include:

- China's political landscape and increasingly costly 'zero-Covid' policies were a major story throughout Q4. Emerging market equities were the only exception in the rally seen across global share markets in October, with China representing the weakest market index by a wide margin. Failure to move alongside developed market equities came as a result of the world's uneasy take on Xi Jinping solidifying a historic third term as Chinese President, coupled with no apparent end to the restrictive zero-Covid policy measures imposed by the Chinese Communist Party (CCP). In another blow, the US announced plans to tighten their control on microchip exports, which effectively banned Chinese companies from buying advanced chips and chip-making equipment from US companies or non-US companies that rely on US-made equipment or software. In November, mass demonstrations broke out across a number of major cities in China as locals reached their breaking point with the CCP's punishing Covid regulations. On the heels of these protests, signs of an easing in restrictions were well received as emerging market equities outperformed their developed market counterparts in November (with China's market index leading the pack).

A depreciating USD, softer US inflation data, easing supply chain dynamics and the fast-paced reopening of the Chinese economy dramatically improved investor sentiment in December as the MSCI Emerging Markets Index and MSCI China Index rounded off Q4 up 6.7% and 13.5% respectively.

- In the British drama that many thought would never end, the shambolic political situation that threw the UK currency and debt markets into descent finally drew to a close in Q4 after the appointment of Rishi Sunak as Prime Minister. Liz Truss' shocked the world by handing in her resignation after just 44 days in office, ending the shortest ever stint at the pinnacle of British political power in the history of the UK. Truss' decision came after calls for her job intensified in the early stages of Q4, a direct result of the ill-advised non-funded low tax/high growth fiscal policies which left UK Government bond (gilt) markets in disarray and pension funds scrambling to meet margin calls. After their hand was forced to intervene, the Bank of England's (BoE) temporary bond purchasing program ended as planned and financial conditions returned to some sense of normality as bond yields fell most notably in the UK. Ending Q3 at 4.09%, UK 10-year government bond yields fell by a whopping 60bps in October alone and kept declining into November. However, yields reverted course to end Q4 at 3.67% as inflation remained persistent and investors held reservations about the BoE's policy rate still lagging behind that of other developed economies.

- Domestically, New Zealand made headlines in Q4 after data showed that Q3 inflation smashed expectations, coming in well above the levels that many economists had predicted. Annual inflation ran at 7.2% in Q3 and rose 2.2% q/q. Housing and household utilities have been the most significant contributor to annualised inflation, while a 17% upsurge in fruit and vegetable prices was the driving force behind Q3's increase. The consumer price index (CPI) report also pointed to prices becoming more broad-based and entrenched, which led many to expect a 'super-sized' rate hike by the Reserve Bank of New Zealand (RBNZ) before heading into the festive season. The RBNZ didn't disappoint and dealt out a 75bp increase to the official cash rate (OCR) in November, bringing it to 4.25% at Q4's end with further hikes pencilled in for next year. To the surprise of many, a full percentage point rise was considered as Governor Orr encouraged the public to "cool the jets" on their discretionary spending in order to bring down inflation. Orr also came under somewhat unwarranted media scrutiny for stating that the RBNZ is deliberately trying to induce a recession, which Orr predicted to last through the second half of 2023 and into 2024.

Trans-Tasman Equities

Australian equities had a particularly impressive Q4, managing to outperform many of their international counterparts. The New Zealand market also boasted strong returns, but didn't quite match the high standards set by their neighbours across the ditch. Australian shares were quick out of the gate in Q4, in light of higher commodity prices, positive retail sales and a 'dovish' interest rate hike of 25bp by the Reserve Bank of Australia (RBA). The RBA have dialled back the increments of their rate rises much sooner than other developed nations, including New Zealand, as they dished out another 25bp increased in November. Q3 Australian CPI figures surprised to the upside, playing a key factor in the RBA's decision. However, caution is warranted as large levels of household debt (predominantly in mortgages that are mostly variable or fixed for short terms) make the Australian economy far more sensitive to movements in short-term rates. The share market eventually hit a snag as commodity prices pulled back towards the end of December, with the commodity-dominated ASX200 ultimately closing Q4 up 9.4% (local currency). The differences in New Zealand and Australian markets over Q4 were very much 'chalk and cheese', with local market gains remaining far more muted in response to a grim Q3 inflation print and a 75bp hike by the RBNZ. Comparatively, the NZX50 returned 3.7% in Q4.

Global Equities

Global equities performed well on the whole in Q4, with value beating out growth stocks by a wide margin as market participants prepared for downside earnings risks heading into 2023. Primary catalysts for the progress made in Q4 were again centred on the idea of US inflation, which on the surface, seemed to be running out of steam. This lead to investors yearning for a proportionate response from the Fed, who entered a 'new era' of 50bp rate hikes. Some big name stocks showed cause for concern with considerable cuts to their workforce and weak earnings calls in Q4, but this did little to detract from overall market performance, with energy stocks posting especially strong gains after record Q3 profits from the likes of Chevron and ExxonMobil. UK and Eurozone shares also logged healthy returns, with a return to fiscal responsibility in the UK and hopes that inflation may have peaked in the Eurozone being the chief market movers. Emerging market equities advanced, with China at the helm. Offsetting weaker performance in the Middle East, Chinese equities were buoyed by a weakening USD, a credit line boost to the ailing Chinese property sector and the easing of their zero-Covid policies (which had caused social unrest earlier in Q4). The MSCI World Index put up a return of 7.5% in Q4, clawing back some of the year-to-date losses to end 2022 down -16.0%.

Listed Property

Global REITS trended higher alongside global equities in Q4, despite the highly-leveraged sector continuing to face significant headwinds. US 30-year fixed mortgage rates topped 7% and home price sales hit a decade low, as tighter financial conditions continued to bite. Putting the slowdown in the commercial property and residential housing markets to one side, global REITS remained resilient and navigated their way to a 4.0% return in Q4. With performance routinely plagued by the impact of rising borrowing costs in 2022, Q4 served the sector well and helping to reduce some of the losses already incurred throughout the year.

Listed Infrastructure

Inflation-protecting characteristics among listed infrastructure assets, such as barriers to entry, pricing power and predictable cash flows, again proved to be a good diversifier in the current inflationary environment. Airports performed strongly in Q4 on the back of pent-up demand for international travel, while emerging market port operators saw favour as China announced they were reopening to the world after nearly three years of closed borders. The FTSE Global Core Infrastructure 50/50 Index ended Q4 up 6.3% (in hedged NZD).

Global Bonds

Global bond returns remained volatile in a Q4 which saw another litany of central bank rate hikes. Gilts found some respite after previously announced tax cuts were rescinded and tighter time limits on energy caps were made known, with the 10-year gilt yield seeing a 60bp drop in October alone. November saw bond prices soar and yields retreat across most major regions bar Japan, as rising growth concerns became more palpable and investors began positioning themselves for an easing cycle. Risk-on sentiment, support for China's property sector and a weak US dollar all contributed to positive emerging market debt returns, while US and Eurozone investment grade and high-yield credit both saw favour on the back of narrowing credit spreads. The spread between the US 10y/2y remains negative, signalling that a bad credit event in the near-term is not out of the question. Fixed income returns slightly curtailed towards the end of Q4 as the hawkish tones of central bankers were poorly received by the wider market. The US 10-year nudged higher to 3.83% over Q4, with the vast majority of other government bond yields also moving in the same direction. Of course, the exception to this was in the UK, for which the 10-year gilt dropped by 42bps.

Commodities

Commodities, as measured by the Bloomberg Commodity Index, increased in Q4. Industrial and precious metals spearheaded the movement, while agricultural commodities, such as coffee and wheat, were laggards. Oil prices whipsawed between the first two months of Q4. Oil initially moved 8.9% higher in October after OPEC announced they would slash output in an attempt to offset falling prices in a down market. However, oil prices fell -7.0% in November after some doubted whether OPEC would actually go ahead with said output cuts at their next meeting. Gold (up 9.2% in Q4) strengthened on the back of lower real yields, while silver also achieved strong price gains. In spite of a positive Q4 across the board, commodity indices were pegged back in December as concerns around falling demand were reignited. Oil edged out a 1.0% return in what was a topsy-turvy Q4, with the Bloomberg Commodity Index (in hedged NZD) returning 2.2% and 15.3% in Q4 and 2022 respectively. All in all, systemic supply chain issues, geopolitical shocks and inflation trends have supported commodities in seeing out a year for which they realised double digit returns.

New Zealand Bonds and Cash

Local debt markets had a mixed Q4, with the Bloomberg NZ Bond Composite 0+ Yr Index grinding out a modest 0.1% return. Driven by a large pickup in tourism, New Zealand Q3 GDP exceeded all expectations at 2.0%. However, closer inspection of the fine print showed that key economic indicators began to reflect the RBNZ's desired effect. An aggressive 75bp hike to the OCR in November was accompanied by a fine-tuned tightening path, which now shows the OCR reaching a peak of 5.5% by May 2023. Towards the end of Q4, surveys conducted by ANZ revealed that New Zealand business and consumer confidence data fell to levels not seen since the GFC, as higher rates started to take their toll. At Q4's end, the New Zealand 10-year yield landed at 4.56% (up from 4.29% last quarter).

Currency

The USD again stole all the headlines in Q4, albeit for all the wrong reasons. In a risk-off themed Q3, the USD realised a meteoric rise against a basket of major currencies as investors flocked to the greenback for refuge. However, the US dollar experienced a significant fall from grace against most major currencies in Q4. Among G10 currencies, the NZD posted the strongest gains against the USD (up 13.5%). This was largely the result of an improving sentiment for risk assets (which shifted focus away from the USD) and the hawkish stance of the RBNZ. Sterling salvaged some lost ground after striking an all-time low against the USD in Q3, while the Yen also resurged in response to the Bank of Japan announcing a modification to its yield curve control policy. The NZD finished Q4 up 12.6%, 6.1% and 2.3% against the USD, AUD and GBP respectively. Over 2022, the NZD suffered losses of -7.0% and -0.8% against the USD and AUD respectively, while strengthening 3.8% gain against the GBP.

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	3.8	-9.8	-	-4.1
Benchmark	3.4	-10.5	-	-5.1
Excess	*+0.4*	*+0.7*	-	*+1.0*

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	3.4	-9.3	2.5	4.4
Benchmark	3.0	-10.0	1.5	3.7
Excess	*+0.4*	*+0.8*	*+1.0*	*+0.7*

Mercer Growth

Gross Returns – Before fees & taxes	3 Months (%)	1 Year (%)	3 Years (% p.a)	5 Years (% p.a)
Mercer Growth	4.2	-10.3	3.6	5.4
Benchmark	3.8	-10.9	2.7	4.8
Excess	*+0.4*	*+0.6*	*+0.9*	*+0.6*

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	14.1
Trans Tasman Shares	14.0	14.1
Overseas Shares	30.3	29.6
Overseas Shares Low Volatility	4.6	4.7
Overseas Shares Small Caps	3.6	3.5
Emerging Market Shares	4.5	4.5
Overseas Shares	43.0	42.2
Listed Property	3.3	3.1
Unlisted Property	3.3	3.4
Listed Infrastructure	3.3	3.3
Unlisted Infrastructure	3.3	4.4
Real Assets	13.0	14.3
Overseas Sovereign Bonds	8.0	5.5
NZ Sovereign Bonds	7.5	7.5
Global Credit	6.0	6.2
Other Fixed Income	6.0	7.8
Fixed Income	27.5	26.9
Cash	2.5	2.5
Cash	2.5	2.5
Total	100.0	100.0
Growth Assets	70.0	70.6
Defensive Assets	30.0	29.4
Overseas Shares Currency Hedging	**50%**	**50%**

Transaction Summary – Quarter ended 31 December 2022

	Opening Balance ($)	Applications ($)	Redemptions ($)	Investment Gain / (Loss) ($)	Closing Balance ($)
Mercer Balanced	8,875,373	-	-	279,405	9,154,779
Mercer Growth	8,756,644	-	-	345,663	9,102,307
Total	**17,632,017**	**-**	**-**	**625,068**	**18,257,085**

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**	4.3	-11.6	2.7	7.8	10.0
Excess	*+0.5*	*-0.4*	*+2.1*	*+0.5*	*+0.1*
Mercer Overseas Shares Plus	-0.3	-11.2	7.2	8.8	10.8
Excess	*+1.6*	*+0.2*	*-0.0*	*+0.1*	*+1.0*
Mercer Hedged Overseas Shares Plus	12.6	-19.3	2.8	4.8	8.7
Excess	*+1.8*	*+0.9*	*-0.2*	*-0.0*	*+0.7*
Mercer Socially Responsible Global Shares*	-0.6	-15.0	7.4	7.9	9.8
Excess	*+1.2*	*-3.6*	*+0.2*	*-0.7*	*-0.8*
Mercer Hedged Socially Responsible Global Shares*	11.6	-23.7	3.0	4.4	5.5
Excess	*+0.9*	*-3.5*	*-0.3*	*-1.0*	*-1.1*
Mercer SR Overseas Shares Index*	-2.4	-12.7	-	-	5.8
Excess	*-0.2*	*-0.7*	*-*	*-*	*-0.8*
Mercer Hedged SR Overseas Shares Index*	10.4	-21.0	-	-	2.6
Excess	*-0.0*	*-0.1*	*-*	*-*	*-0.5*
Mercer Overseas Small Companies	2.0	4.6	15.1	12.1	12.1
Excess	*+2.8*	*+16.2*	*+9.5*	*+5.8*	*+3.3*
Mercer Emerging Markets	-1.7	-13.2	-0.4	1.9	7.0
Excess	*+0.1*	*-0.1*	*-0.2*	*+0.6*	*+0.4*
Mercer Low Volatility	-0.5	-3.1	4.2	6.1	7.8
Excess	*+1.3*	*-0.9*	*+0.1*	*-0.9*	*-0.2*
REAL ASSETS					
Mercer Unlisted Property	1.8	16.1	10.1	9.9	10.3
Excess	*-0.2*	*+4.6*	*+2.8*	*+2.4*	*+3.5*
Mercer Listed Property	5.5	-27.2	-4.6	1.4	3.5
Excess	*-1.9*	*-1.0*	*+1.9*	*+2.6*	*+2.1*
Mercer Listed Infrastructure	8.2	-5.7	0.8	4.7	7.8
Excess	*+0.6*	*-1.5*	*-0.8*	*-0.3*	*-0.0*
Mercer Unlisted Infrastructure	1.2	13.4	14.3	13.5	13.9
Excess	*-0.5*	*+3.3*	*+7.1*	*+4.8*	*+6.5*
FIXED INTEREST					
New Zealand Sovereign Bonds	0.5	-9.3	-2.8	0.2	1.4
Excess	*+0.5*	*-0.2*	*+0.7*	*+0.5*	*+0.3*
Mercer Overseas Sovereign Bonds	0.0	-8.7	-1.8	1.4	2.4
Excess	*+0.3*	*+3.9*	*+1.3*	*+1.5*	*+1.2*
Mercer Global Credit	2.5	-14.3	-3.1	0.0	1.8
Excess	*+0.0*	*+0.2*	*+0.2*	*+0.2*	*+0.0*
Mercer Absolute Return Bonds*	1.1	-2.2	0.8	1.6	1.6
Excess	*+0.5*	*-4.1*	*-0.2*	*+0.3*	*+0.3*
Mercer Short Term Bonds*	2.1	-	-	-	0.4
Excess	*+1.5*	*-*	*-*	*-*	*-1.2*
Mercer Cash	1.0	2.4	1.3	1.7	1.9
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	31/12/22 Value	Sector Allocation	Heat Map
Global Equities - Developed	38.5%	25.5%	60.5%	$6,893,510	37.8%	
Global Equities - Emerging	4.5%			$817,552	4.5%	
Trans-Tasman Equities	14%	2.5%	25.5%	$2,566,216	14.1%	
Real Assets	13%	3.5%	26%	$2,606,382	14.3%	
Alternatives	0%	0%	10%	$0	0.0%	
Total Growth Assets	**70%**	**40%**	**90%**	**$12,883,660**	**70.6%**	
Global Fixed Income	20%	7%	48%	$3,547,899	19.4%	
New Zealand Fixed Income	7.5%			$1,364,535	7.5%	
Cash	2.5%	0%	20%	$460,991	2.5%	
Total Income Assets	**30%**	**10%**	**60%**	**$5,373,425**	**29.4%**	
Total	**100%**			**$18,257,085**	**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 December 2022.

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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