

Perpetual Investment Fund

Quarterly Report
for the period ended
31 December 2008

Comments on Quarter

- The total value of the fund after mark to market reductions, release and expense payments is \$274.8m.
- While this was a loss of \$28.4m or -9.5% in the quarter it was overall, a substantial out-performance of industry benchmarks by 2.2%, with the main out-performance coming from:
 - Underweight listed equity holdings to benchmarks (reduced to 27% of portfolio),
 - Better than index investment performance in alternative asset holdings,
 - Unhedged offshore holdings (listed and unlisted) which contributed over \$8.5m in FX gains.
- Benchmark performances for the quarter were:
NZ50G -11.9%; S&P500 -21.9%; FTSE100 -8.7%; ASX200 -19.1%(all local currency terms); NZ Small Caps -21.3%; Nikkei -21.3%; no regional index finished in positive territory.
- A significant re-weighting out of equities into cash was conducted in early December by reducing all stocks on a pro-rata basis by around 25%. TIML held over \$30m in cash at period end. The goal was to preserve capital and provide liquidity for both future release payments and upcoming investment commitments and opportunities.

Comment on Quarter (cont.)

- The quarter was characterised by a global credit crunch and market crash as markets digested the failure of Lehmans and a number of other disturbing company announcements.
- There have been ongoing Government led fiscal and monetary initiatives supplying credit or funding to a wide range of beneficiaries globally, ranging from banks, insurers, car makers and home-owners.
- November and December saw the finance sector crash flow through to the “real” economy and a number of sectors saw falls. Citigroup stock fell 85%. Oil fell from USD\$139 a barrel to USD\$36. Copper was down 54.8%, aluminium down 39.2% and nickel down 31.3%. Poor employment and negative sentiment data have been recorded in all economies.
- Currency markets experienced huge flows into Yen and USD, especially from Sterling, the Australian dollar and the New Zealand dollar.

Portfolio Valuation

- Barings revalued funds III and IV downwards by 28.8% to match reductions in values of equivalent listed equity comparatives – impact on PIF \$10.8m.
- Tasman Farms have provided an update for its half year ended 30th November. They performed above budget and above last years result. TFL does not provide NTA data until its May annual reporting process due July. Farm and livestock prices in Tasmania appear to be holding around previous values.
- Alternative assets are formally valued by the TIML board at year end.

Summary of Portfolio Values and Long-term Returns of PIF

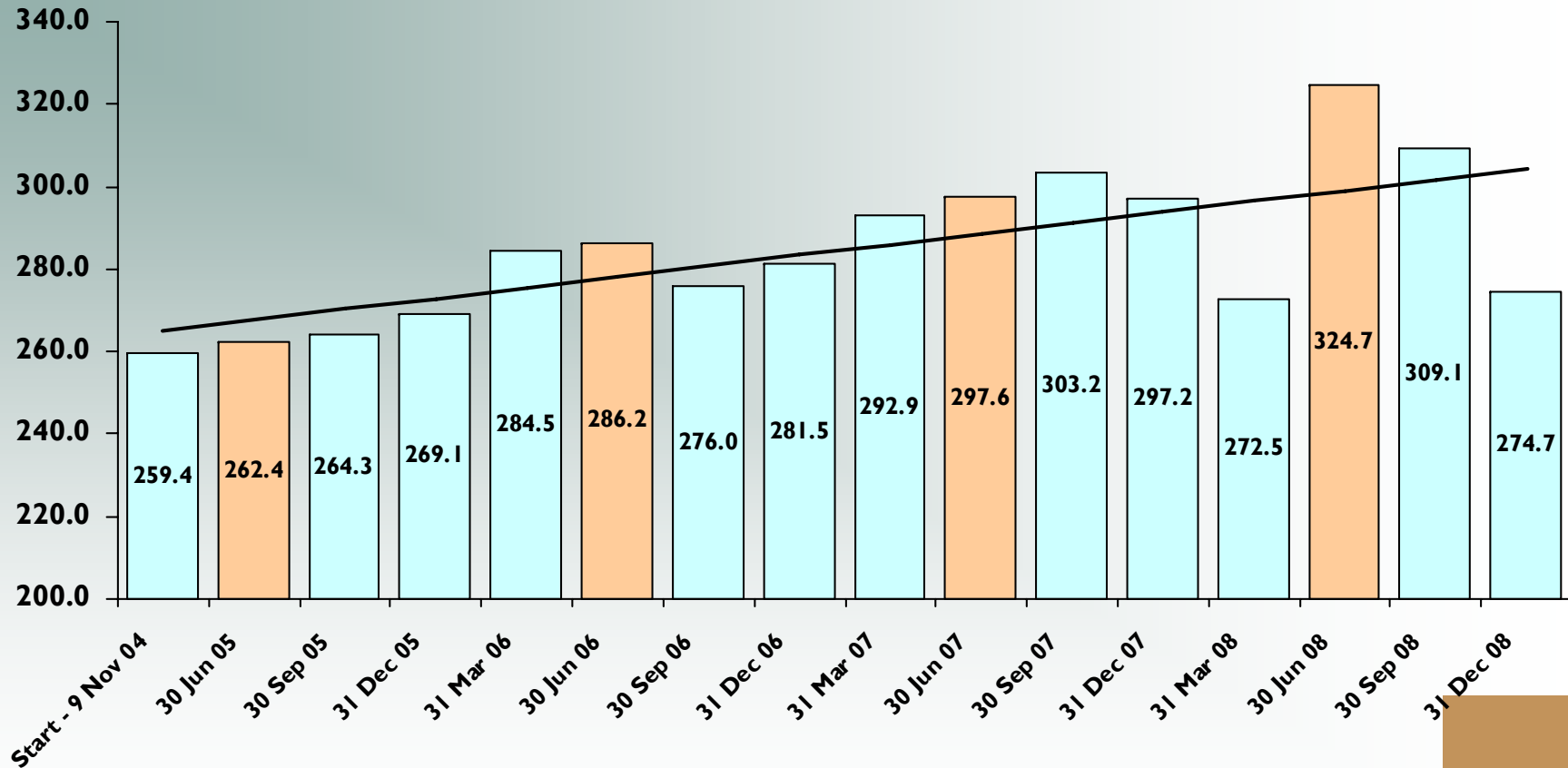
	\$ m
• The fund opening balance	250.2
• Total fund return since inception	105.0
• Funds borrowed to pay initial release and costs	9.2
Total Funds In	364.4
• Interest paid to date	2.5
• Releases to date total	82.7
• Costs to date	4.4
Total Funds Out	89.6
• Closing balance of fund	274.8
• Net increase in fund (excluding borrowing)	15.4

Benchmarking

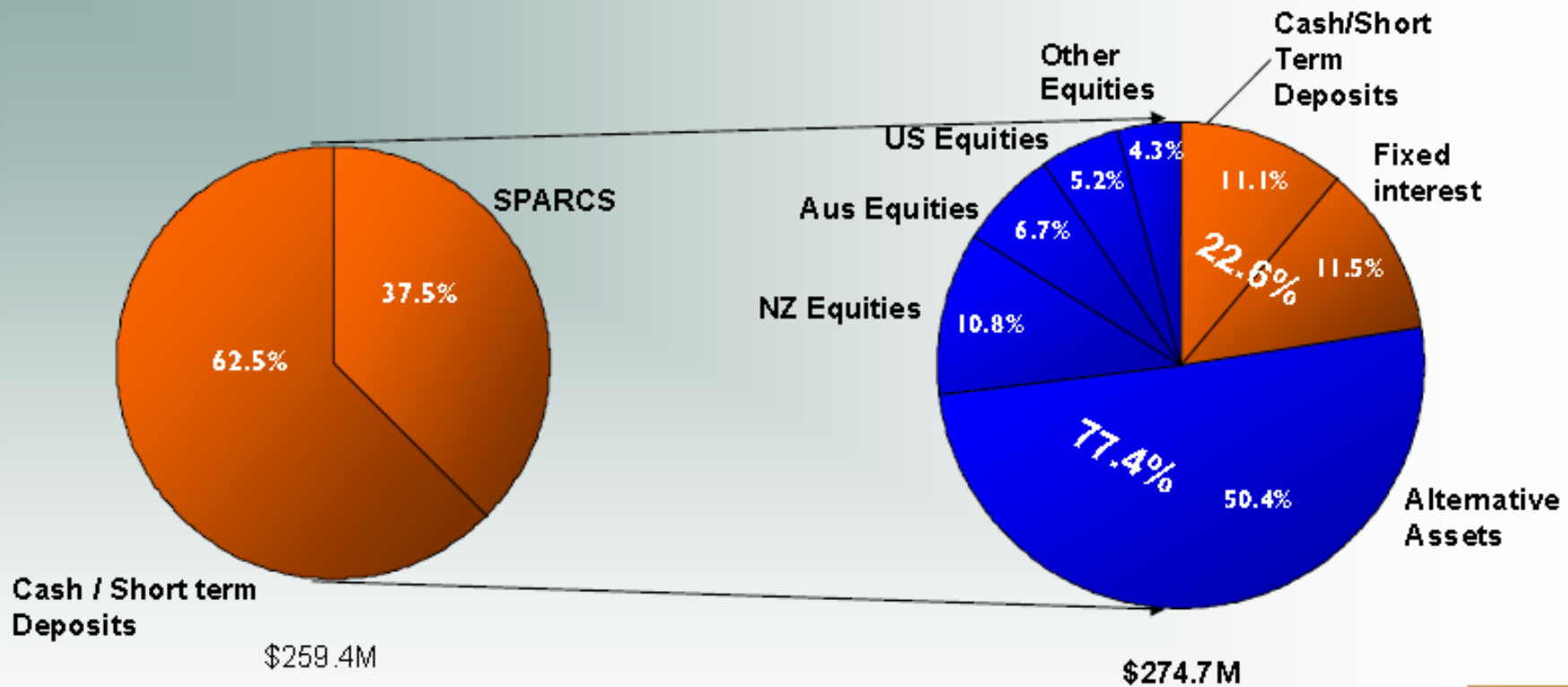
- **The PIF continues to rate as the top performing fund over one, two, and three years in the Mercer managed fund universe.**
- **The bulk of the outperformance since inception has been from alternative assets which have been a consequence of both TIML's higher than average asset allocation to alternatives and also the individual selection and performance of alternative assets held.**

PIF Performance

Quarterly Value Over Time



Asset Allocation



At Inception November 2004

At 31 December 2008

Four Bad Bear Markets

Dow in 1929-1932; S&P 500 in 1973-74, 2000-02, 2007-09

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