Taranaki
Investment
Management
Limited

2 October 2013

Australian Drought Hits Fund Performance

The Australian drought impact on Tasman Farms was a key factor in the negative (down $5.0 million or 2.64%) result for the New Plymouth District Council's Perpetual Investment Fund (PIF) in the just completed financial year.

TIML Chairman Keith Sutton confirmed total equity in the PIF had dropped to $212.4 million after deduction of release payments of $9.0 million as at 30 June 2013, down from $227.4 million the previous year.

"While the PIF outperformed benchmarks in four of the six smaller asset classes that we invest in, the major alternative asset class, which includes our investment in Tasman Farms Ltd in Tasmania, underperformed" said Mr Sutton.

"While that investment is realising productivity gains from our farm investment programme in initiatives such as farm conversions, improved pasture growth and utilisation, improved herd quality, better farm management and staff training, Tasman Farms Ltd recorded a $10.3 million net loss from continuing operations after tax for the year."

"Milk production continues to grow, but overall income was struck by a second year of low payouts in the Australian dairy industry."

"The drought undermined confidence and forced market livestock prices lower resulting in a $7.1 million livestock write down over the year."

"We deliberately chose to retain herd numbers and cow condition at higher levels to maintain a strong position for the expected rebound of over a $1 per kg of milk solids in the coming year. Fonterra's current milk price forecast is $6.20 per kgms compared with just $5.09 last season. Milk production is expected to be 5 to 7 percent higher than the 6.25 million kgms produced last year."

Mr Sutton said "strategies for rebalancing the PIF asset classes and changes in asset allocation have been discussed with the Council."

Mr Sutton reiterated "the PIF was focused on long-term returns and had an investment philosophy and time frame that did not focus on market cycles or short term fluctuations."

"Since its establishment in late 2004 the fund has averaged 4.72% per annum returning $132.4 million of investment income over that period – a period that included the worst global economic crash seen since the 1929 Great Depression."

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“The PIF has also paid out $169.1 million to the New Plymouth District Council, the fund’s owner, since inception with that money being used to provide services and amenities to the local community that would have otherwise had to come from rates.”

Mr Sutton said “that as a result of recent policy change to set release payments at lower sustainable levels, the Council had waived its last two quarterly releases of funds and set a new lower benchmark target for release funds.”

“We expect Tasman Farms to begin realising the benefits of the improvements we have made, especially as confidence returns to the Australian dairy industry; and we will continue to work towards rebalancing the PIF. “

”We remain confident we will meet and exceed the new 3.3% release target now embedded in our planning and release rule calculations over the long term. The portfolio expected return at target asset allocation is 7.5% pa.”

“That is a long-term sustainable income stream that can only continue to benefit the ratepayers of New Plymouth.”

Perpetual Investment Fund (PIF) – Fact Sheet

- The PIF is structured and invested as a long-term investment fund.
- It is intended the management and reporting of the fund is not unduly influenced by short term market fluctuations, cycles or events.
- The long term focus is the rationale for the high allocation to alternative and growth assets.
- Alternative assets have generally delivered superior returns.
- The PIF has operated through the Global Financial Crisis – which had a significant impact on results, fund value and current asset allocation. Despite this the overall return over the life of the fund is 4.72% per annum, with $132.4 million of investment income.
- The PIF has outperformed benchmarks, in most of its asset allocation classes.
- The PIF has earned more than would have obtained “from the bank” over that period.
- The PIF results are similar to other “growth” orientated funds.
- The PIF has paid out release payments of $169.1 million to Council since its inception in late 2004.
- Release payments have reduced liquid investments.
- Council has now initiated a reduction in release payments to a sustainable level of 3.3% over the next 3 years.
- The PIF has been overweight in alternative assets as a result of the above matters.
- We have been planning the rebalancing of the PIF over the last 24 months.
- TIML recognises the PIF is overweight in Tasman Farms, and has commenced the process to reduce this exposure. Any divestment will be conducted at a time to maximise value to NPDC.
- TIML has reduced the planned future asset allocation to alternatives and proposes increased allocation to property and other equities as it reduces existing alternative investments.
- This will match the now more conservative risk profile and cashflow requirements of NPDC.

Strategic Asset Allocation

Asset Class	Proposed SAA (%)	Current Target SAA (%)
Cash	5.0%	2.5%
Fixed Income	5.0%	2.5%
NZ Equities	5.0%	0.0%
Australian Equities	5.0%	0.0%
US Equities	10.0%	7.0%
Europe and Pacific Equities	10.0%	11.0%
Emerging Market Equities	10.0%	7.0%
Alternative Assets	50.0%	70.0%
Total	**100.0%**	**100.0%**