

Taranaki
Investment
Management
Limited

Perpetual Investment Fund

Portfolio Report Summary

31 December 2013

Report to Council – 18 March 2014

Performance Summary Since Inception

The PIF asset allocation is designed to allow long term investments which match the multi generational perpetual mandate of the PIF.

The PIF therefore focuses on long term returns and has achieved an annualized after tax and before fees return of +5.46% pa or +\$129.36m of investment income since inception.

Returns must be viewed in the context of the overall performance of major global financial markets in both the short and long term, and take account of significant events over that timeframe.

Our long term view and that of our adviser actuaries is that the PIF will meet and exceed the real 3.3% pa release target now embedded in council planning and release rule calculations.

The portfolio expected return at target asset allocation is 7.5% pa.

Inception to 31 December 2013	NZ\$m	%pa
Opening Balance 14 November 2004	259.40	
Gross Performance	129.36	5.46%
Costs	-11.05	-0.47%
Net Performance	118.31	4.99%
Release Payments	-174.30	
Closing Balance 31 December 2013	203.41	

Half Year Performance Summary

The after tax and before fees investment performance for the half year ending 31 December 2013 was -1.43%pa.

The PIF outperformed benchmarks in four of the six asset classes that we invest in, but underperformed in the alternative asset class.

This is mainly because most of our alternative assets are revalued at year end, and the high NZD has impacted on half year carrying values of foreign currency denominated assets.

The PIF made release payments of \$5.18 million for the half year and the closing balance of the Fund as at 31 December 2013 after release payments and costs therefore reduced to \$203.41 million.

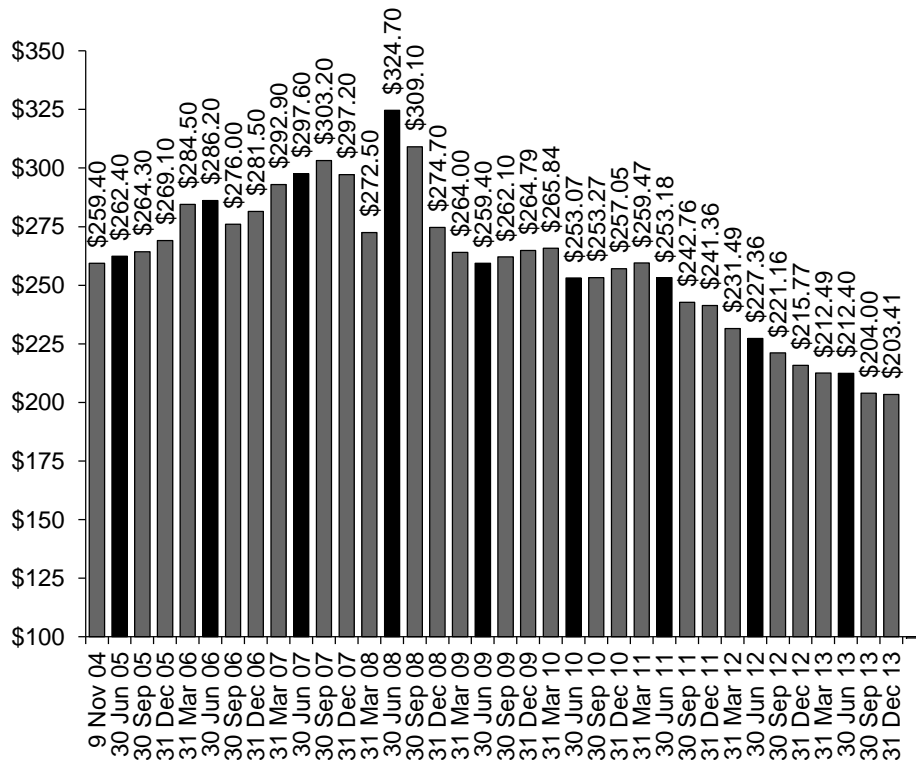
Half Year End: 31 December 2013	NZ\$m	%Half
Opening Balance 1 July 2013	212.40	
Gross Performance	-3.03	-1.43%
Costs	-0.78	-0.37%
Net Performance	-3.81	-1.79%
Release Payments	-5.18	
Closing Balance 31 December 2013	203.41	

Historic Performance

The PIF has paid release payments to NPDC totalling \$5.18m for the half year.

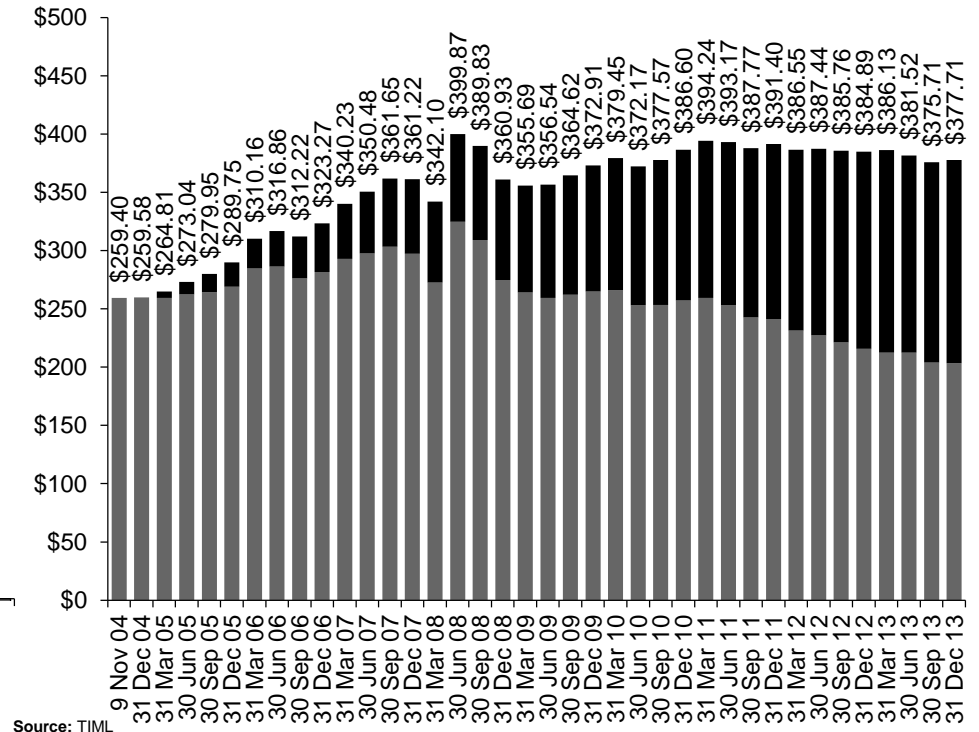
The PIF has paid out \$174.30m in release payments since inception in November 2004.

Quarterly PIF Value Since Inception (NZ\$m)



Source: TIML

PIF Closing Value and Cumulative Release Payments Since Inception (NZ\$m)



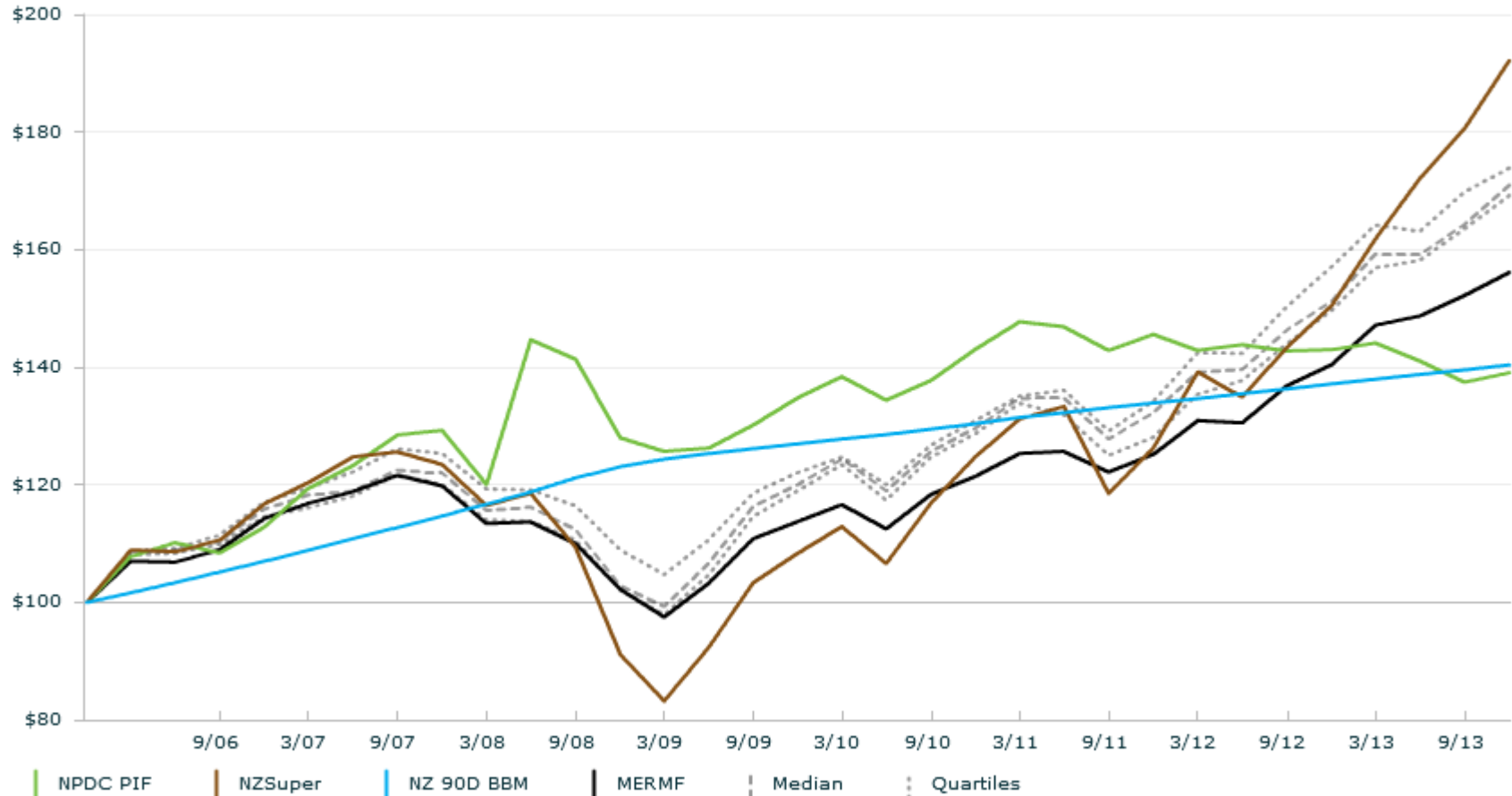
Source: TIML

External Independent Benchmarking

NPDC Perpetual Investment Fund Performance, NZ Super, New Zealand 90 Day Bank Bills

Growth of \$100 (before fees) over 8 yrs ending December-13

Comparison with the NZ Managed Fund Survey universe



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Portfolio Asset Allocation

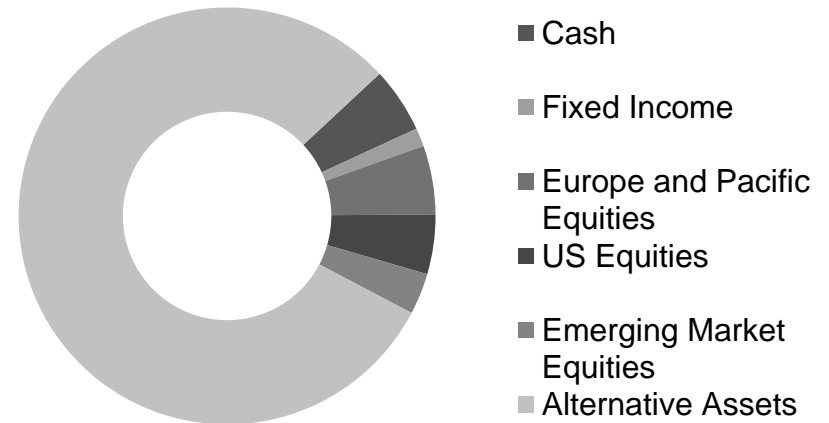
Asset Class	Current Value (\$m)	Portfolio (%)	Current Target Asset Allocation (%)	New SAA
Cash	10.32	5.07%	2.5%	5.0%
Fixed Income	2.91	1.43%	2.5%	5.0%
Europe and Pacific Equities	10.84	5.33%	11.0%	20.0%
US Equities	9.40	4.62%	7.0%	10.0%
Emerging Markets Equities	6.51	3.20%	7.0%	10.0%
Alternative Assets	163.44	80.35%	70.0%	50.0%
	203.41	100.00%	100.0%	100.0%

Alternative assets are above policy allocation and listed equities are below policy allocation.

The board will reallocate assets to rebalance the portfolio in the medium term as it partially exits a number of alternative investments.

The high allocation to alternative assets means the fund closely monitors its liquidity.

Portfolio Asset Allocation

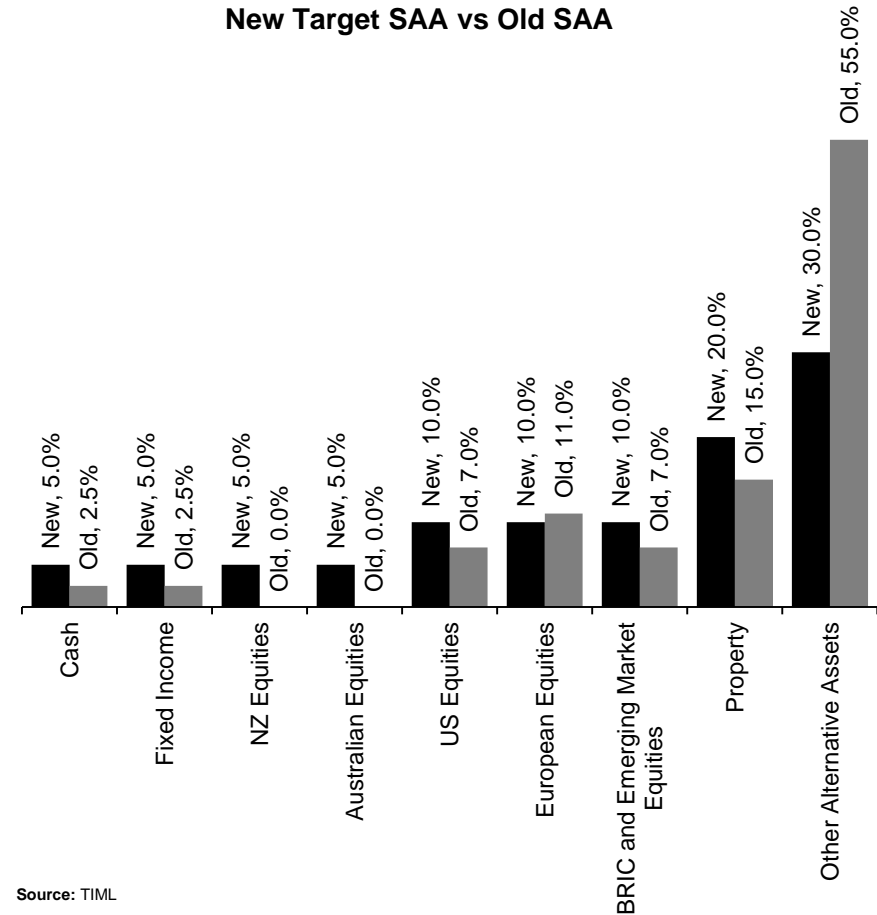


Asset Classes

Alternative Assets represent 80.35% of the PIF and include:

- Tasman Farms Limited (TFL): a food, land, soft commodity and inflation hedge investment.
- Barings Asia Private Equities: a large private equity fund that provides exposure to private company growth in the Asian region.
- Direct Capital: a New Zealand Private Equity Fund that provides growth exposure to large unlisted companies in New Zealand.
- Pioneer Capital: a New Zealand Private Equity Fund that provides exposure to private companies in New Zealand.
- Helmsman Capital: a private equity fund specialising in distressed investments.
- Other private equity and alternative assets.
- Over the long term we expect growth assets in private markets will outperform listed markets on a risk adjusted basis.

New Target SAA vs Old SAA



Source: TIML

Outlook

The Reserve Bank of New Zealand has commenced tightening interest rates in March 2014.

The expected reversal of monetary stimulus packages globally will be watched closely. We believe this has played a major role in the support and recovery of listed equity markets and changes to policy may have a negative effect on equity markets.

We are also monitoring economic growth and inflation risks globally as these will drive future interest rate increases. We expect increases in interest rates will be negative for bond values and company debt servicing, but reflect the more positive business and earnings cycle.

The PIF is overweight in its asset allocation to alternative assets and underweight in listed equities for the short term. This will be actively rebalanced over the medium term as far as practicable.

The TIML Board has reviewed its long term strategic asset allocation targets and have made a number of changes.

It recognises the concentration risk to the portfolio in holding 100% of TFL and plans to sell down TFL in part in the 2014/15 financial years.

TIML is confident of a strong performance from TFL in the 2014 financial year, as a result of record production levels, and record milk prices.

Taranaki Investment Management Limited

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