

**Perpetual Investment Fund
Performance Report
Financial Year End
30 June 2009**

SUMMARY

The Perpetual Investment Fund (PIF) opened the financial year at \$324.7m, a record high point.

Mark to market write-downs for alternative assets in the current year have meant a write-back of over \$13m of prior year revaluations in this year's accounts.

The year was extremely turbulent and volatile in financial markets. The PIF continued to make regular release, interest, and expense payments of over \$23.5m to New Plymouth District Council during the year. It also introduced, following consultation with Council, a Release Rule model effective from 1 July 2009 which will ensure continuation of a sustainable release payment into the future.

Overall, after mark to market write-downs, the PIF investment performance was a 0.87% underperformance against benchmarks. The main underperformer was Australian equities -2.2% due to a high concentration held in the usually "safe" financial, property, and utility stocks. The main outperformer continued to be alternative assets + 2.6%, even after the \$13m of provisions.

Over the year a revised strategic asset allocation was commenced to hold more alternative assets, cash and bonds and less listed equities. Extensive external and in-house modelling suggests the revised allocation has a 1 to 2 % higher expected return per annum in the long run.

In what was an extremely difficult financial environment, it was positive for the PIF not to have invested in entities which have defaulted, to have out-performed in its largest asset allocation class, and to have maintained strong liquidity right through and beyond the credit crisis to ensure it can meet current and future commitments.

Due to the high quality of international equities held, most individual investment names were held right through the 2008/09 year apart from some equity being cashed up from November to January to make the transition to our long term liquidity management plan.

The overweight financial sector equities which underperformed last year have outperformed since balance date.

The PIF closed the year after releases and provisions at \$259m.

SUMMARY

	\$m	% of opening balance
Opening balance at 1 July 2008	324.7	
Release, costs, and interest payments	23.5	-7.2
Mark to market write-downs (alternative investments)	13.0	-4.0
Net loss on investment –year to 30 June 2009	28.8	-8.9
Closing balance as at 30 June 2009	259.4	

STRATEGY AND POLICY

Over the year a number of significant strategy and policy decisions were made by the Board which have set the foundations for the long term future growth of the PIF. These were put in place after consultation with New Plymouth District Council executives, the Investment Subcommittee, and Council, and include:

- A Release Rule which underpins the sustainability of the PIF and smoothes out the impact on annual releases of changes to the fund value.
- A Strategic Plan for the PIF outlining key objectives, strategic business drivers and expected results.
- A Strategic Asset Allocation review for the PIF which recommended optimising long run expected returns through holding more alternative assets and a lower allocation to listed equities.
- A Liquidity Management Plan and Transition Plan to enable the transition from the historical asset allocation through to the new asset allocation.

In summary, the Board believe the new strategies and policies adopted this year will provide a good foundation and superior long term investment outcome for the PIF while achieving the long term TIML and PIF vision *“to maximise the net expected value of the PIF given its obligations under the release rule”*.

ALTERNATIVE INVESTMENTS

During the year there have been over twenty individual direct investment opportunities presented to the board as part of an alternative asset pipeline.

Each of these has required at least a high level review and several have been taken to full due diligence and investment. Included in the latter are the Direct Capital III secondary market purchase and Direct Capital IV subscription.

ALTERNATIVE INVESTMENTS

TASMAN FARMS LIMITED

The investment in Tasman Farms Limited does introduce concentration into the portfolio, which has required the close attention of the board and executive team. The investment changed in value in a different way to the other investments, which is part of its diversification benefit. Its main value drivers were milk, beef, livestock and land prices, most of which were down for the year, but which are showing signs of improvement since balance date.

The investment fits in well with the new strategic plans and asset allocation.

Overall, the PIF recorded an \$11m mark to market loss in value on the investment. We see this as cyclical and expect to recapture value in the medium term as the business improvement and development initiatives continue and its price/value drivers lift.

We were pleased to note record production of 4.16 million Kg of milk solids, up 22.4% on last year, and expect production to increase again next year.

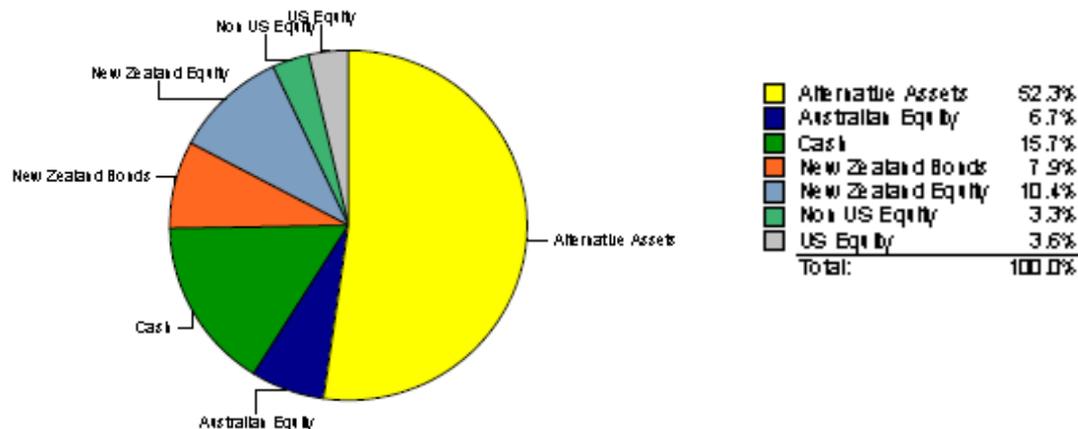
PORTFOLIO ASSET ALLOCATION

TIML

Portfolio Valuation as at: 30-Jun-2009

Asset Class	Cost	Current Value	Annual Income	Income Yield	Portfolio %	Benchmark %	Var %
Alternative Assets	\$90,945,302	\$135,793,347	\$462,353	0.34%	52.3%	30.0%	22.3%
Cash	\$40,773,476	\$40,766,756	\$2,858,690	7.01%	15.7%	5.0%	10.7%
New Zealand Equity	\$36,696,186	\$27,096,895	\$1,632,415	6.02%	10.4%	20.0%	-9.6%
New Zealand Bonds	\$21,476,280	\$20,596,420	\$1,656,208	8.04%	7.9%	15.0%	-7.1%
Australian Equity	\$30,943,878	\$17,282,059	\$1,200,971	6.94%	6.7%	10.0%	-3.3%
US Equity	\$12,788,609	\$9,366,574	\$277,031	2.95%	3.6%	10.0%	-6.4%
Non US Equity	\$11,579,628	\$8,519,409	\$243,918	2.86%	3.3%	10.0%	-6.7%
	245,203,359	259,421,461	\$8,331,586	3.21%	100.0%	100.0%	

Note: Cash Balance excludes "Current Interest" and unsettled transactions



QUARTERLY PORTFOLIO RETURNS

TIML

Portfolio Valuation as at: 30-Jun-2009

Gross Internal Rate of Return

	2008Q3	2008Q4	2009Q1	2009Q2
Alternative Assets	2.44%	-4.07%	0.37%	-5.99%
Australian Equity	-14.02%	-35.31%	-1.58%	27.93%
Cash	2.16%	4.20%	1.46%	0.80%
New Zealand Bonds	-0.31%	4.18%	0.11%	4.38%
New Zealand Equity	-6.47%	-12.12%	-6.72%	14.53%
Non US Equity	-10.83%	-19.01%	-4.95%	10.86%
US Equity	4.44%	-19.18%	-22.43%	6.22%
	-2.28%	-9.47%	-1.80%	0.42%

MARKETS

In spite of the June quarter rally, global equity markets were all down over the year as follows:

- New Zealand NZ50G (-12.47%),
- Australian ASX 200 (-24.17%),
- United States S&P 500 (-28.18%)
- UK FTSE 100 index (-24.47%)
- Hong Kong Hang Seng Index (-16.85%)

On a rolling four quarter basis the PIF was down -13% after all mark to market adjustments.

CURRENCY

Currency was positive over the 2009 financial year contributing NZ\$9.7m.

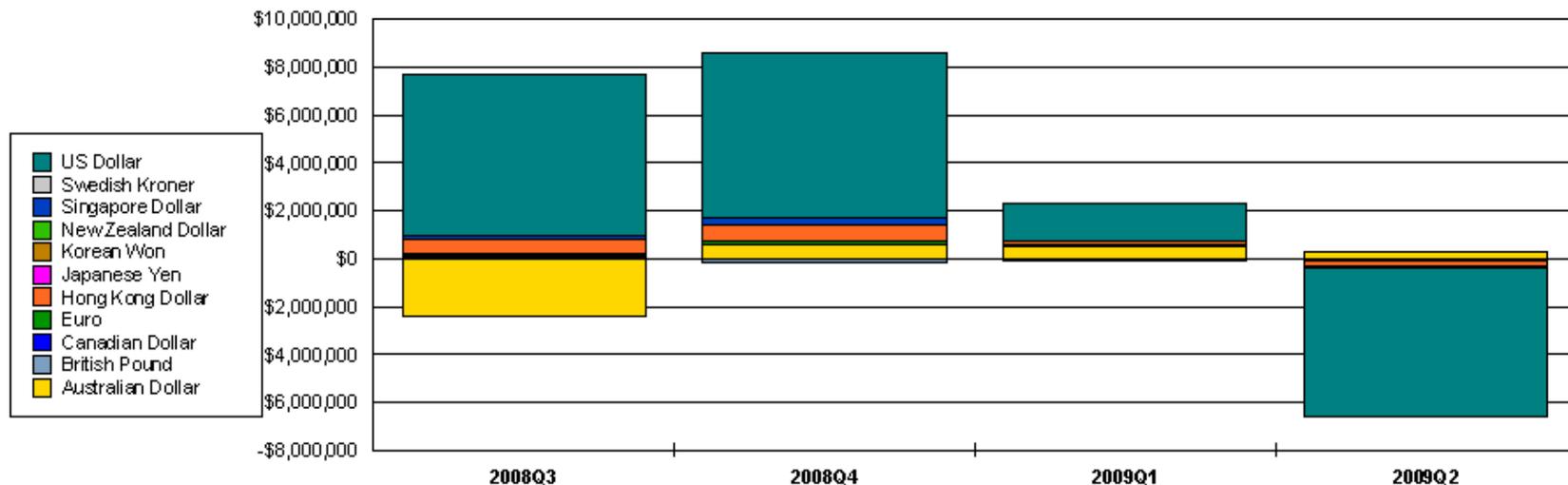
The US dollar exposures in the Baring Funds and the US equity portfolio are the major contributors to the currency gain.

CURRENCY OVERVIEW

The new strategic asset allocation will reduce the range of currencies to which the PIF is exposed in future.

The PIF was un-hedged over the year

Currency Gain or Loss Contribution to Overall Return



Note: The chart above displays the absolute NZD contribution of each currency in the overall net/gain or loss due to currency movements.

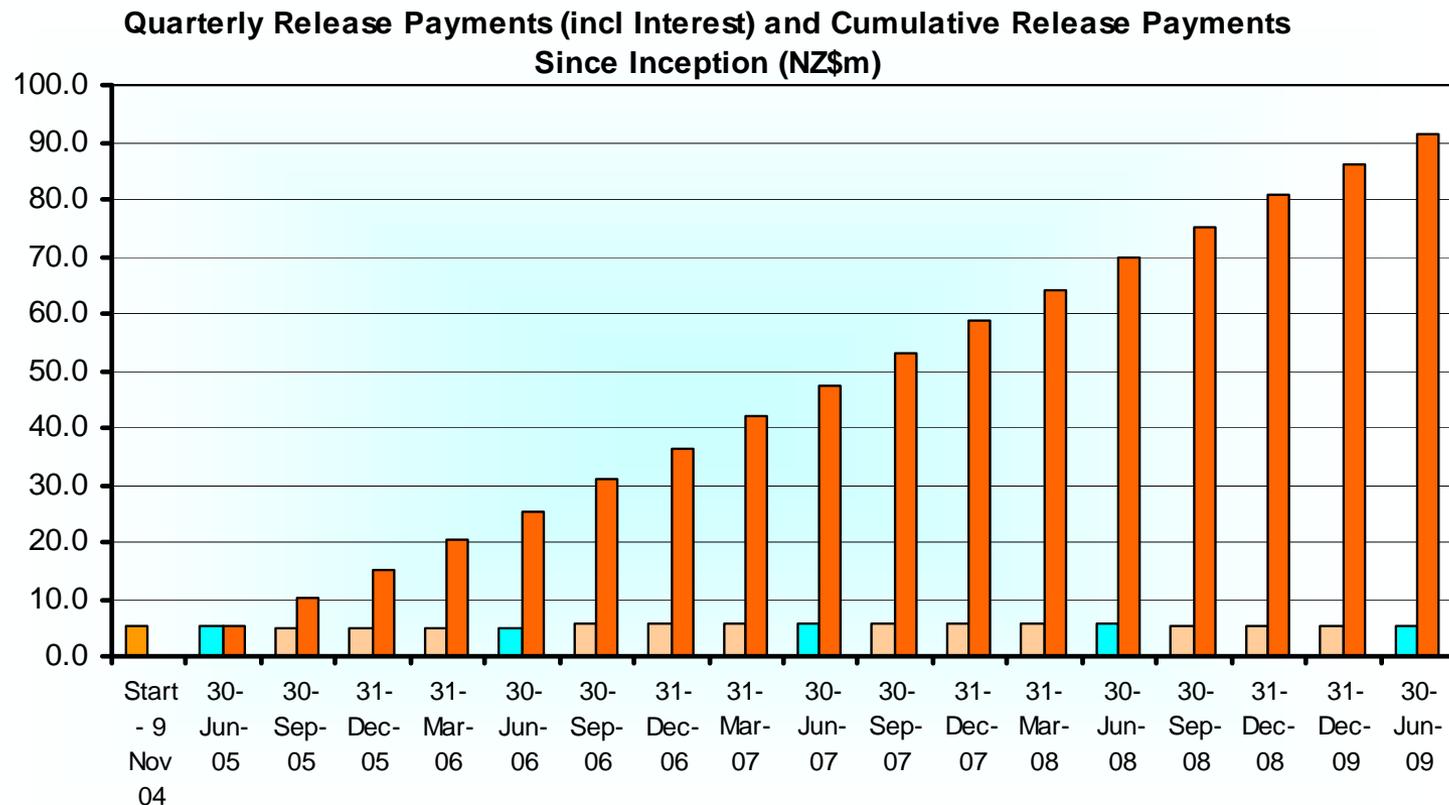
BENCHMARKING

The PIF continues to rate as the top performing fund over two and three years in the Mercer fund universe. However, with recent significant changes in asset allocation the comparison to other funds is less useful and the comparison to strict benchmarks is more appropriate.

The overall under-performance of the PIF for the year was 0.87% under benchmark, mostly in Australian and US financial sector equities.

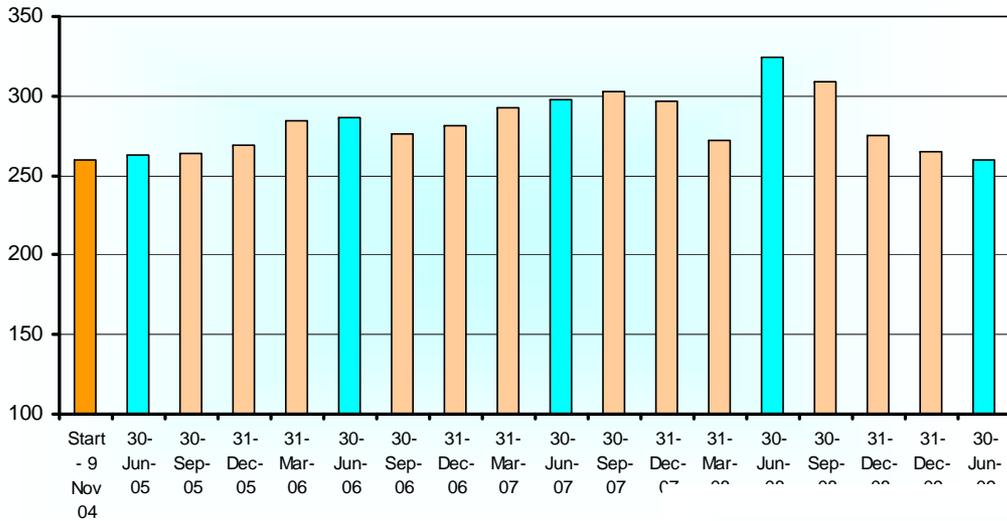
HISTORIC COMPARISONS

The PIF has paid out NZ\$91.61m since inception. This consists of quarterly release and interest payments.

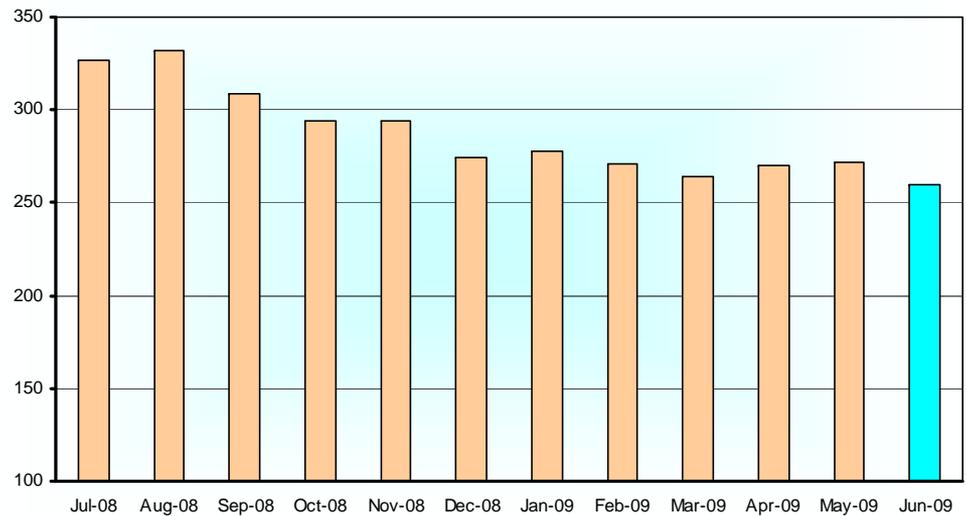


HISTORIC COMPARISONS *(cont.)*

Quarterly PIF Value (NZ\$m)



Monthly PIF Value (NZ\$m)



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