Taranaki Investment Management Limited

Perpetual Investment Fund

Performance Report

Year Ended

30 June 2011

Report to Council - 27 September 2011

Summary

During the year ending 30 June 2011 the investment performance was +10.09% which added $23.63 million to the fund.

The total value of the PIF therefore increased slightly from $253.07m in 2010 to $253.18m in 2011 after deducting release and expense payments for the year of $23.52m.

The appreciating New Zealand dollar against the USD limited the potential for higher returns over the year by $18.3m (-7.8%) and equity markets gave back some gains in the last quarter.

Year End: 30 June 2011

Performance Report Summary	**NZ$m**
Opening Balance 1 July 2010	(1)**253.07**
+ Performance	23.63
- Release Payments	20.89
- Costs	(2)2.63
Closing Balance 30 June 2011	**253.18**
- Less NPDC Loan	9.17
Net PIF Balance at 30 June 2011	244.01

Portfolio Return = 10.09%

[1] Includes an increase of $1.33m post balance date on reported closing balance 2010
[2] Includes actual and accrued expenses for fees and costs of investments e.g. takeover costs, capital raise costs for TFL, brokerage etc

Market Environment

Markets remain concerned about the economic challenges of many developed countries including:

- low growth in western economies despite low interest rates and or quantitative easing programs;
- managing sovereign risk particularly in Europe;
- risk of deflation; or stagflation
- achieving a reduction in unemployment;
- achieving an increase in consumption; and
- management of Government fiscal policy and budget deficits.
- Political populism verse leadership on key issues

Despite these real risks, Australia, China, India, emerging Asia and South America continue to increase activity and growth is expected over the medium term in those regions. Hence overall world GDP growth remains mildly positive but global debt and equity markets are volatile reflecting the wide range of risks.

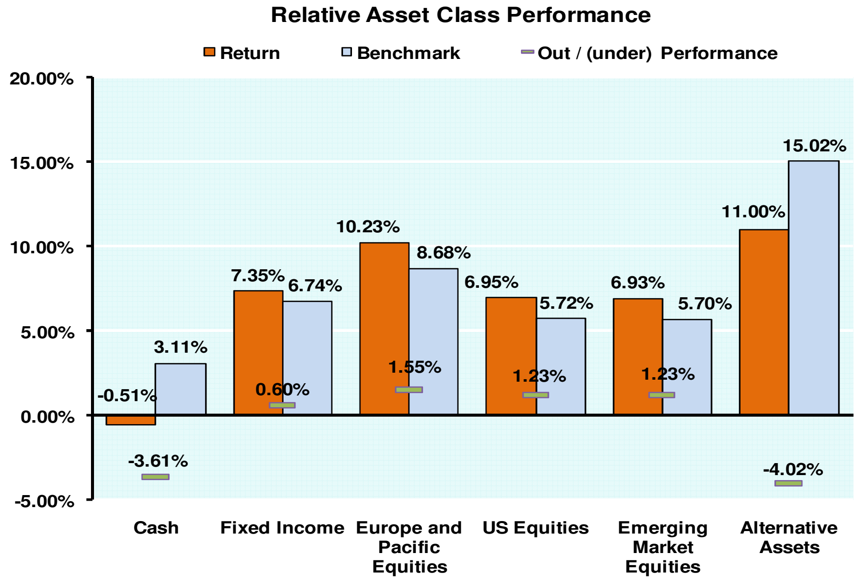
New Zealand Dollar Comparison Returns

Class [3]	Quarter (%)	[4]Half (%)	Year (%)
PIF	-0.57%	2.64%	10.09%
Gold	-3.75%	-0.51%	-0.30%
Oil	-18.06%	-2.00%	4.32%
NZ Market	0.25%	4.21%	16.02%
Australian Market	-9.14%	-4.24%	12.87%
US Market	-8.47%	-1.18%	5.81%
UK Market	-7.39%	-2.50%	7.23%
Hong Kong market	-12.56%	-8.60%	-8.03%

[3] Source: IRESS. Gold (oz), NZ Markets (NZ50G), Australia Markets (ASX 200), US Markets (S&P 500), UK Markets (FTSE 100) and Hong Kong (Hang Seng)
[4] Returns since 31 December 2010

Benchmarks

The PIF out-performed in 4 out of 6 asset classes over the year.



However, when each asset class is weighted by their size in the portfolio it shows that equities, fixed income and cash are relatively small components and hence small contributors to total performance.

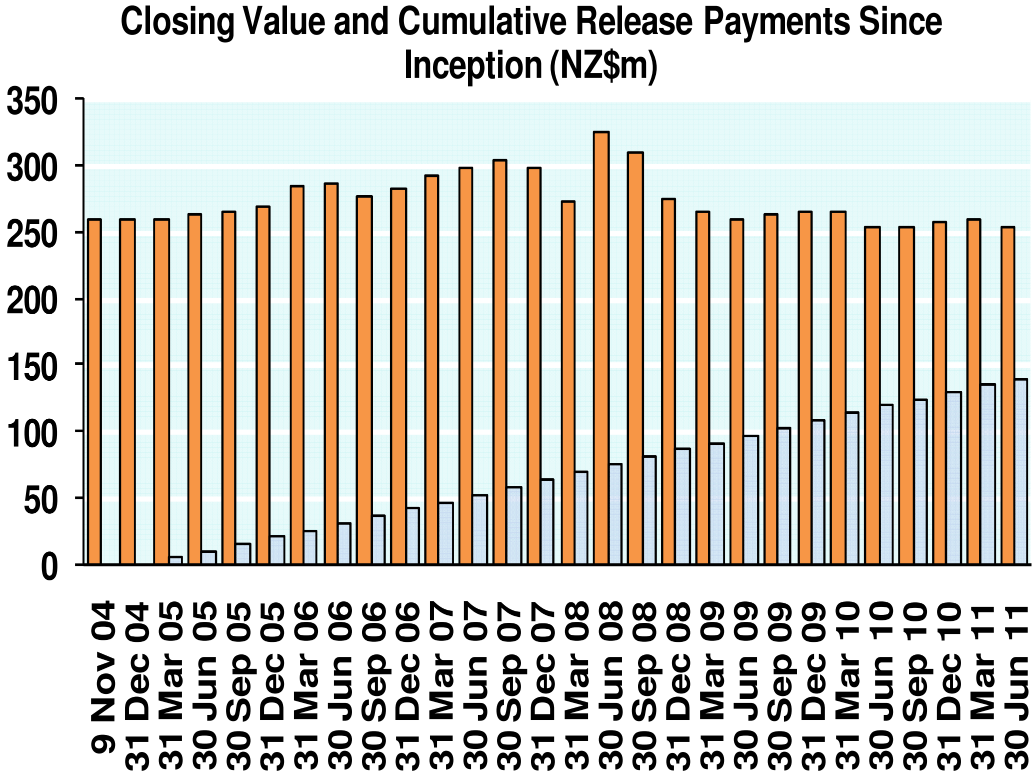
The alternative asset class variance is the most significant negative variance to our expectations. It arises due to its high allocation in the portfolio and the high expected return of 15%pa for this particular asset class.

Stock Selection (+5.32%) and Asset Allocation (+0.12%) contributed positively but currency (-7.76%) contributed negatively over the year when compared to “budgeted” performance

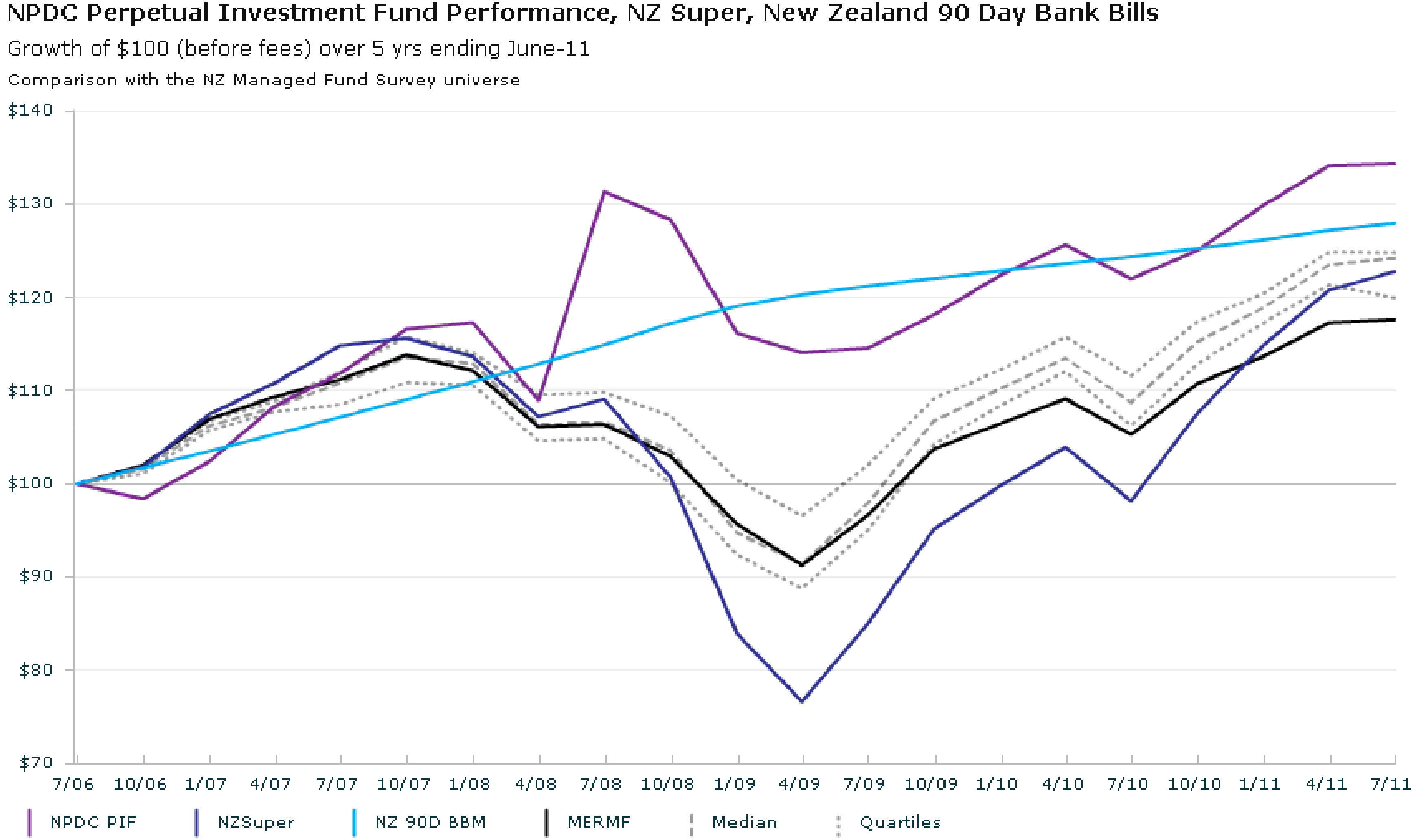
Historic Performance

The PIF paid release payments to NPDC totalling $20.89m for the year, plus annual management and investment costs of $2.63m.

The PIF has paid out $140m in release payments since inception in November 2004.



External Independent Benchmarking



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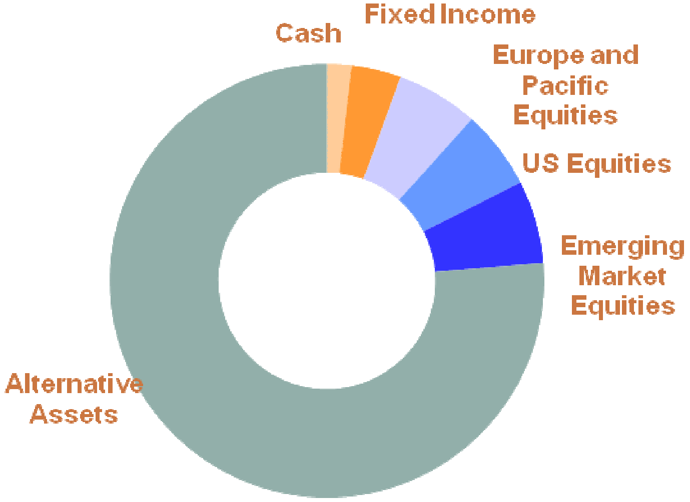
Portfolio Asset Allocation

Asset Class	Current Value ($)	Portfolio (%)	Target Asset Allocation (%)
Cash	3,212,417	1.7%	2.5%
Fixed Income	9,515,963	3.8%	2.5%
Europe & Pacific Equity	15,576,216	6.1%	11.0%
US Equity	15,099,760	5.9%	7.0%
Emerging Markets Equity	15,736,252	6.2%	7.0%
Alternative Assets	194,040,623	76.3%	70.0%
	253,181,231	**100.0%**	**100.0%**

Strategic Asset Allocation



The transition from our prior asset allocation is now complete.

All asset classes are now held at close to target allocation levels

Europe and Pacific Equities has been reduced below target allocation based on our negative view of European growth.

Asset Classes

Alternative Assets are the largest asset allocation of the PIF at 76.3%. They include

- Tasman Farms Limited as a food, land, soft commodity and anti inflation investment.
- Barings Asia Private Equity, 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 public companies in New Zealand.

The asset class has 'lumpy' returns as it typically depends on periodic revaluations or asset realisations to generate returns. We aim for a 15% return in this class but achieved 11% this year.

Cash, Fixed Income and Equities continue to provide the liquidity required to meet release and other payments as they arise

We intend to review our return expectations for each asset class for the next year.

Currency

Currency Overview

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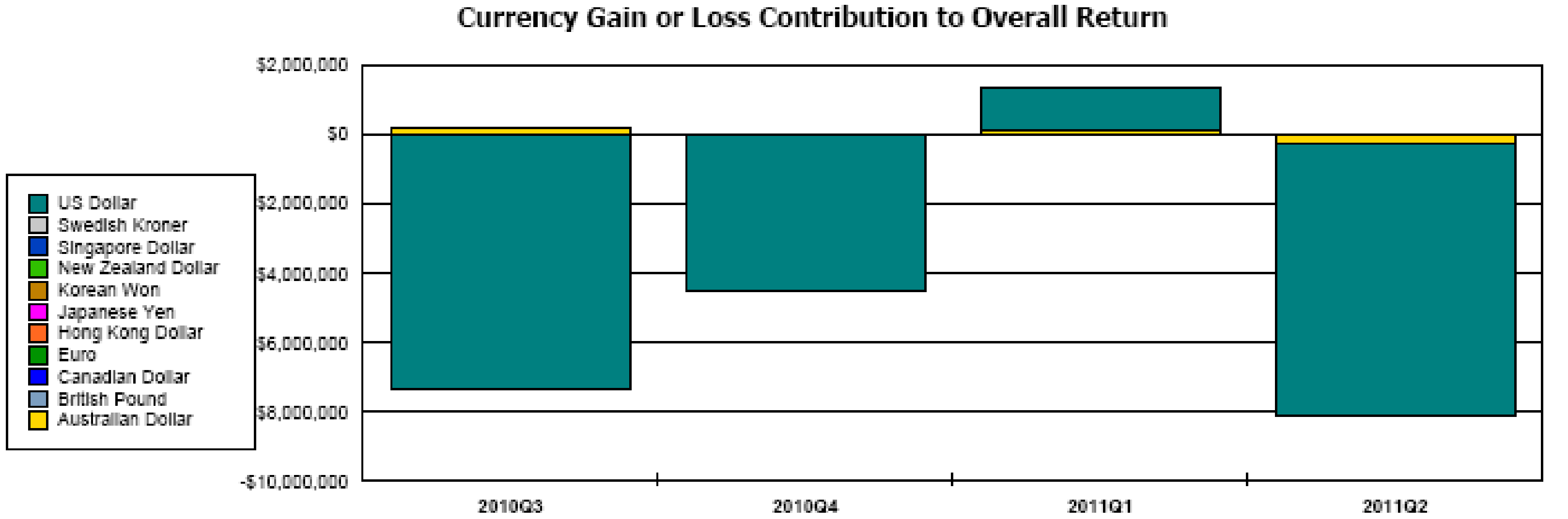
Portfolio Valuation as at: 30-Jun-2011

	2010Q3	2010Q4	2011Q1	2011Q2
Total Portfolio Value (NZD)	$253,703,991	$257,054,155	$259,606,909	$254,229,231
Total Period Cashflow (NZD)	$5,454,659.78	$6,479,109.77	$5,755,132.38	$5,792,408.00
NZD Return	2.42%	3.64%	3.14%	0.15%
Local Return	5.13%	5.27%	2.63%	3.09%
Currency Gain/Loss	**-2.71%**	**-1.63%**	**0.51%**	**-2.94%**
Value Added	-$7,102,971	-$4,463,103	$1,349,360	-$8,083,982



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

OUTLOOK

- The negative impact on the New Zealand economy as a result of the Christchurch Earthquakes has been substantial, with initial Government estimates of around NZ$15 billion.
- With weakening global growth, and potential systemic shocks the Reserve Bank is now unlikely to increase cash rates this year but is likely to have a more aggressive tightening cycle starting in 2012 as the Christchurch rebuild is expected to gather pace however, this maybe offset by global instability.
- The New Zealand dollar largely continues to react to perceived global market risk sentiment, US economic and markets data, and soft commodities data.
- We expect hard and soft commodities (and hence the NZD) will continue to remain sensitive to the broader equity and currency market movements, and Geo political events.
- We favour China, India, Australia, New Zealand and Emerging Markets over US, Europe and Japan and have positioned the PIF accordingly.
- Barings provides a wider Asia private equities exposure, Direct Capital is providing exposure to mid-size New Zealand companies and our other equity exposures are effectively spread across indices in US, Europe and emerging economies on our preferred thematics.
- We are monitoring economic growth, sovereign debt, consumption, business confidence, profitability. and inflation risks closely as these will drive interest, currency and equity markets.

Taranaki
Investment
Management
Limited

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