Taranaki
Investment
Management
Limited

Perpetual Investment Fund

Portfolio Report Summary

30 June 2012

Report to Council – 23 October 2012

Summary Performance Since Inception

Despite the market volatility we have witnessed in recent years, TIML remains confident that its investment strategy will deliver the expected returns required for the long term sustainability of the PIF for decades and generations to come.

This is because the PIF asset allocation is designed for a long term investment horizon and matches the multi generational perpetual mandate of the PIF.

The PIF therefore focuses on long term returns and has had an annualised return of +5.73%pa or +$137.41m of investment income since inception.

Inception to 30 June 2012

Performance Report Summary	**NZ$m**
Opening Balance 14 November 2004	259.40
+ Performance	137.41
- Release Payments	160.08
- Costs	9.37
Closing Balance 30 June 2012	227.36

Portfolio Return = +5.73%pa

Annual Summary

The investment performance for the year end 30 June 2012 was -2.08%pa.

These returns should be viewed in the context of the overall and relative performance of major global financial markets in the short and long term. The PIF returns since inception have taken place during the worst decade of equity performance in the more than 200 years of recorded capital market history, and have outperformed traditional equity returns.

The PIF made release and expense payments of $21.73 million for the year, and the closing balance of the Fund as at 30 June 2012 after all payments and costs therefore reduced to $227.36 million.

Equity holdings are now at 8.6%, and cash and fixed interest are at 4.6% of the fund.

Alternative assets now represent 88.3% of the net assets of the Fund, with the largest investment being that of Tasman Farms Limited.

The Board is confident it will rebalance the PIF asset allocation back within target allocations in the medium term

Year End: 30 June 2012

Performance Report Summary	**NZ$m**
Opening Balance 1 July 2011	253.18
+ Performance	-4.09
- Release Payments	20.09
- Costs	1.64
Closing Balance 30 June 2012	227.36

Portfolio Return = -2.08%pa

Comparable Market Returns in NZD's

Asset Class	Quarter	Half Year	Full Year
PIF	+0.68%	-1.21%	-2.08%
NZ Markets	-3.13%	+3.82%	-1.41%
Australian Markets	-4.55%	-1.79%	-12.14%
US Markets	-1.22%	+5.11%	+6.69%
UK Markets	-3.27%	-1.94%	-5.17%
Hong Kong Markets	-3.30%	+2.48%	-9.93%
NZ Govt Bonds	+4.02%	+3.35%	+11.29%

Source: IRESS. NZ Market (NZ50G), Australia Market (ASX 200), US Market (S&P 500), UK Market (FTSE 100), Hong Kong Market (Hang Seng) and NZ Govt Bonds (ANZ NZ Govt Bond Index).

Market Environment

Markets are reflecting concern about the economic challenges of western developed economies.

Investors have a range of questions and concerns about resolving the economic challenges faced globally by many western developed countries including:

- How the reversal of low interest rates and quantitative easing will be achieved.
- How inflation or deflation will be managed.
- How European political, fiscal and monetary risk and Euro currency issues are managed.
- How unemployment is managed.
- How GDP and consumption is stimulated without restarting inflation.
- How other Government's manage fiscal policy and budget deficits.
- How the risk of slower growth in China and other BRIC economies impact investment markets.

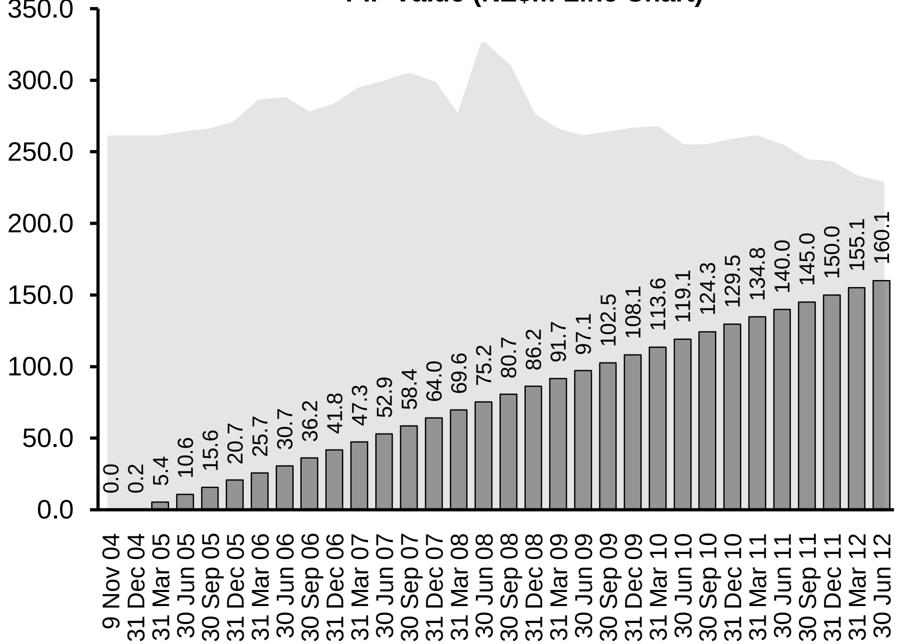
Despite these real risks, Australia, China, India, emerging Asia and South America continue to have reasonable GDP growth and therefore solid global growth is expected over the medium term.

Historic Performance

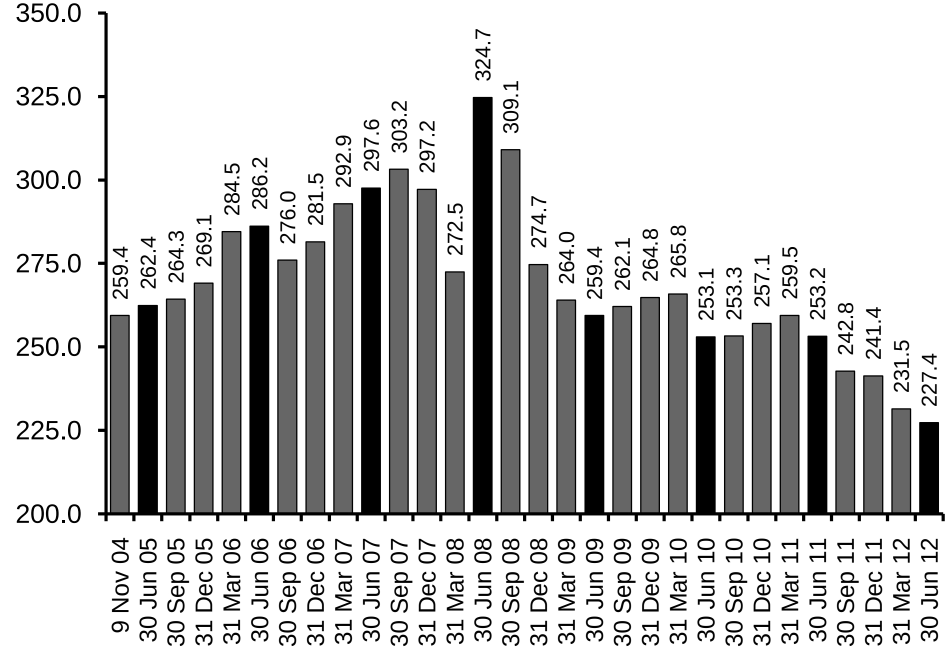
The PIF paid release payments to NPDC totalling $20.09m for the year, plus management costs of $1.64m.

The PIF has paid out $160.08m in release payments since inception in November 2004.

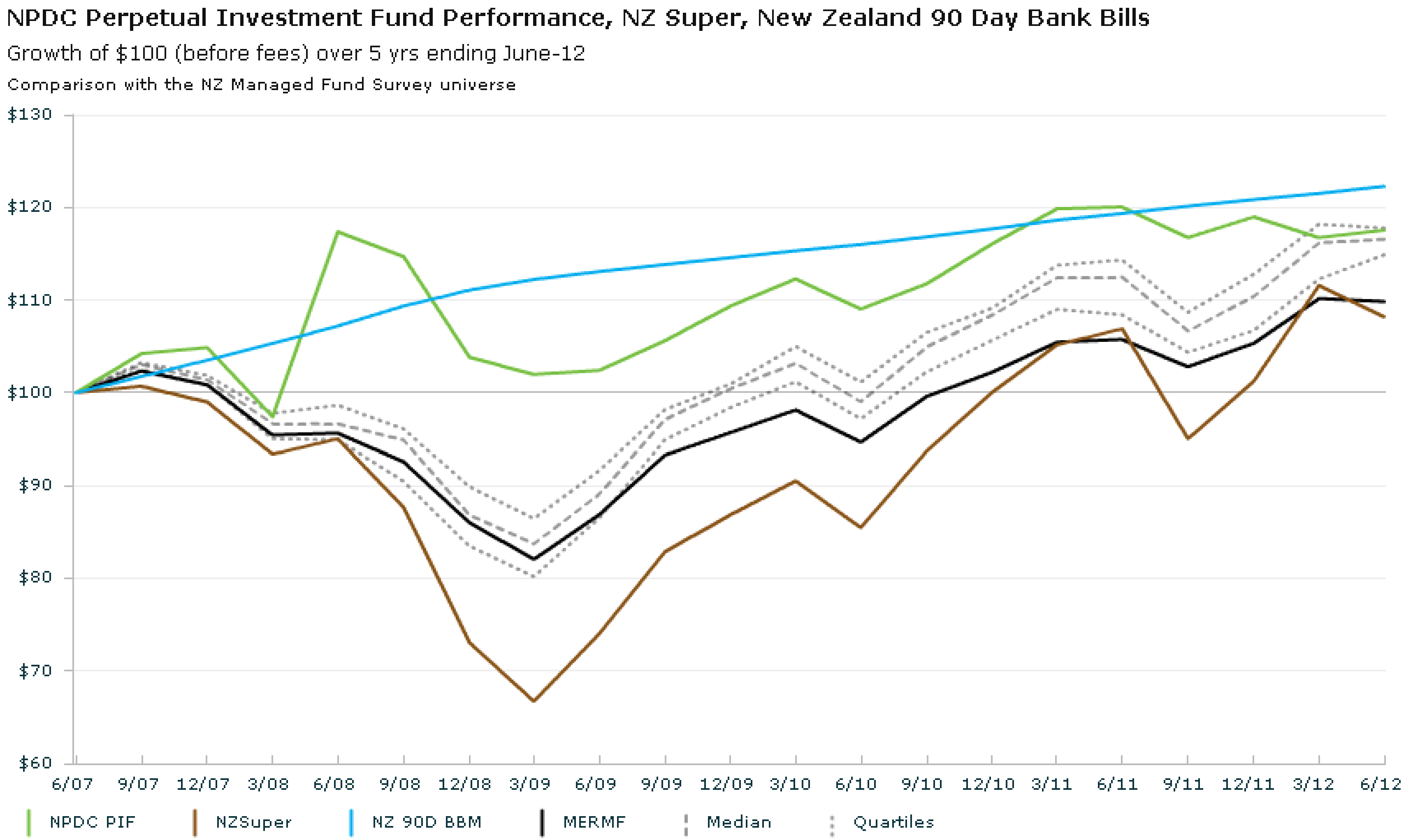
PIF Cumulative Release Payments (NZ$m Bar Chart) and PIF Value (NZ$m Line Chart)



Quarterly PIF Value Since Inception (NZ$m)



External Independent Benchmarking



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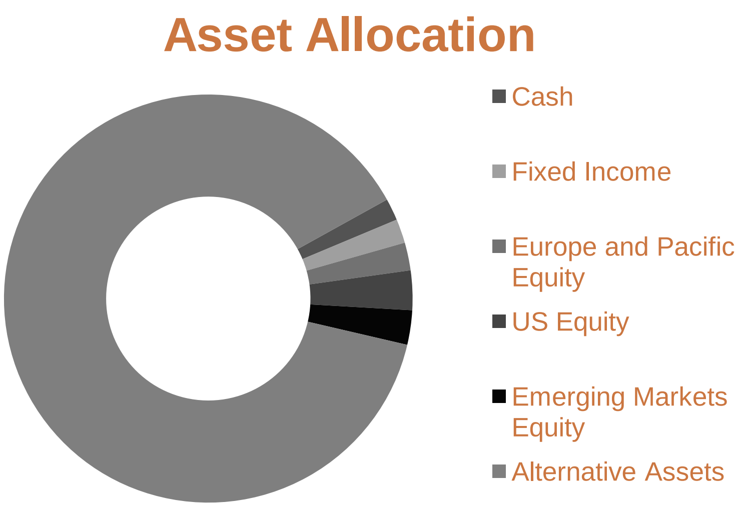
Portfolio Asset Allocation

Asset Class	Current Value ($)	Portfolio (%)	Target Asset Allocation (%)
Cash	$3,955,226	1.7%	2.5%
Fixed Income	$4,322,555	1.9%	2.5%
Europe and Pacific Equity	$5,000,921	2.2%	11.0%
US Equity	$7,112,892	3.1%	7.0%
Emerging Markets Equity	$6,201,118	2.7%	7.0%
Alternative Assets	$200,767,835	88.3%	70.0%
	$227,360,547	**100.0%**	**100.0%**

Alternative assets are above maximum policy allocation and all listed equities are below policy minimums.

A high allocation to alternative assets requires close monitoring of liquidity. We expect to see the realisation of a series of alternative assets over the next few years as a natural consequence of the Private Equity life cycle.

This will provide liquidity to the portfolio over the medium term.



Asset Classes

Alternative Assets are the largest asset allocation of the PIF at 88.3%. They include

- Tasman Farms Limited as a land, soft commodity and inflation hedge investment;
- Barings Asia Private Equity, a large private equity fund that provides exposure to private company growth in the Asia region; and
- Direct Capital, a New Zealand Private Equity Fund that provides growth exposure to large unlisted companies in New Zealand.

Alternative assets tend to have ‘lumpy’ returns as it typically depends on annual or semi annual reporting or asset realisation events to generate new reported price levels. There were few revaluations this year due to tight market conditions globally.

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

Currency Overview by Calendar Quarter

Currency Overview

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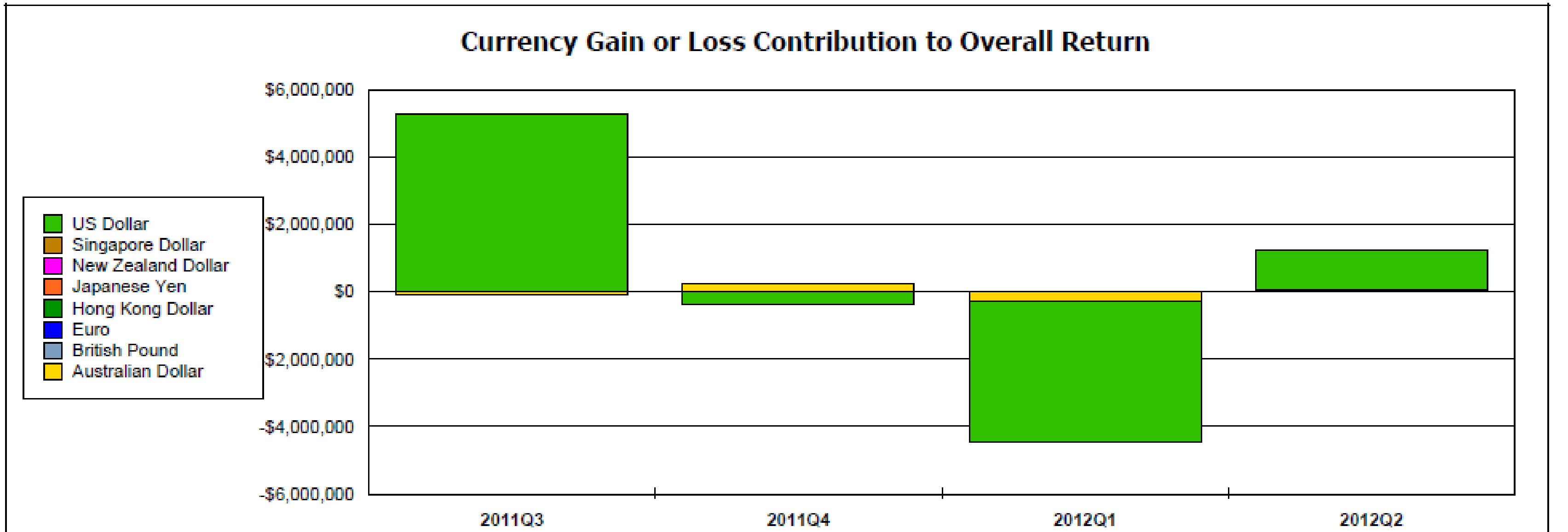
Portfolio Valuation as at: 30-Jun-2012

	2011Q3	2011Q4	2012Q1	2012Q2
Total Portfolio Value (NZD)	$242,755,422	$241,429,594	$231,492,552	$227,360,546
Total Period Cashflow (NZD)	$4,519,462.04	$6,012,347.22	$5,388,308.00	$5,704,978.00
NZD Return	-2.67%	1.83%	-1.81%	0.59%
Local Return	-4.66%	1.86%	-0.04%	0.12%
Currency Gain/Loss	**1.99%**	**-0.03%**	**-1.77%**	**0.47%**
Value Added	$5,205,906	-$89,563	-$4,459,007	$1,253,900



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 Reserve Bank of New Zealand is not likely to commence tightening interest rates until mid 2013.
- The Euro Crisis will continue to impact global GDP, interest and currency rates, but should slowly dissipate if well managed.
- The New Zealand dollar continues to track perceived market risk sentiment, interest rate markets, commodity pricing and listed market performance. The NZD is seen as a “risk on” asset and a soft commodity beneficiary and rises with these factors and markets. It is near historic highs against many currencies and will only soften when the US economy and dollar strengthens and Euro issues are managed.
- We are 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 a more positive business and earnings cycle.
- Hard and soft commodities will continue to remain sensitive to the broader equity and currency market movements and reflect underlying demand for essential products.
- Broadly speaking we continue to favour China, India, Australia and emerging markets, are neutral on the US and negative on Europe and Japan, and have positioned the PIF accordingly.
- The PIF is over its target strategic asset allocation level in alternative assets and below in listed equities for the short term. This will be actively rebalanced over the medium term.
- The TIML Board is satisfied its long term strategic asset allocation targets are appropriate and will deliver excess returns in the long run. It has also placed emphasis on liquidity and is confident it has the liquidity in place to meet its obligations for the next 24 to 36 month period.

Taranaki Investment Management Limited

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