Taranaki Investment Management Limited

Perpetual Investment Fund

Portfolio Report Summary

30 June 2013

Report to Council – 2 October 2013

Summary Performance Since Inception

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 +4.72% pa or +$132.39m of investment income since inception.

These returns should be viewed in the context of the overall performance of major global financial markets in 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 we remain confident that we will meet and exceed the 3.3% pa release target now embedded in our planning and release rule calculations. The portfolio expected return at target asset allocation is 7.5% pa.

Inception to 30 June 2013	**NZ$m**	**%pa**
Opening Balance 14 November 2004	**259.40**	
Performance	132.39	5.09%
Release Payments	-169.12	
Costs	-10.27	-0.37%
Closing Balance 30 June 2013	**212.40**	**4.72%**

Annual Summary

The investment performance for the year ending 30 June 2013 was -2.64%pa.

The PIF made release payments of $9.04 million for the year and the closing balance of the Fund as at 30 June 2013 after all payments and costs therefore reduced to $212.40 million.

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

We deliberately chose to retain herd numbers and cow condition at higher levels to maintain a strong position for the expected rebound by over a $1 per kg of milk solids in the coming year. Milk production is expected to be 5 to 7 percent higher than the 6.25 million kgms produced last year

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

Year End: 30 June 2013	**NZ$m**	**%pa**
Opening Balance 1 July 2012	**227.36**	
Performance	-5.02	-2.25%
Release Payments	-9.04	
Costs	-0.90	-0.39%
Closing Balance 30 June 2013	**212.40**	**-2.64%**

Comparable Market Returns in NZD's

Asset Class	Quarter (%ch)	Half Year (%ch)	Full Year (%pa)	3 Year (%pa)	5 Year (%pa)
NZ Market	0.39	9.19	30.60	14.32	6.81
Aust Market	-8.33	-2.79	8.28	2.40	-2.88
US Market	10.59	20.53	22.07	11.28	4.32
UK Market	-0.83	6.80	11.54	2.10	-4.68
HK Market	-7.32	-9.37	4.22	-1.69	-4.50
NZ Govt Bonds	-2.25	-1.33	0.02	5.90	7.02

Source: IRESS. NZ Market (NZ50G), Aust 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

Many future economic challenges continue to be faced globally by Western developed countries including:

- Future reversal of low interest rate regimes and quantitative easing and in the interim "tapering" of these regimes.
- Managing European political, fiscal and monetary risk and Euro currency issues.
- Managing high unemployment.
- Stimulating GDP and consumption.
- Managing Government's fiscal policies and budget deficits.

Despite the remaining risks, Australia, China, emerging Asia and South America continue to increase economic activity and therefore solid global growth is expected over the medium term. The US economy is stabilising.

Risks which have dissipated somewhat include Chinese economic growth and deflation risks.

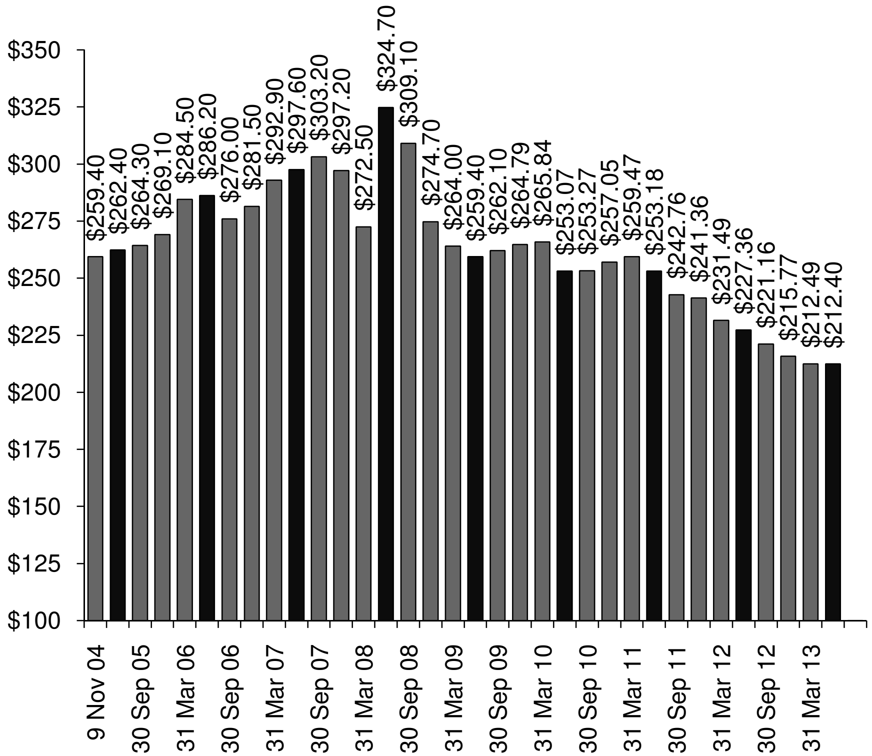
A wide range of individual companies are also performing at or above earnings expectations, which has lifted equity markets back to previous highs. We expect that buoyancy to extend to alternative asset valuations in the next 12 – 18 months.

Historic Performance

The PIF paid release payments to NPDC totalling $9.04m for the year.

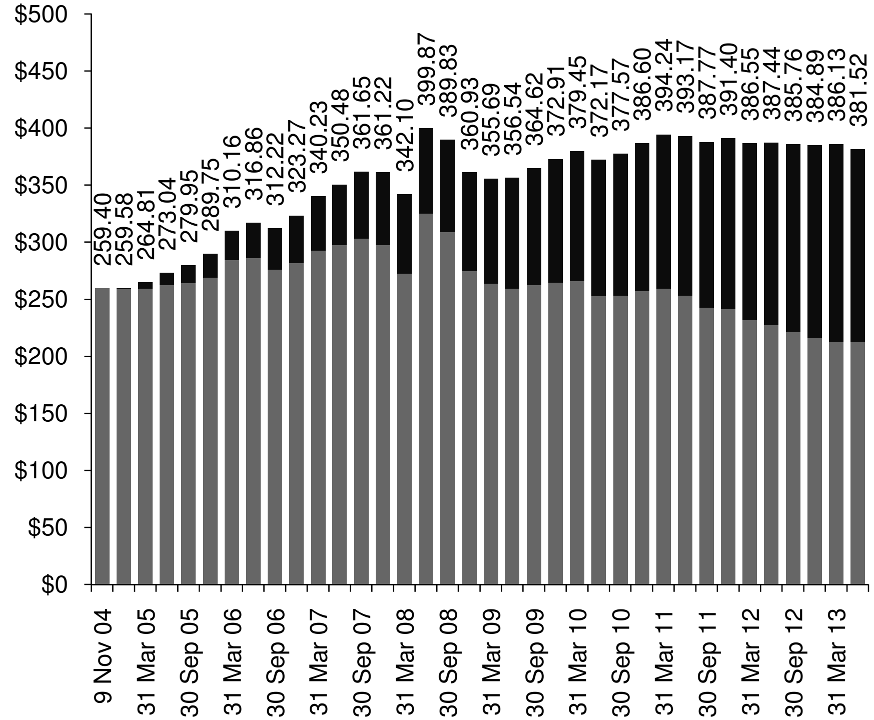
The PIF has paid out $169.12m in release payments since inception in November 2004.

Quarterly PIF Value Since Inception (NZ$m)



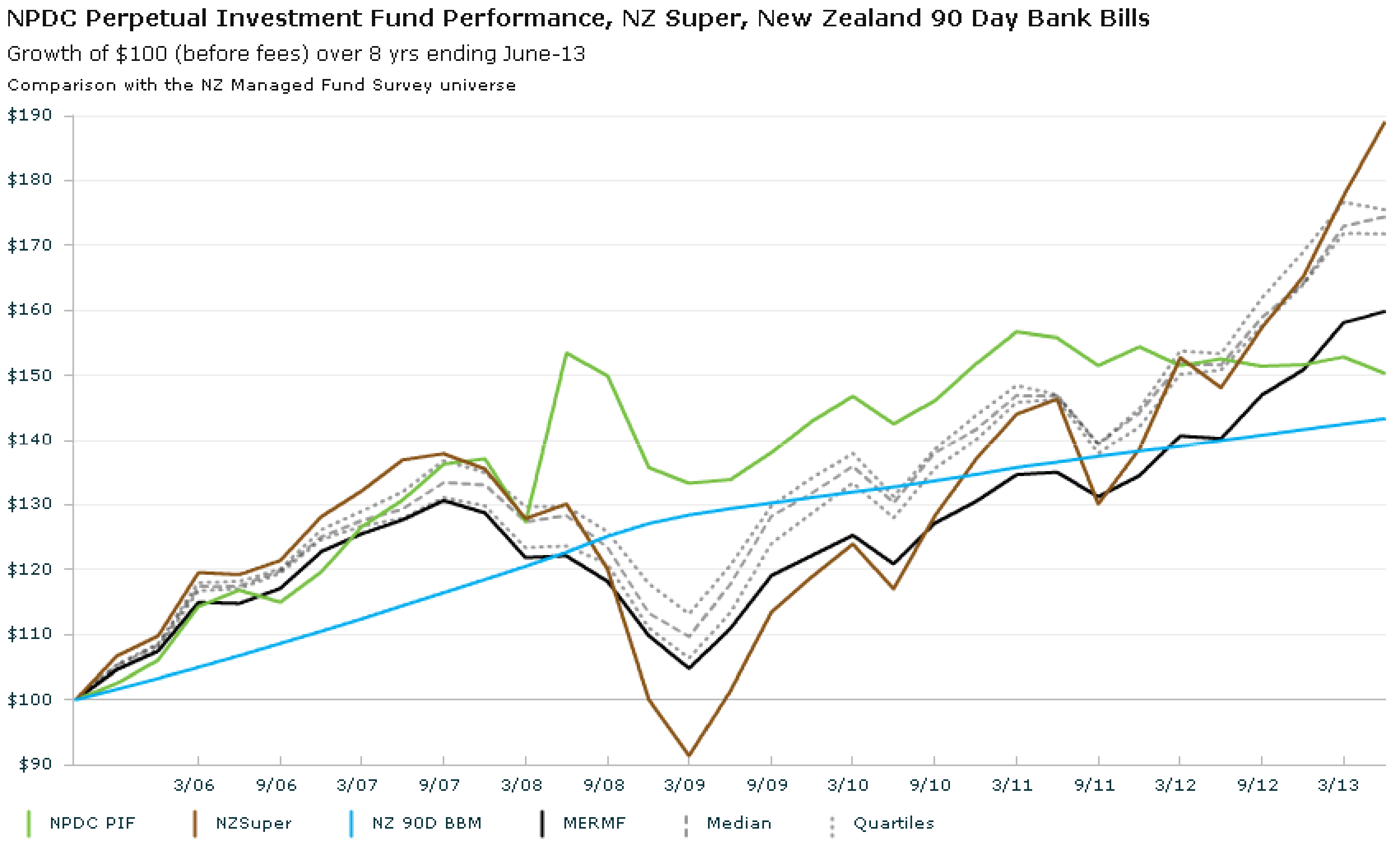
Source: TIML

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



Source: TIML

External Independent Benchmarking



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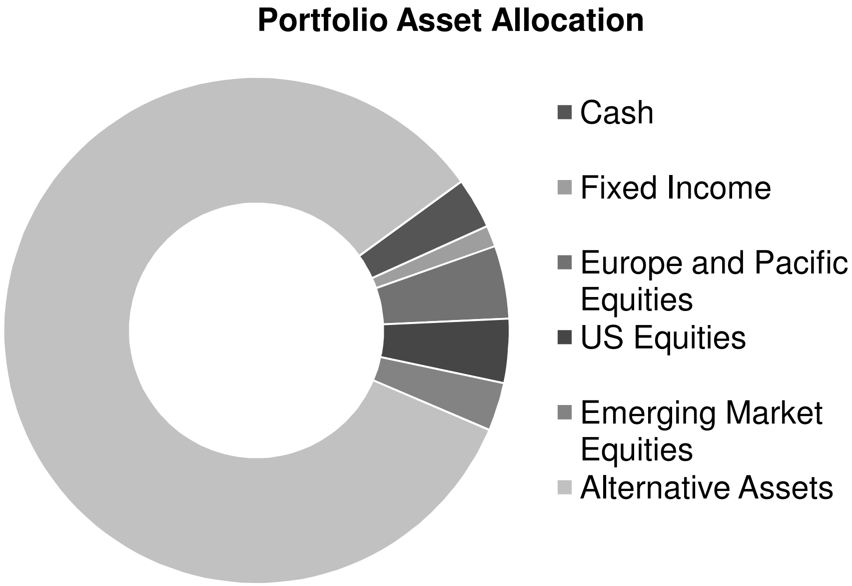
Portfolio Asset Allocation

Asset Class	Current Value ($m)	Portfolio (%)	Current Target Asset Allocation (%)
Cash	6.89	3.2%	2.5%
Fixed Income	2.89	1.4%	2.5%
Europe and Pacific Equities	9.87	4.6%	11.0%
US Equities	8.71	4.1%	7.0%
Emerging Markets Equities	6.54	3.1%	7.0%
Alternative Assets	177.51	83.6%	70.0%
	212.40	**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 83.6%. They include:

- Tasman Farms Limited, 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 Pan Asia region;
- Direct Capital, a New Zealand Private Equity Fund that provides growth exposure to large unlisted companies in New Zealand; and
- Helmsman Capital, a private equity fund specialising in distressed investments.

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 but we expect this to improve in line with listed comparators.

We expect Tasman Farms to begin realising the benefits of the improvements we have made, especially as confidence returns to the Australian dairy industry.

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

Outlook

The Reserve Bank of New Zealand is not likely to commence tightening interest rates until 2014.

The reversal of monetary stimulus packages around the world has been watched closely. We are looking for signs of tapering of this policy over the next few months. We believe this has played a major role in the recovery of listed equity markets and any slow down in this may have a negative effect on markets.

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, Australia and New Zealand, are neutral on the US; Japan and emerging markets, and underweight Europe 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 next year as far as practicable.

The TIML Board has reviewed its long term strategic asset allocation targets and believes it will deliver excess returns in the long run. It recognises the concentration risk in holding 100% of TFL and plans to sell down in conjunction with a capital raise in the 2014 financial year.

The Board 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 to its shareholder.

TIML is anticipating a strong performance from TFL and other alternative assets in the 2014 year.

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Investment
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