Taranaki Investment Management Limited

Perpetual Investment Fund

Portfolio Report Summary

30 June 2014

Performance Summary 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 after tax and before fees return of +5.79% pa or +$144.51m 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, which included the global financial crisis.
- Our long term view and that of our adviser actuaries is that we expect to exceed the 3.30% pa real inflation adjusted release rule target.
- The long term portfolio expected return at target asset allocation is 7.60% pa.
- As we adjust our portfolio to the new strategic asset allocation the gross medium term return for the next five years is expected to be 6.00% pa.

Inception to 30 June 2014	**NZ$m**	**%pa**
Opening Balance 14 November 2004	**259.40**	
Gross Performance	144.51	5.79%
Costs	-11.65	-0.47%
Net Performance	132.87	5.32%
Release Payments	-174.30	
Closing Balance 30 June 2014	**217.97**	

Annual Performance Summary - 30 June 2014

- The after tax and before fees investment performance for the year ending 30 June 2014 was +5.71%pa.
- The PIF made release payments of $5.18 million for the year.
- The closing balance of the fund as at 30 June 2014 after release payments and costs increased to $217.97 million.
- The majority of positive performance was driven by our alternative assets class and in particular Tasman Farms off the back of record farm gate prices, record milk production and profits.
- Our co-investment with Direct Capital and others including NZ Super and ACC into Scales Corporation added to the performance over the year and was realised on the IPO of Scales.

Year End: 30 June 2014	**NZ$m**	**%pa**
Opening Balance 1 July 2013	**212.40**	
Gross Performance	12.13	5.71%
Costs	-1.38	-0.65%
Net Performance	10.75	5.06%
Release Payments	-5.18	
Closing Balance 30 June 2014	**217.97**	

Comparable Market Returns in NZD's to 30 June 2014

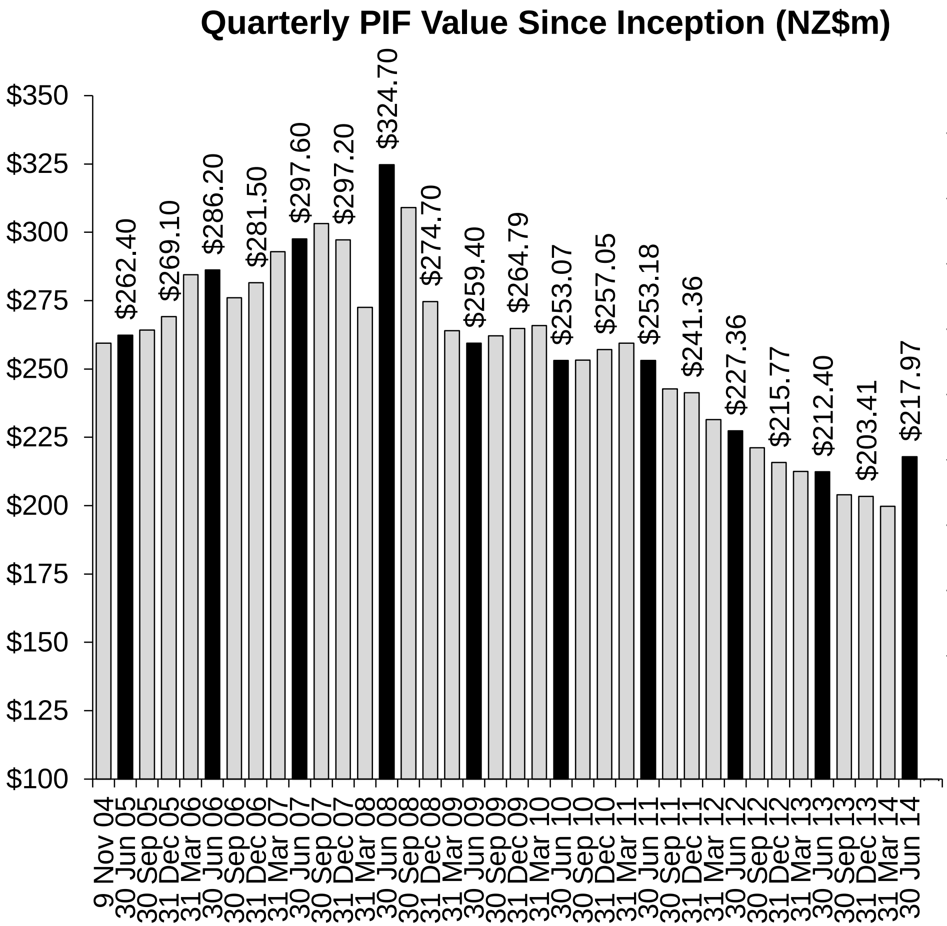
- The PIF Invests in equity markets through exchange traded funds. It outperformed in market benchmarks for US, European and emerging markets.

Asset Class	Quarter (%ch)	Half Year (%ch)	Full Year (%pa)	3 Year (%pa)	5 Year (%pa)	10 Year (%pa)
NZ Market	0.03	8.54	15.79	14.24	12.96	6.67
Aust Market	0.84	0.15	2.51	-0.83	3.31	4.11
US Market	3.70	-0.41	7.89	12.00	9.47	2.24
UK Market	0.64	-2.80	6.23	0.01	3.92	-1.70
HK Market	3.88	-1.95	8.39	-1.55	1.88	1.39
NZ Govt Bonds	1.55	2.81	2.14	4.28	5.55	6.02
PIF	9.20	7.45	5.71	0.40	3.30	5.79

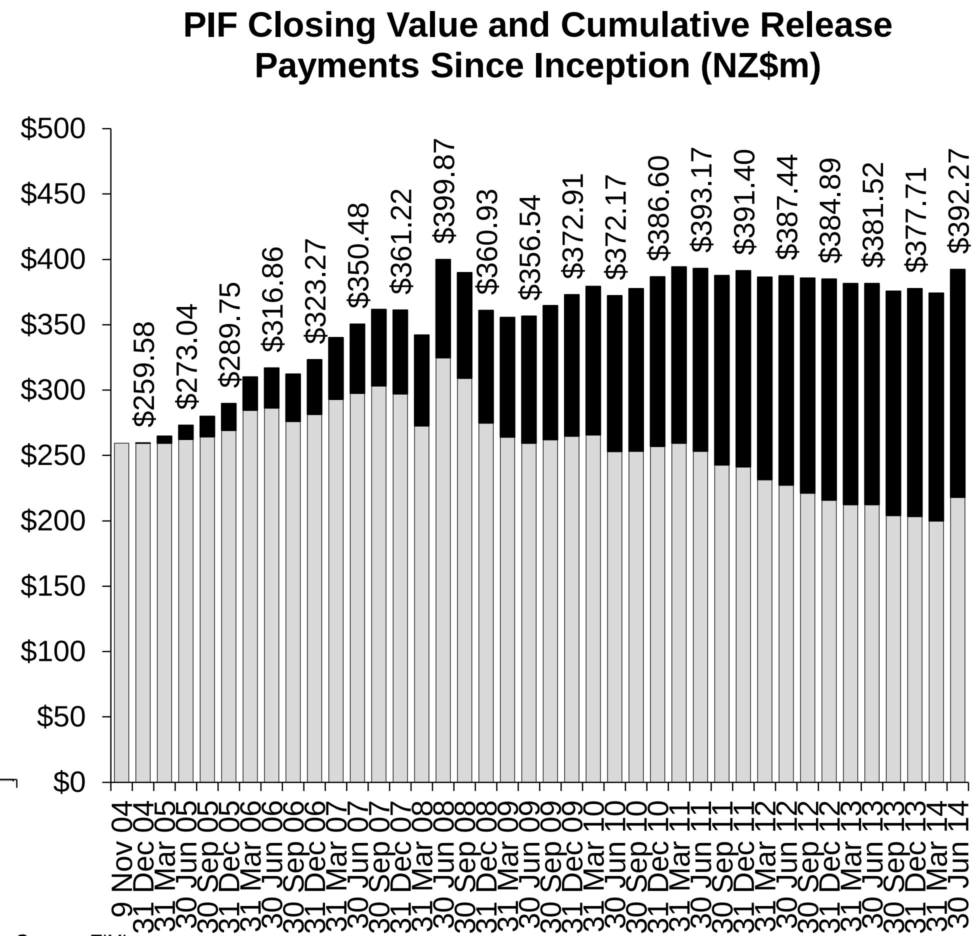
- Source: IRESS. NZ Market (NZ50G), Aust Market (ASX 200), US Market (S&P 500), UK Market (FTSE 100), HK Market (Hang Seng) and NZ Govt Bonds (ANZ NZ Govt Bond Index).

Historic Performance

- The PIF paid release payments to NPDC totalling $5.18m for the year.
- The PIF has paid out $174.30m in release payments since inception in November 2004.



Source: TIML



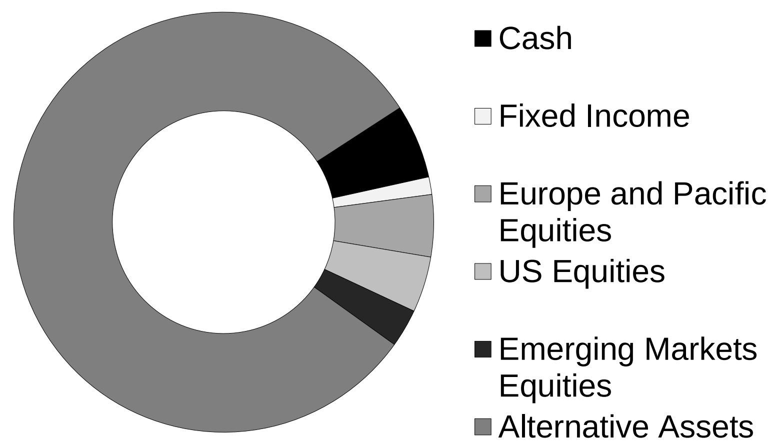
Source: TIML

Portfolio Asset Allocation

Asset Class	Performance Year End 30 June 2014	Benchmark	Current Value ($m)	Portfolio (%)	Current Target Asset Allocation (%)	Proposed New Target Asset Allocation (%)
Cash	2.10%	2.84%	$12.45	5.71%	2.50%	5.00%
Fixed Income	4.69%	2.14%	$2.93	1.34%	2.50%	5.00%
NZ Equities	N/A	15.79%	$0.00	0.00%	0.00%	5.00%
Australian Equities	N/A	2.51%	$0.00	0.00%	0.00%	5.00%
Europe and Pacific Equities	8.85%	6.13%	$10.40	4.77%	11.00%	10.00%
US Equities	9.72%	7.64%	$9.37	4.30%	7.00%	10.00%
Emerging Markets Equities	0.56%	-1.44%	$6.41	2.94%	7.00%	10.00%
Alternative Assets	6.55%	11.98%	$176.41	80.93%	70.00%	50.00%
PIF Year End: 30 June 2014	**5.71%**	**6.00%**	**$217.97**	**100.00%**	**100.00%**	**100.00%**

- A full or partial sale of Tasman Farms Limited is required before implementing a material transition in the strategic asset allocation.
- The inclusion in the portfolio of New Zealand and Australian equities will occur over the next 12 months.
- 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 two to three years as a natural consequence of the private equity life cycle.
- This will provide liquidity to the portfolio over the medium term.

Portfolio Asset Allocation



Asset Classes

- Alternative Assets are a large proportion 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.
  - Helmsman Capital: an Australian private equity fund specialising in distressed investments.
  - 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. This fund is in the early stages of investing.
- The IRR’s on our alternative investments are all positive and range from 8.24% to 59.70%.
- The times money multiples range from 1.2 to 3.4 times money invested.
- Over the long term, growth assets in private markets are expected to outperform listed markets on a risk adjusted basis.

Outlook

- The Reserve Bank of New Zealand increased the OCR by 1% between March 2014 and July 2014. They are signalling another 0.25% increase in mid 2015.
- Construction skill shortages in the rebuild of Christchurch and adding housing supply to Auckland could increase the risk of inflation.
- The high New Zealand dollar is starting to pull back in line with declining soft commodity prices in particular dairy.
- The NZ economy has been growing steadily over the last 12 months but this may have peaked given recent weaker dairy price expectations.
- The global mining sector has come off the boil in line with declining hard commodity prices. Over the last 12 months the RBA lowered the cash rate to 2.5%. As we move into the new financial year the Australian economy is improving and the RBA may look to increase the cash rate near the end of 2014.
- China's economic growth is starting to stabilise following recent weakness but their property market is soft and could become a drag on growth.
- In the US, economic data has generally turned the corner and listed markets have been strong over the past 24 months. As momentum in the US economy improves we will see the Fed increase their tapering programme and we should see a gradual rise in the US dollar.
- Euro area economic growth remains low with double digit unemployment. Inflation is very low and we cannot rule out deflation or a second recession in this region. ECB cash interest rates are negative which is extremely rare and moves them into uncharted territory.

Outlook (Cont.)

- 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 to the new target SAA on page 6. This will continue to deliver returns in excess of the new real release rule requirements in the long run.
- The Board recognises the concentration risk in holding 100% of TFL and plans to sell down in conjunction with a capital raise at the right market opportunity.
- The Board continues to place emphasis on portfolio liquidity and is confident it has the liquidity in place to meet its release rule obligations for the next 24 to 36 month period.
- TIML is anticipating another solid performance from TFL in 2015 despite the lower forecast milk price as VDL has fixed the farmgate price for 70% of its milk production at around budget levels.

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