Taranaki Investment Management Limited

Perpetual Investment Fund

Portfolio Report Summary

30 June 2015

Annual Performance Summary

- The after tax and before fees investment performance for the year ending 30 June 2015 was +20.10% pa.
- The PIF made release payments of $6.80 million for the year.
- The closing balance of the fund as at 30 June 2015 after release payments and costs was $253.57 million.
- A full takeover of Tasman Farms Limited's subsidiary the Van Diemen's Land Company was concluded this year with the acquisition of 1.58% of shares that TFL did not already own. This has resulted in a new head company Tasmanian Land Company Limited being established and the simplification of the corporate structure.
- The favourable exchange rate movements on foreign denominated assets and the positive impact from the VDL takeover and corporate restructure were the biggest drivers of value movement over the year.
- Higher listed equity values over the year flowed through to private equity valuations, where some investee companies are valued using listed market comparators.

Year End: 30 June 2015	**NZ$m**	**%pa**
Opening balance 1 July 2014	217.97	
Return after tax and before costs	43.82	20.10%
Costs	-1.42	-0.65%
Net Performance after tax and costs	42.40	19.45%
Release Payments	-6.80	
Closing Balance 30 June 2015	253.57	

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 return of +6.83% pa and +$188.33m of net 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 and central bank interventions including quantitative easing and historically low interest rates.
- The long term portfolio expected return at target asset allocation is 7.60% pa.
- As we adjust our portfolio to our target strategic asset allocation, the return for the next four years is expected to be 6.00% pa.
- Our long term view and that of our adviser actuaries is that we expect investment returns to exceed the release rule obligation of 3.30% plus inflation, fees, and costs

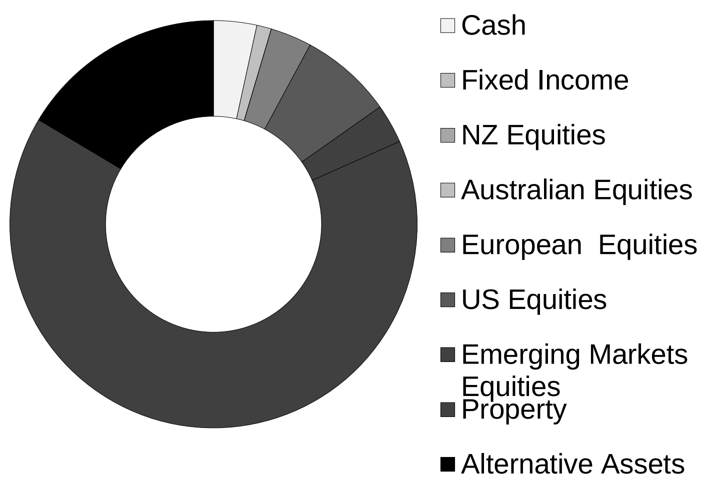
Inception to 30 June 2015	**NZ$m**	**%pa**
Opening Balance 14 November 2004	259.40	
Return after tax and before costs	188.33	6.83%
Costs	-13.06	-0.47%
Net Performance after tax and costs	175.27	6.36%
Release Payments	-181.10	
Closing Balance 30 June 2015	253.57	

Portfolio Asset Allocation

Asset Class	Performance Year End	Benchmark Return	Current Value ($m)	Portfolio (%)	Target Asset Allocation (%)
Cash	9.04%	3.72%	$8.67	3.42%	5.00%
Fixed Income	5.27%	8.57%	$2.96	1.17%	5.00%
NZ Equities	0.00%	11.39%	$0.00	0.00%	5.00%
Australian Equities	0.00%	6.99%	$0.00	0.00%	5.00%
European Equities	24.26%	16.84%	$8.32	3.28%	10.00%
US Equities	38.11%	36.21%	$18.67	7.36%	10.00%
Emerging Markets Equities	26.07%	19.80%	$7.88	3.11%	10.00%
Property	25.29%	6.75%	$165.39	65.23%	20.00%
Alternative Assets	3.61%	8.74%	$41.68	16.44%	30.00%
	20.10%	**12.79%**	**$253.57**	**100.00%**	**100.00%**

- A full or partial sale of Tasmanian Land Company is required before implementing a material transition to the target strategic asset allocation.
- The inclusion in the portfolio of New Zealand and Australian equities is expected to occur over the next 12 months.
- The overweight in TLC has caused underweight policy allocations in other asset classes.
- A high allocation to property and 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 improve liquidity to the portfolio over the medium term.

Portfolio Asset Allocation



Comparable Market Returns in NZD's

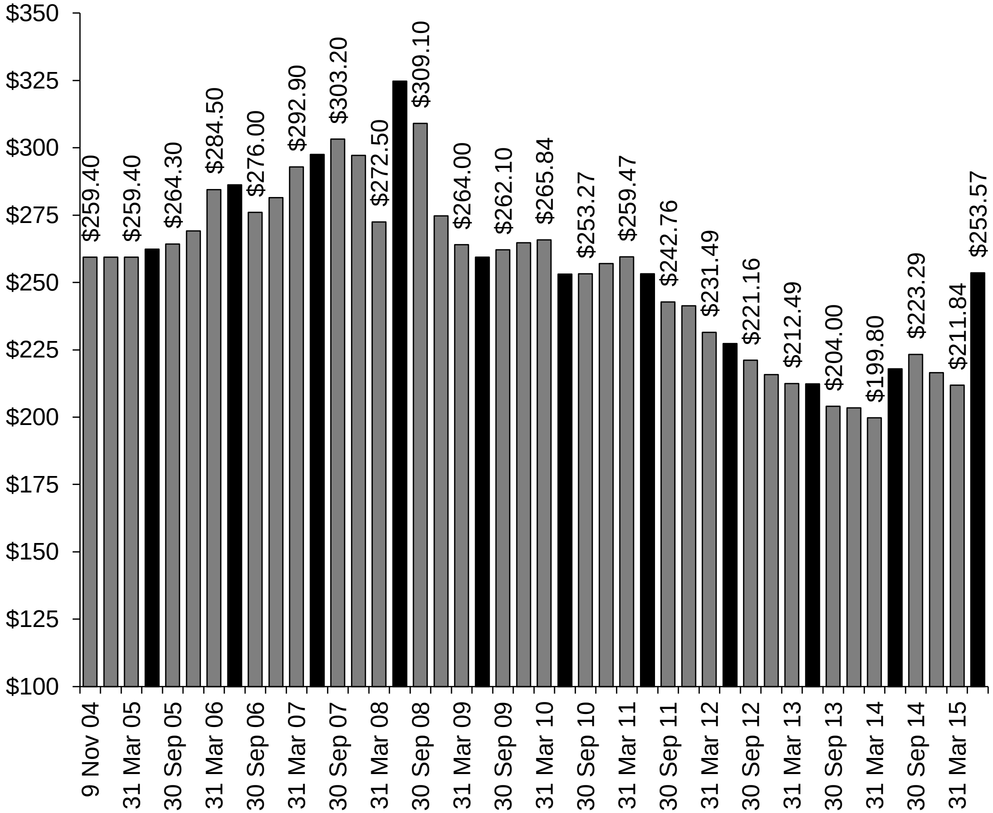
- The PIF performed favourably over annual and long term periods but lagged over the intermediate timeframes due to the overweight in alternative assets and the underweight in listed equities.
- The Board focuses its attention on long term performance because of the nature of the portfolio and asset allocation.

Listed & public market Asset Class	Benchmark Full Year (%pa)	Benchmark 3 Year (%pa)	Benchmark 5 Year (%pa)	Benchmark 10 Year (%pa)
PIF	20.10	7.48	4.68	6.64
PIF Benchmark Return	12.79	9.91	7.79	6.67
Fixed Income	8.57	3.51	5.66	6.15
Cash & Short Term Deposits	3.72	3.08	3.02	4.78
NZ Equities	11.39	18.98	14.02	5.84
Australian Equities	6.99	5.90	3.32	2.88
US Equities	36.21	21.51	15.16	5.96
European Equities	16.84	14.15	6.53	n.a
Emerging Markets Equities	19.80	6.64	1.72	-1.49
Property	6.75	7.01	7.09	8.09
Kiwisaver - Balanced	11.80	12.30	9.80	n.a
Kiwisaver - Growth	14.20	14.50	11.20	n.a

Historic Performance

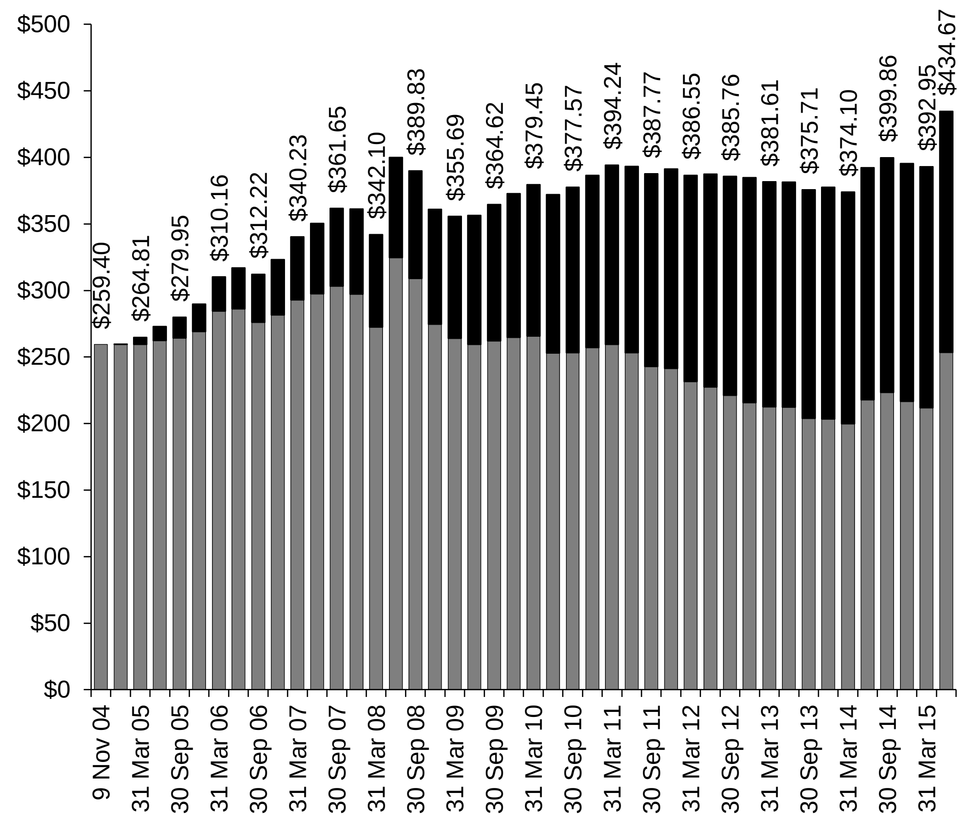
- The PIF paid release payments to NPDC of $6.80m for the year.
- The PIF has paid out $181.10m in release payments from inception in November 2004 to 30 June 2015.

Quarterly PIF Value Since Inception (NZ$m)



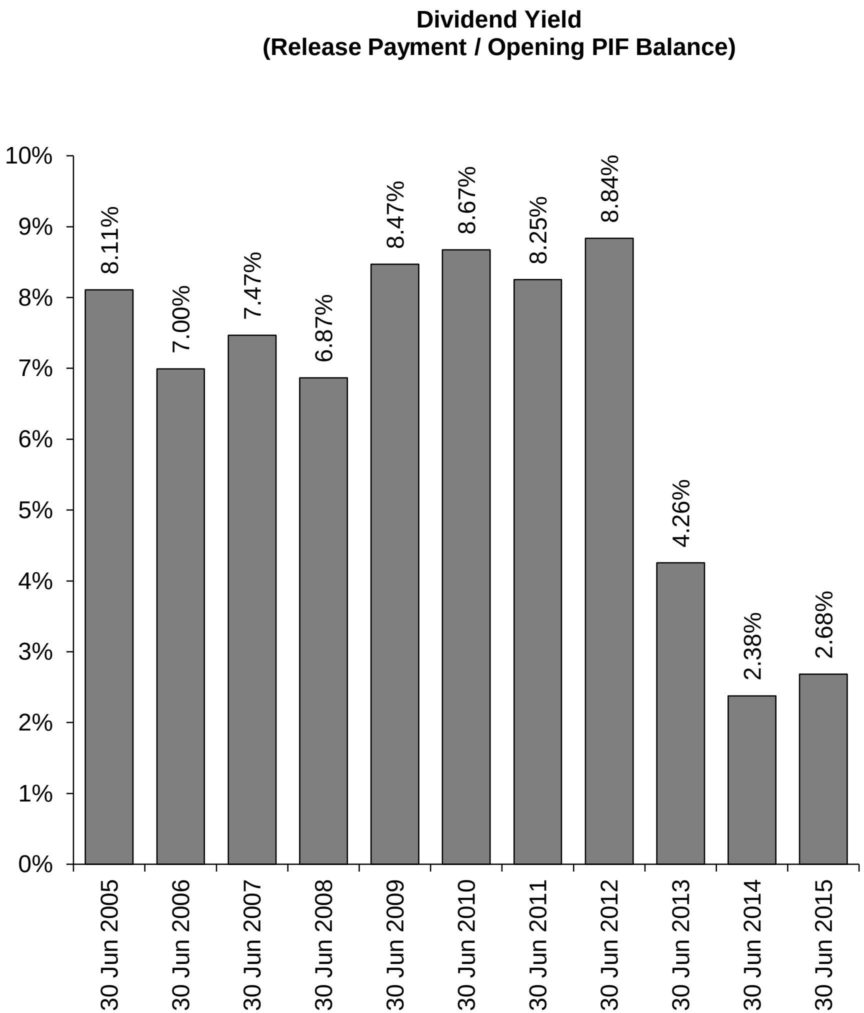
Source: TIML

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



Source: TIML

Historic Release Payments



Source: TIML

- The chart opposite shows the percentage that the release payments represented as a proportion of the opening PIF value.
- The release rule is now set at a sustainable level given the revised target strategic asset allocation, expected return of the fund and low yield investment environment that has persisted globally since the GFC.
- The revised release rule agreed in December 2014 allows for a sustainable release payment, inflation protection of the fund and sufficient margin to cover taxes and costs.

Asset Classes

- Alternative Assets are a large proportion of the PIF and include:
  - Tasmanian Land Company Limited (TLC): a food, land, soft commodity and inflation hedge investment, which holds Tasman Farms Limited and the Van Diemen's Land Company.
  - Barings Asia Private Equities: a large private equity fund that provides exposure to private company growth in the Pan-Asia region.
  - Helmsman Capital: an Australian private equity fund which invests 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.
- 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 is now on an easing bias after raising the official cash rate 100 basis points in 2014 they have since cut 25 basis points (as at the time of writing) with further cuts expected.
- Central Banks globally continue to fear the prospect of deflation, and have provided widespread liquidity injections.
- While most Central banks are generally on an easing or neutral path, the US is on a tightening bias after a prolonged period at near zero interests rates.
- The NZDUSD exchange rate has reacted to the prospect of US interest rate hikes and sold off over the last year, offsetting some of the declines in global milk prices.
- The NZ economy is growing but at a lower rate as the recent weaker dairy price expectations flow through the economy.
- All commodities have continued to decline on generally high inventory levels and lower demand, but the oil price has likely bottomed out and is trending higher.
- China's economic growth is slowing with relatively high interest rates, a strengthening currency, weak property market, weak equity market and lower industrial production. The Chinese stock market has been under pressure in the last few months of the financial year as the Chinese authorities utilised unprecedented measures to stem the decline in their equities market. China has always been a volatile market and after the previous run up in equity prices it was due a correction.
- 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.

Outlook (Cont.)

- Euro area economic growth remains low with high unemployment. Inflation is very low and we cannot rule out deflation or a second recession in this region. The last round of quantitative easing has pushed equities higher and weakened the Euro which could aid a recovery. Lower energy prices and improved consumer confidence will also assist.
- Greece and their inability to make debt payments was keenly watched by market participants but this has little impact on New Zealand and the PIF. Significant reforms and asset sales will be required as the country recalibrates its public finances and social security expectations for the future.
- TIML is benefiting from another solid performance from TLC in 2015, as TLC has fixed its farmgate price for 70% of its production at around budget levels.
- TLC will take spot market farmgate prices in 2016 and rely on the Victorian milk price benchmark adjustment clause to match competitors predicted stronger milk price.
- The PIF is over its target strategic asset allocation level in property (Tasmanian Land Company Limited) and below in listed equities for the short term.
- The Board recognises the concentration risk in holding 100% of TLC. TIML completed a corporate restructure of the business this year which has resulted in a simpler structure which assists the exit process. TIML is currently evaluating divestment proposals.
- The Board continues to place emphasis on portfolio liquidity and is confident it has the liquidity in place to meet its release rule obligations.

Taranaki Investment Management Limited

Disclaimer

This report has been prepared by Taranaki Investment Management Limited (**TIML**) solely to provide New Plymouth District Council (**NPDC**) with information about TIML, its investments and its investment management as required by the contract of service with NPDC.

TIML makes no representation or warranty, express or implied, as to the accuracy, adequacy or reliability of any statements, estimates or opinions or other information contained in this report.

This report, including any financial projections or forecasts contained in it, has been prepared in good faith but has not been independently verified.

TIML, its directors, officers, employees and agents (**Affiliates**) disclaim all liability and responsibility (including without limitation any liability arising from fault or negligence on the part of TIML and its Affiliates) for any direct or indirect loss or damage which may be suffered by any recipient of this report through use of or reliance on anything contained in, or omitted from, this report, to the maximum extent permitted by law. TIML will not be obliged to correct or update any information in this report.

This report may contain forward-looking statements, estimates, forecasts and projections (**Forward-Looking Information**). This Forward-Looking Information speaks only as of the date of this report, reflecting various assumptions. These assumptions may or may not prove to be correct. The Forward-Looking Information represents the views of TIML (based on the assumptions made). However, no express or implied representations or warranties are, or will be, made by TIML, nor any of its Affiliates as to the accuracy or completeness of these statements, estimates, forecasts or projections or the reasonableness of any assumptions that underpin them. The Forward-Looking Information involves known and unknown risks, uncertainties and other factors, which may cause actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements.

TIML is managing the investments of the Perpetual Investment Fund of NPDC. TIML and its Affiliates are not advising or encouraging any other party to make or divest any investment, to trade, or to abstain from trading securities, or advising or encouraging any other person to do so.