Taranaki Investment Management Limited

4 April 2012

Fund reaches $150 Million milestone in release payments

The NPDC PIF fund reached a major milestone on 31 December 2011, having paid out $150.03 M in release payments to Council since its inception in November 2004.

This is equivalent to making release payments at an average of 8.25 % pa.

The fund's investment performance since inception has been 1.65 % lower at 6.60% pa.

While the investment performance of 6.6 % pa compares favourably to other NZ funds and global equity markets, with the benefit of hindsight the difference between releases paid out and investment income has meant the fund has declined $ 18 M from its original opening balance of $ 259.4 M in 2004 to $ 241.4 M as at 31 December 2011.

Our actuarial advice is the performance of the portfolio is expected to improve to a long term 8.5 % pa.

The Board is charged with maintaining the real value of the fund, and hence is recommending a transition to reduce future releases until such time as it can rebalance the fund.

Half yearly Performance

Investment performance for the December quarter was +1.91%, but was neutral at -0.22% for the half year ended 31 December 2011.

The PIF closed the half year at $241.36m after paying out $11.86m in release payments and costs.

It has been a difficult six months in global investment markets, with low economic growth, low consumption and high unemployment, despite very stimulative monetary policy settings.

Other key concerns have included Euro zone instability, and the management of sovereign debt – again particularly in Europe.

Favoured geographic regions for investment include Australia, New Zealand, China, India and emerging economies – and this is where the PIF is concentrated.

Asset allocation and Release rule review

As a perpetual fund our mission is to maximise the net expected value of the PIF given its objectives under the release rule and we are also charged with maintaining the real (inflation adjusted) value of the fund.

Against this objective TIML has concluded a planned three yearly review in conjunction with NPDC's Long Term Plan. The following policy items were reviewed:

- maintaining a sustainable fund;
- the release rule;
- the fund's return expectations; and

The strategic and tactical asset allocation, and liquidity profile was also reviewed, including a focus on Tasman Farms Ltd.

The review highlighted the following recommendations:

- a reduction in expected long term returns from 10.50%pa to 8.50%pa;
- a reduction of future release payments to 4 % pa;
- retention of 2.5 % pa for inflation protection;
- retention of 1 % pa for rebalancing the fund and managing future global crisis situations
- an action plan for rebalancing the asset allocation

The reduction in expected returns is a result of an actuarial review of reduced global investment market returns and is influenced by international events of the last three years. The Board has therefore adopted these more conservative assumptions for deriving a sustainable release payment profile going forward. This will protect the perpetuity of the fund for future generations.

The Board supports the PIF related initiatives the Council is recommending as part of the Long Term Plan consultation and process.

Portfolio Asset Allocation

Asset Class	Current Value ($)	Portfolio (%)
Alternative Assets	191,295,272	79.3%
Europe & Pacific Equity	10,335,844	4.3%
US Equity	11,055,188	4.6%
Emerging Markets Equity	10,467,121	4.3%
Fixed Income	6,812,604	2.8%
Cash	11,396,623	4.7%
	241,362,652	**100.0%**

Comparable Market Returns in New Zealand Dollars

Class	Half Year (%)
PIF	-0.22%
NZ Market	-5.04%
Australian Market	-10.54%
US Market	1.50%
UK Market	-3.30%
Hong Kong Market	-12.11%

END