Taranaki
Investment
Management
Limited

Perpetual Investment Fund

Portfolio Investment Summary

30 June 2016

Annual Performance Summary

- The after tax investment performance for the year ending 30 June 2016 was $24.42 million or +9.63% before TIML costs.
- The PIF made release payments of $7.34 million for the year.
- The closing balance of the fund as at 30 June 2016 after release payments and costs was $270.21 million.
- The main driver of performance over the year was the alternative asset class including the realisation of the net TLC transaction value over the prior year's book value and the locking in of FX hedging gains on around 80% of the net proceeds. Cash, fixed income and New Zealand equities made minor positive contributions.
- The return for the year outperformed most New Zealand and Australian funds and benchmarks by a substantial margin.

Year End: 30 June 2016	**NZ$m**	**%pa**
Opening balance 1 July 2015	253.57	
Return after tax and before costs	24.42	9.63%
Net costs	-0.44	-0.17%
Net Performance after tax, fees and TIML costs	23.97	9.45%
Release payments	-7.34	
Closing Balance 30 June 2016	270.21	

Performance Summary Since Inception

- The PIF asset allocation is designed for a long term investment horizon to match the owners objectives and the multi generational perpetual mandate of the PIF.
- The PIF therefore focuses on long term returns and has delivered an average annualised after tax return of +7.05% pa and +$212.75m of investment income since inception.
- Long term returns reflect the movements in major global financial markets and take account of significant events over that timeframe, such as the global financial crisis and subsequent central bank interventions globally including quantitative easing and historically low and negative interest rates.
- Due to the low interest rate regime, the long term portfolio expected return (at a 75% confidence level) has been revised lower to 6.30% pa based on advice from our independent actuaries, who now assume a global reduction in expected returns over the next ten years.
- As TIML adjusts the portfolio to the funds target strategic asset allocation, the return for the next two years is expected to be 6.00% pa as a more liquid portfolio is carried in the portfolio transition period.
- On a positive note, our long term view and that of our adviser actuaries is that we can expect investment returns to exceed the release rule obligation of 3.30% plus inflation, fees, and costs and so expect to be able to maintain the real value of the fund over the long term.

Inception to 30 June 2016	**NZ$m**	**%pa**
Opening balance 14 November 2004	259.40	
Return after tax and before costs	212.75	7.05%
Net costs	-13.50	-0.45%
Net performance after tax fees and TIML costs	199.25	6.60%
Release payments	-188.44	
Closing balance 30 June 2016	270.21	

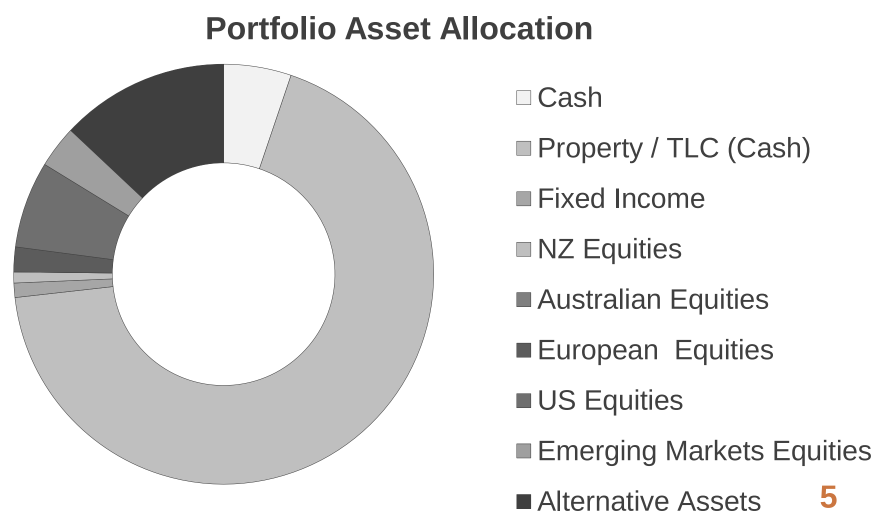
Tasmanian Land Company Ltd (TLC) Sale Update

- The sale of TLC to Moon Lake Investments Pty Ltd settled on 31 March 2016 and the proceeds of the asset sale have been received.
- Pursuant to the Sales and Purchase Agreement a number of closing account adjustments have also been finalised post balance date resulting in a minor adjustment to the purchase price.
- Post balance date TLC paid a A$75m return of capital as the first step in repatriating the full proceeds to NPDC. A further A$100m of proceeds will be paid after binding tax authority rulings have been finalised. We expect it will take three to six months for the bulk of the remaining proceeds to be fully repatriated to NPDC.
- The proceeds from the sale of TLC are being reinvested according to the PIF strategic asset allocation over a six to nine month period.
- TIML will rebalance the PIF adding exposure and further diversification to the portfolio with listed equities in New Zealand, Australia, USA, Europe and emerging markets and adding some additional exposure to new property and alternative assets. TIML will also retain exposure to high quality cash and New Zealand fixed income investments.
- During the initial stages of the rebalancing period, the PIF expects to hold a higher proportion of cash until such time as capital is fully deployed to other asset classes.
- The investment in Tasmanian Land Company Ltd after all subsequent adjustments and FX movements is an IRR of 11.22% pa over the eight year holding period.

Portfolio Asset Allocation

Asset Class	Performance Annual	Benchmark Return	Performance NZ$	Current Value ($m)	Portfolio (%)	Target Asset Allocation (%)
Cash	1.63%	2.89%	$0.26	$14.05	5.20%	5.00%
Property / TLC (Cash)	12.85%	6.10%	$20.24	$183.80	68.02%	20.00%
Fixed Income	2.97%	3.17%	$0.13	$2.98	1.10%	5.00%
NZ Equities	17.74%	20.44%	$0.45	$2.27	0.84%	5.00%
Aust Equities	0.00%	-12.09%	$0.00	$0.00	0.00%	5.00%
Europe and Pacific Equities	-13.25%	-24.09%	-$2.13	$5.17	1.91%	10.00%
US Equities	-3.68%	-3.54%	-$0.75	$18.04	6.68%	10.00%
Emerging Market Equities	-7.00%	-23.71%	-$0.72	$8.79	3.25%	10.00%
Alternative Assets	27.65%	8.09%	$6.94	$35.10	12.99%	30.00%
Overall	**9.63%**	**-0.76%**	**$24.42**	**$270.21**	**100.00%**	**100.00%**

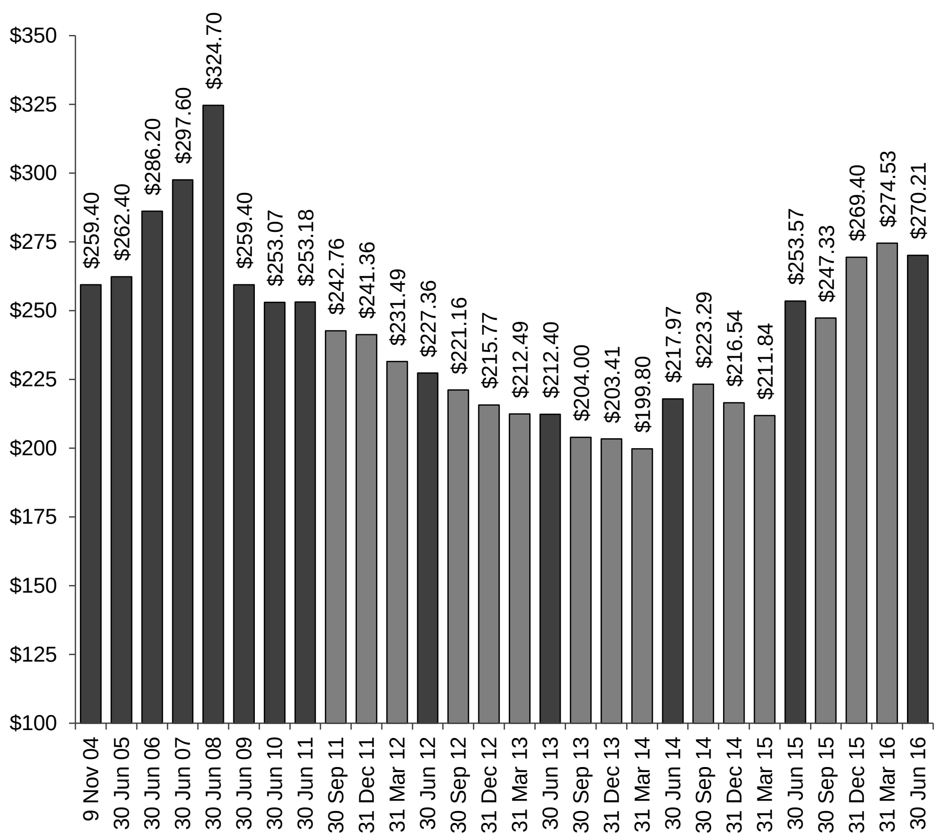
- The sale of Tasmanian Land Company Ltd has been settled and allows us to complete a material transition to the target strategic asset allocation.
- The inclusion in the portfolio of New Zealand and Australian equities is expected to be transacted over the next six months.
- The overweight in TLC had previously caused underweight policy allocations in other asset classes, which will be rebalanced.
- We also 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 further improve liquidity in the portfolio over the medium term.



Historic Performance

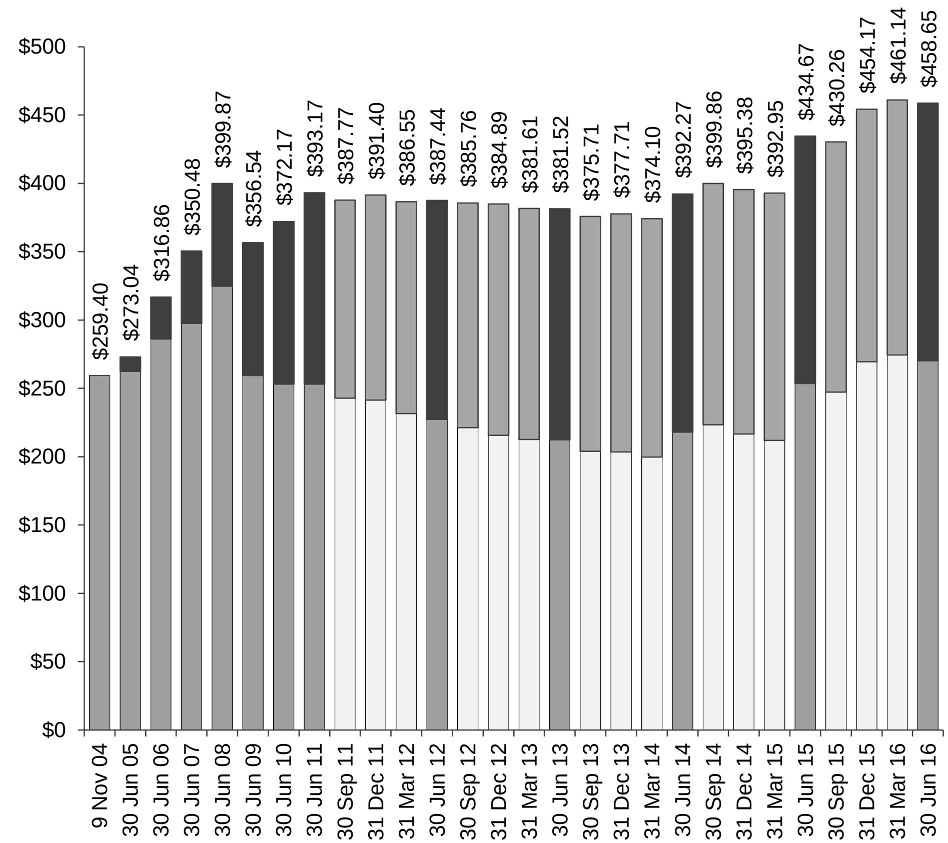
- The PIF paid release payments to NPDC of $7.34m for the year.
- The PIF has paid out $188.44m in release payments since inception in November 2004.

Quarterly PIF Value Since Inception (NZ$m)



Source: TIML

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



Source: TIML

Comparable Market Returns in NZD's

- The PIF performed satisfactorily over all investment horizons and substantially out performed benchmarks and most other funds over one and three year periods. It also achieved benchmark returns over the 10 year period.
- The Board focuses its attention on long term performance because of the owners objectives, the nature of the portfolio and the asset allocation.

Listed & public market Asset Class	Benchmark 1 Year (%pa)	Benchmark 3 Year (%pa)	Benchmark 5 Year (%pa)	Benchmark 10 Year (%pa)	Inception 11.6 Year (%pa)
PIF	9.63	12.61	5.63	5.38	7.05
PIF Benchmark Return	-0.76	6.48	6.51	5.33	6.43
Cash	2.89	3.15	2.98	4.32	4.77
Fixed Income	3.17	4.59	4.90	6.01	6.02
NZ Equities	20.44	15.81	14.87	6.76	7.67
Australian Equities	-12.09	-1.21	-1.71	-1.25	2.12
US Equities	-3.54	12.34	13.05	3.50	4.88
European Equities	-19.85	-0.22	1.06	-3.71	-0.37
Property	6.10	6.56	6.58	7.75	8.02
Kiwisaver - Balanced	3.90	8.80	8.60	Not Measured	Not Measured
Kiwisaver - Growth	3.50	9.90	9.50	Not Measured	Not Measured

Asset Classes

- Alternative Assets are a significant proportion of the PIF and include:
  - Barings Asia Private Equities: 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.
  - Pioneer Capital: a New Zealand private equity fund that provides exposure to private companies in New Zealand.
- Over the long term we expect, growth assets in private markets to outperform listed markets on a risk adjusted basis.
- Property exposure will also be added to the PIF either through listed property trusts, syndications, or direct investments over the short and medium term.

Outlook

- Weak US economic data at the end of 2015 and the risk of inducing a second recession in the US led to a gap in Fed and market interest rate expectations. The gap in expectations was reduced after the Fed signalled a slower and less aggressive rate hike path for the remainder of the year. This weakened the US dollar over the period.
- US economic data then stabilised during the first half of 2016 and the indication of a potential Fed rate rise has since strengthened the USD.
- The US presidential election has the potential to create market volatility.
- Global inflation remains low and is a key factor keeping a lid on interest rate hikes globally. It is hard to see an improvement in the near term with low wage inflation and low price expectations.
- Japan’s economy continues to struggle with low growth and inflation. The Bank of Japan eased during the year and adopted a negative interest rate regime. It is also expected to start a fiscal response with increased Government spending.
- Most Sovereign ten year bonds are at historic lows with Japan and Germany in negative territory
- Oil, iron ore and soft commodities have been volatile over the year but look to be recovering from their recent lows.
- China’s economic growth is slowing with relatively high interest rates, weak property markets, weak equity markets and lower industrial production.
- The ECB eased further in March to combat low economic growth and high unemployment.

Outlook

- The impact of Brexit remains difficult to gauge at present, our initial view is that the impact will be limited for a NZ based investor. Long term challenges remain around deflation, low growth and access to trade, labour and capital into UK and Europe.
- The Australian Federal election concluded with the incumbent retaining power, albeit on a reduced majority. We think it will result in political gridlock with a reliance on independents for confidence and supply. It is expected to have some impact on Australian financial markets and asset prices.
- The NZ economy is growing well. Growth has been driven by net migration, tourism and the sustained housing boom, but this is offset by weaker primary sector expectations and returns.
- The Reserve Bank of New Zealand is now on a neutral to slight easing bias after cutting the OCR 125 basis points in FY2016. This reverses the 100 basis point hike in 2014.
- Median house prices are at record levels in Auckland, Taranaki, Wellington, Queenstown and the Waikato.

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