Taranaki Investment Management Limited

Perpetual Investment Fund

Portfolio Report Summary

Half Year Ended

31 December 2011

Report to Council - 27 March 2012

Quarter Summary

During the quarter ending 31 December 2011 the investment performance was +1.91%.

The quarter was solid with the majority of performance derived from the three exchange traded funds. Cash and fixed income continue to provide market like returns and alternative assets are performing as expected.

Investment markets were volatile over the period and recovered near the end to finish in positive territory.

Quarter End: 31 December 2011

Portfolio Report Summary	NZ$m
Opening Balance 1 October 2011	**242.76**
+ Return	4.04
- Release Payments	5.02
- Costs[1]	0.41
Closing Balance 31 December 2011	**241.36**
- Less NPDC Loan	9.17
Net PIF Balance at 31 December 2011	232.19

Portfolio Return = 1.91%

[1] TIML Operating Costs

Half Year Summary

During the half year ending 31 December 2011 the investment performance was -0.22%.

The neutral performance maintained the PIF capital before release payments and reflected a difficult investment environment over this period. The Euro Zone crisis and low to negative economic growth in western economies created uncertainty which impacted on financial markets.

Performance while under our long term budgeted expectations should be viewed against this negative short to medium term backdrop. It compares favourably to peers and was superior to equity market performance in New Zealand, Australia and the UK for the period.

Half Year End: 31 December 2011

Portfolio Report Summary	**NZ$m**
Opening Balance 1 July 2011	**253.18**
+ Return	-0.55
- Release Payments	10.45
- Costs[1]	0.82
Closing Balance 31 December 2011	**241.36**
- Less NPDC Loan	9.17
Net PIF Balance at 31 December 2011	232.19

Portfolio Return = -0.22%

[1] TIML Operating Costs

Comparable Market Returns in NZD's

Class [1]	Quarter (%)	Half (%)	Inception(%)
PIF	1.91%	-0.22%	6.60%
NZ Market	-2.05%	-5.04%	5.02%
Australian Market	4.83%	-10.54%	3.28%
US Market	8.86%	1.50%	-0.61%
UK Market	6.06%	-3.30%	-1.84%
Hong Kong Market	2.87%	-12.11%	2.70%

[1] Source: IRESS. NZ Market (NZ50G), Australia Market (ASX 200), US Market (S&P 500), UK Market (FTSE 100) and Hong Kong Market (Hang Seng),

Market Environment

Markets remain concerned about the economic challenges of western developed economies including:

- Managing sovereign debt risk particularly in Europe;
- Ongoing low growth despite stimulative measures including low interest rates, quantitative easing programs and fiscal stimulation;
- Stubbornly high unemployment;
- Negative or flat consumption; and
- Management of Government fiscal policy and budget deficits.

Despite these real risks, Australia, China, India, emerging Asia and South America continue to increase activity and growth is expected over the medium term in those regions. Hence overall world GDP growth remains mildly positive, but global debt and equity markets remain volatile reflecting the wide range of risks.

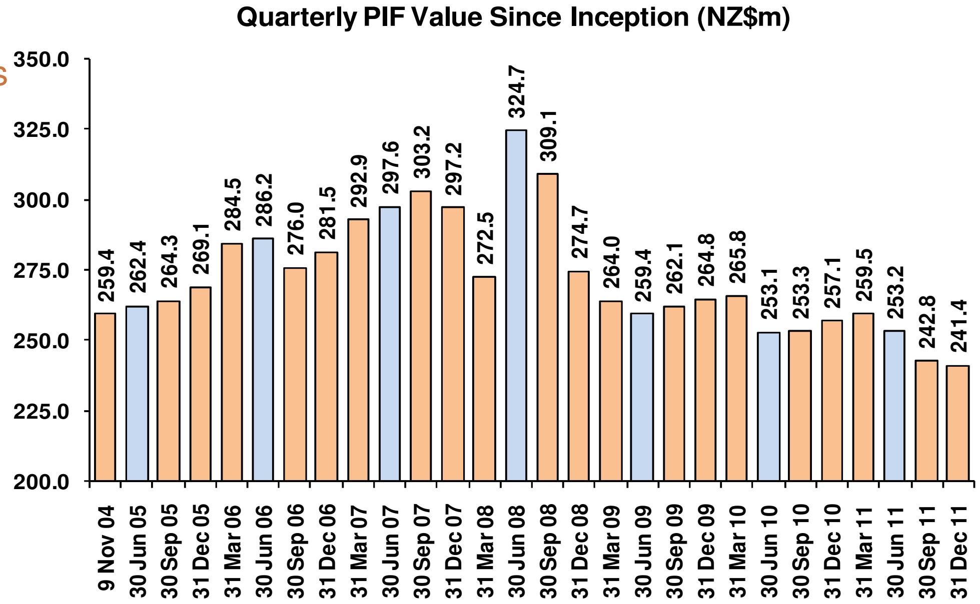
Historic Performance

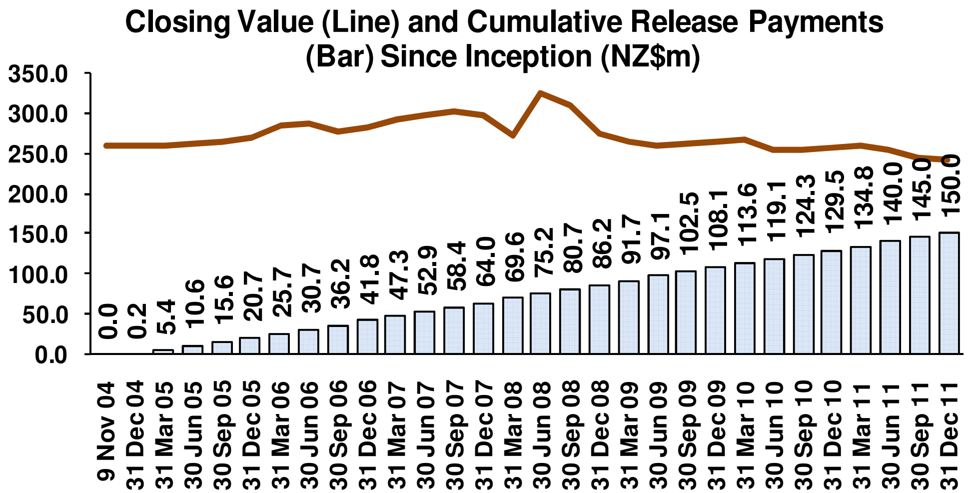
The PIF paid release payments to NPDC totalling $10.45m for the half year, plus management costs of $0.82m and Investment Costs of $0.58m

The PIF has paid out $150.03m in release payments since inception in November 2004. With the benefit of hindsight and due to the persistent low return environment since the GFC the level of release payments averaging 8.25%pa since inception has been too high. Particularly to maintain the real value of the fund for inflation which requires another 2.50%pa.

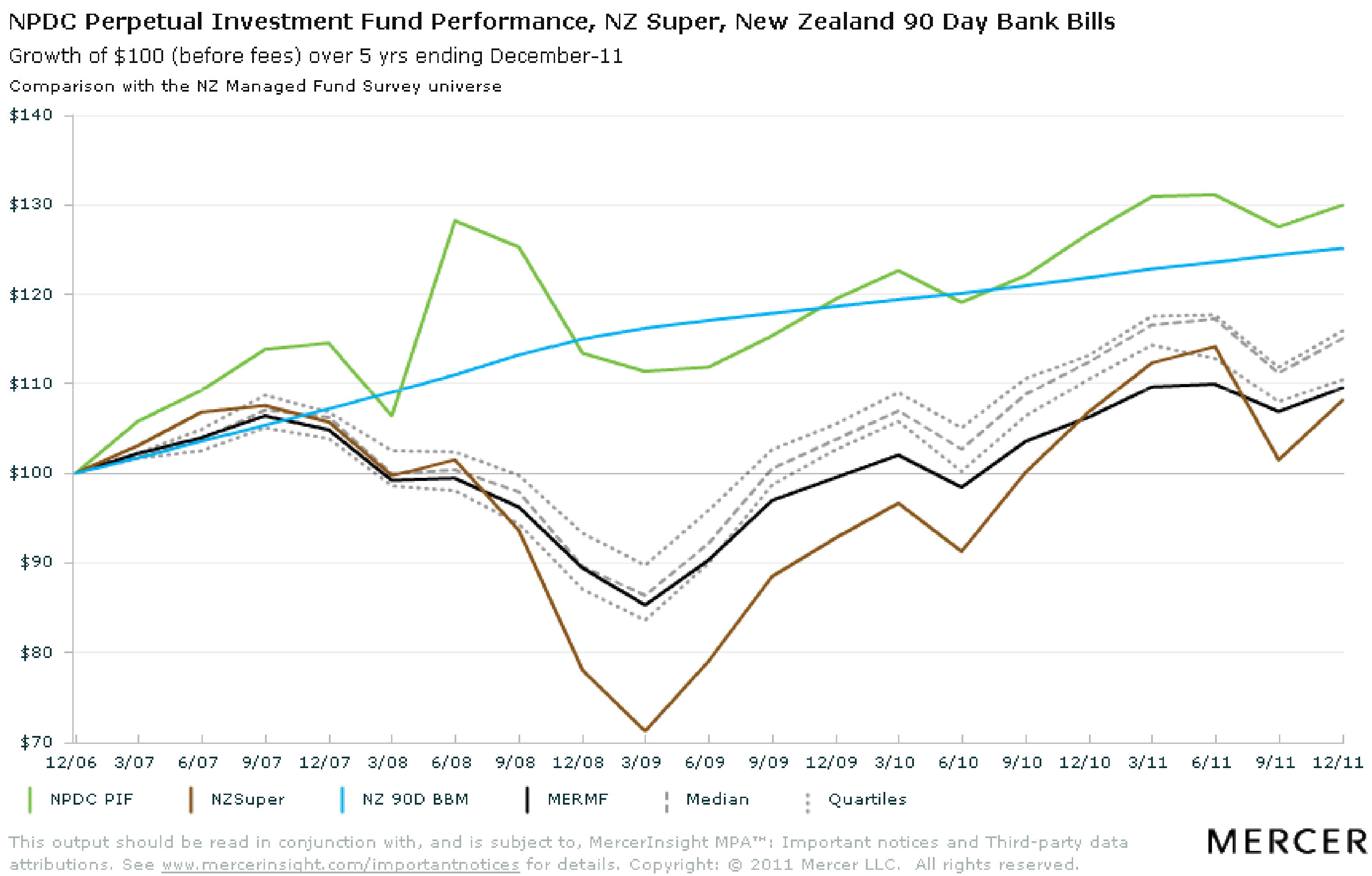
Our actuarial advice is long run expected returns have dropped from 10.50%pa to 8.50%pa. NPDC is currently reviewing the level of sustainable release payments to ensure the PIF's real value is maintained in perpetuity.

The fund is performing as well as expected relative to the current investment environment exhibiting less volatility and higher returns than straight equity markets. The PIF's high allocation to growth assets will allow the fund to grow over the long term as economic conditions improve.





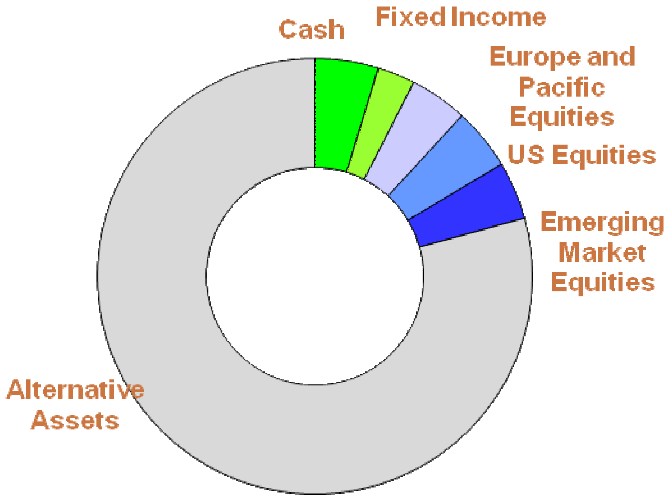
External Independent Benchmarking



Portfolio Asset Allocation

Asset Class	Current Value ($)	Portfolio (%)	Target Asset Allocation (%)
Alternative Assets	191,295,272	79.3%	70.0%
Europe & Pacific Equity	10,335,844	4.3%	11.0%
US Equity	11,055,188	4.6%	7.0%
Emerging Markets Equity	10,467,121	4.3%	7.0%
Fixed Income	6,812,604	2.8%	2.5%
Cash	11,396,623	4.7%	2.5%
	241,362,652	**100.0%**	**100.0%**

Strategic Asset Allocation



Alternative assets are now close to maximum and all listed equities are being held close to minimum.

A high allocation to alternative assets requires close monitoring of liquidity. We expect to see the realisation of a series of alternative assets over time as a natural consequence of the Private Equity life cycle.

This will provide liquidity to the portfolio over time.

Asset Classes

Alternative Assets are the largest asset allocation of the PIF at 79.3%. They include

- Tasman Farms Limited as 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 Asia region; and
- Direct Capital, a New Zealand Private Equity Fund that provides growth exposure to large unlisted companies in New Zealand.

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.

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

Currency Overview by Calendar Quarter

Currency Overview

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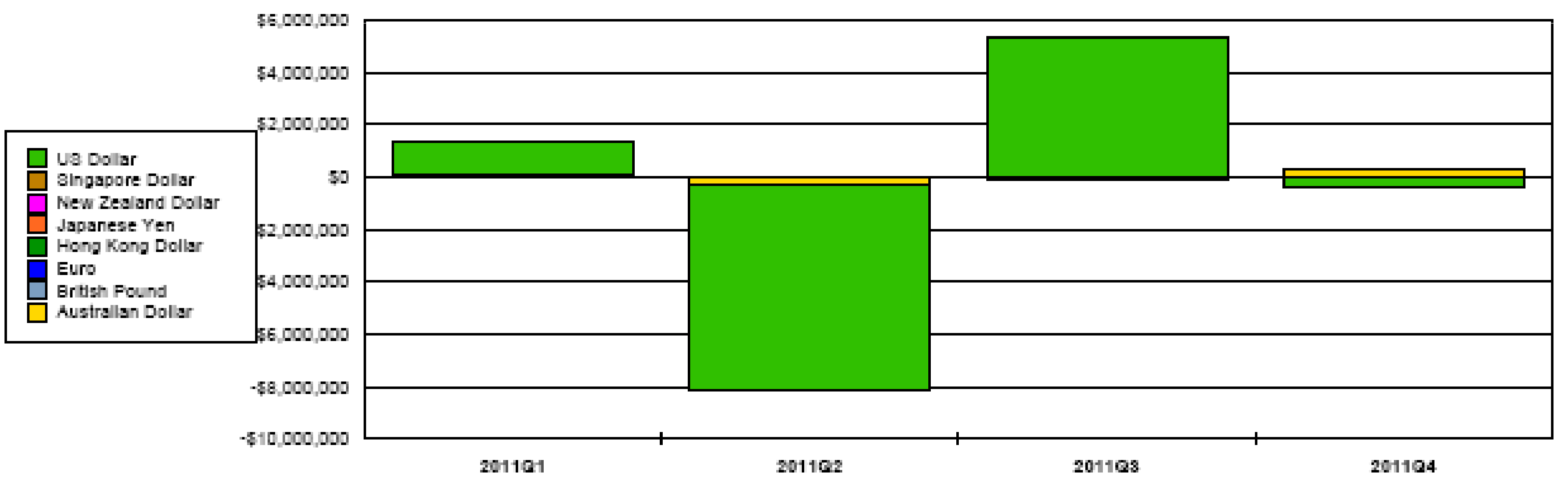
Portfolio Valuation as at: 31-Dec-2011

	2011Q1	2011Q2	2011Q3	2011Q4
Total Portfolio Value (NZD)	$259,606,909	$254,229,231	$242,755,422	$241,362,651
Total Period Cashflow (NZD)	$5,755,132.38	$5,792,408.00	$4,519,462.04	$6,012,347.22
NZD Return	3.14%	0.15%	-2.67%	1.80%
Local Return	2.63%	3.09%	-4.66%	1.84%
Currency Gain/Loss	**0.51%**	**-2.94%**	**1.99%**	**-0.04%**
Value Added	$1,349,360	-$8,083,982	$5,205,906	-$89,563



Note: The chart above displays the absolute NZD contribution of each currency in the overall net/gain or loss due to currency movements.

Outlook

- The Reserve Bank is not likely to commence tightening interest rates in 2012 until the Christchurch rebuild gathers pace, the global economy starts to recover or inflationary expectations rise in New Zealand.
- The New Zealand dollar continues to track perceived market risk sentiment, commodity pricing and listed market performance.
- The NZD is seen as a “risk on” asset and a soft commodity beneficiary and rises with these factors and markets.
- Hard and soft commodities will continue to remain sensitive to the broader equity and currency market movements and reflect underlying demand for essential products. We expect price inflation in this sector.
- Broadly speaking we continue to favour China, India, Australia and emerging markets and are neutral on the US and negative on Europe and Japan, and have positioned the PIF accordingly.
- We expect to see increasing opportunities for alternative asset investment. Any further investment allocation will be from recycling of existing asset allocation as cash is released from existing investments.
- The PIF is near the top end of the target strategic asset allocation level in alternative assets and below in listed equities, and intend to rebalance this in the medium term.

Taranaki
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