Taranaki
Investment
Management
Limited

Perpetual Investment Fund

Portfolio Report Summary

31 December 2012

Report to Council – 5 February 2013

Summary Performance Since Inception

Despite the market volatility we have witnessed in recent years, TIML remains confident that its investment strategy will deliver the expected returns required for the long term sustainability of the PIF for decades and generations to come.

This is because 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 return of +5.44%pa or +$135.25m of investment income since inception.

Inception to 31 December 2012

Performance Report Summary	**NZ$m**
Opening Balance 14 November 2004	259.40
+ Performance	135.25
- Release Payments	169.12
- Costs	9.77
Closing Balance 31 December 2012	215.77

Portfolio Return = +5.44%

Half Year Summary

The investment performance for the half year ending 31 December 2012 was -0.59%pa.

The PIF made release payments of $9.04 million for the half year, and the closing balance of the Fund as at 31 December 2012 after all payments and costs therefore reduced to $215.77 million.

Equity holdings are now at 6.3%, and cash and fixed interest are at 7.7% of the fund.

Alternative assets now represent 86.0% of the Fund, with the largest investment being that of Tasman Farms Limited.

The Board is confident it will rebalance the PIF asset allocation back within target allocations in the medium term.

Half Year End: 31 December 2012

Performance Report Summary	**NZ$m**
Opening Balance 1 July 2012	227.36
+ Performance	-2.16
- Release Payments	9.04
- Costs	0.40
Closing Balance 31 December 2012	215.77

Portfolio Return = -0.59%

Comparable Market Returns in NZD's

Asset Class	Quarter	Half Year	Full Year
PIF	0.15%	-0.59%	-1.80%
NZ Markets	6.06%	19.61%	24.18%
Australian Markets	6.24%	11.39%	9.40%
US markets	-0.83%	1.28%	6.46%
UK Markets	2.28%	4.44%	1.03%
Hong Kong Markets	7.98%	14.99%	19.65%
NZ Govt Bonds	0.42%	1.37%	4.77%
NZ 90 Day Bank Bills	0.68%	1.35%	2.72%

Source: IRESS. NZ Market (NZ50G), Australia Market (ASX 200), US Market (S&P 500), UK Market (FTSE 100), Hong Kong Market (Hang Seng) , NZ Govt Bonds (ANZ NZ Govt Bond Index) and NZ 90 Day Bank Bill Index

Market Environment

Many future economic challenges continue to be faced globally by Western developed countries including:

- Future reversal of low interest rate regimes and quantitative easing.
- Managing deflation and ultimately inflation.
- Managing European political, fiscal and monetary risk and Euro currency issues.
- Managing high unemployment.
- Stimulating GDP and consumption.
- Managing Government's fiscal policies and budget deficits.

Despite the remaining risks, Australia, China, India, emerging Asia and South America continue to increase economic activity and therefore solid global growth is expected over the medium term. The US economy is showing signs of stabilising.

Risks which have dissipated somewhat include Chinese economic growth, US fiscal cliff issues and deflation.

A wide range of individual companies are also performing at or above earnings expectations, which has lifted equity markets back to previous highs. We expect that buoyancy to extend to alternative asset valuations in the next 12 – 18 months.

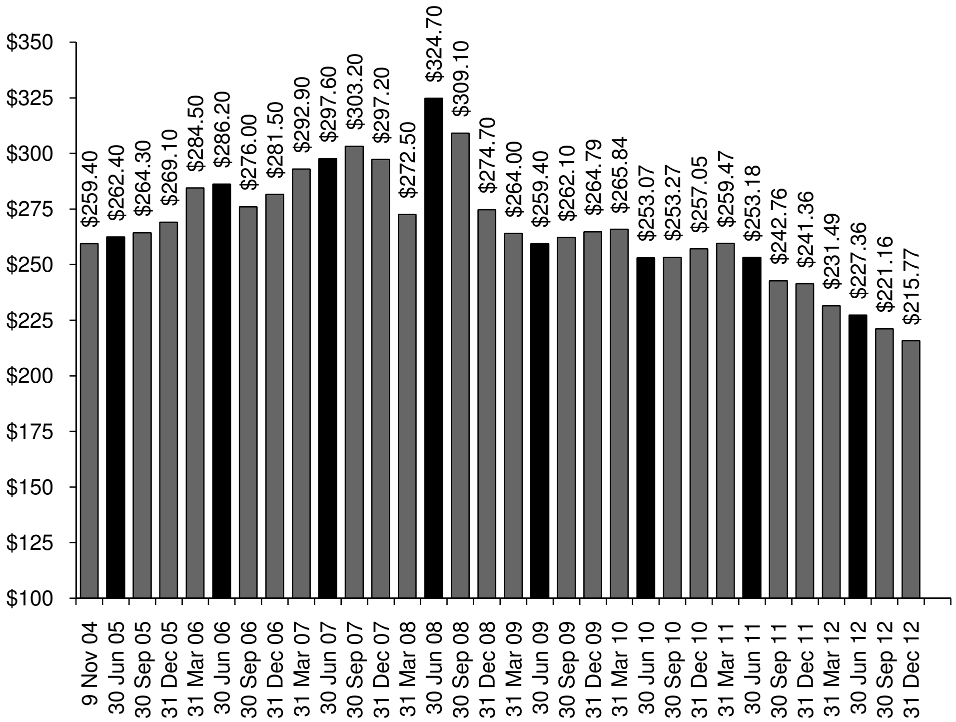
The first quarter of 2013 to date has continued with solid performance from global equity markets. This may allow private equity funds to commence divestment of some of their portfolio companies and increase valuations of unrealised investments.

Historic Performance

The PIF paid release payments to NPDC totalling $9.04m for the half year.

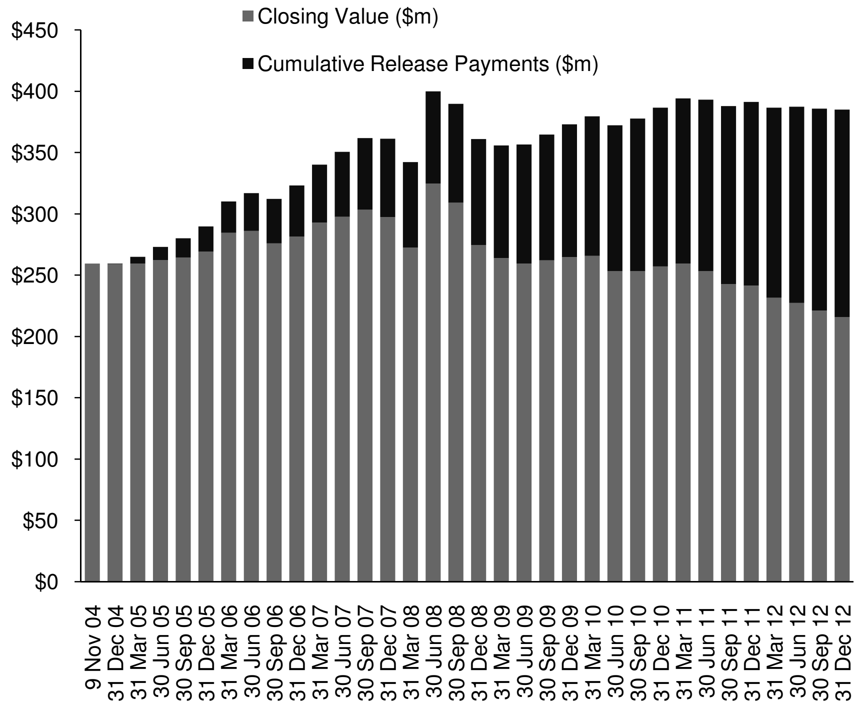
The PIF has paid out $169.12m in release payments since inception in November 2004.

Quarterly PIF Value Since Inception (NZ$m)



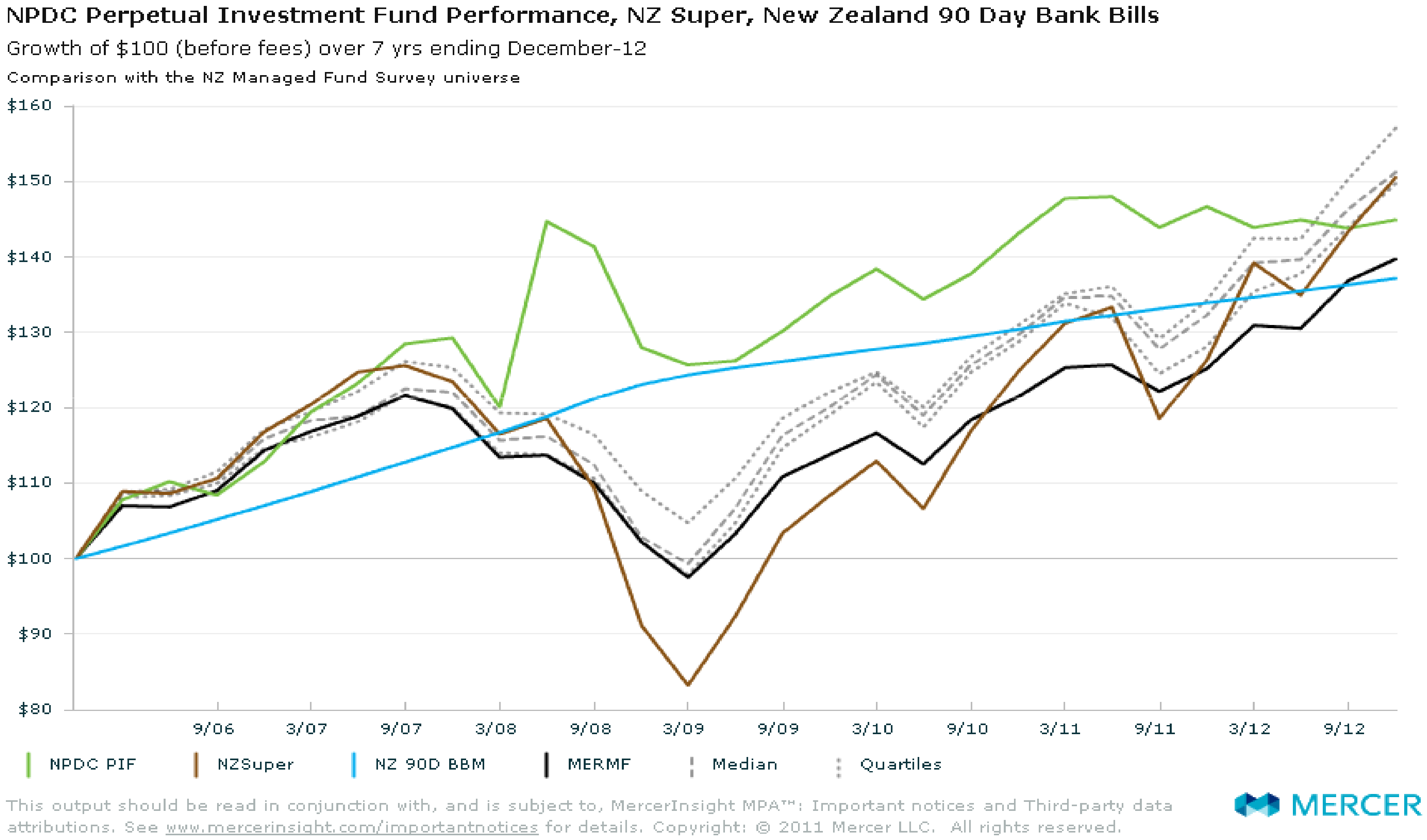
Source: Audited and Management Accounts

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



Source: Audited and Management Accounts

External Independent Benchmarking



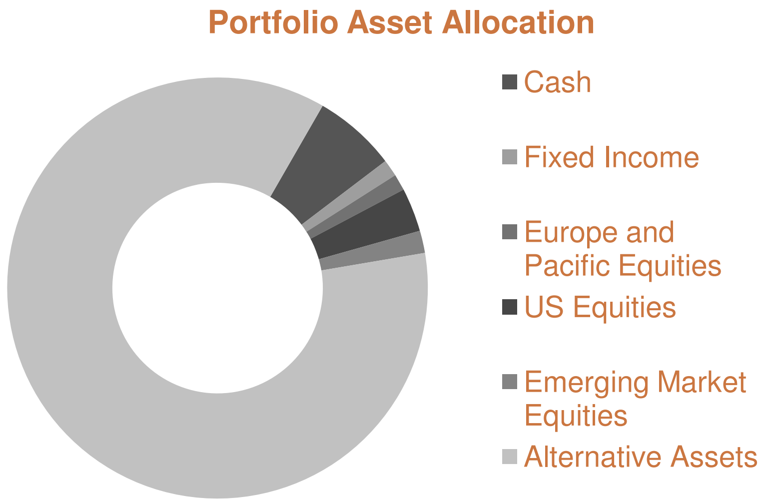
Portfolio Asset Allocation

Asset Class	Current Value ($)	Portfolio (%)	Target Asset Allocation (%)
Cash	$13,718,802	6.4%	2.5%
Fixed Income	$2,809,554	1.3%	2.5%
Europe and Pacific Equity	$2,699,390	1.3%	11.0%
US Equity	$7,247,657	3.4%	7.0%
Emerging Markets Equity	$3,732,961	1.7%	7.0%
Alternative Assets	$185,557,298	86.0%	70.0%
	$215,765,662	**100.0%**	**100.0%**

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 few years as a natural consequence of the Private Equity life cycle.

This will provide liquidity to the portfolio over the medium term.



Asset Classes

Alternative Assets are the largest asset allocation of the PIF at 86.0%. 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. There were few revaluations this year due to tight market conditions globally.

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

Outlook

The Reserve Bank of New Zealand is not likely to commence tightening interest rates until late 2013.

The Euro Crisis will continue to impact global GDP, interest and currency rates, but should slowly dissipate if well managed.

The New Zealand dollar continues to track perceived market risk sentiment, interest rate markets, 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. It is near historic highs against many currencies and will only soften when the US economy and dollar strengthens and Euro issues are managed.

We are monitoring economic growth and inflation risks globally as these will drive future interest rate increases. We expect increases in interest rates will be negative for bond values and company debt servicing, but reflect a more positive business and earnings cycle.

Hard and soft commodities will continue to remain sensitive to the broader equity and currency market movements and reflect underlying demand for essential products.

Broadly speaking we continue to favour China, India, Australia, New Zealand and emerging markets, are neutral on the US and Europe and negative on Japan, and have positioned the PIF accordingly.

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 medium term.

The TIML Board is satisfied its long term strategic asset allocation targets are appropriate and will deliver excess returns in the long run. It has also placed emphasis on liquidity and is confident it has the liquidity in place to meet its obligations for the next 24 to 36 month period.

Taranaki Investment Management Limited

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