

# Perpetual Investment Fund

## Portfolio Report Summary

### 31 December 2014

# 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 and before fees return of +5.64% pa or +\$148.33m of 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.
- Our long term view and that of our adviser actuaries is that we expect to exceed the 3.30% pa real inflation adjusted release rule target.
- The long term portfolio expected return at target asset allocation is 7.60% pa.
- As we adjust our portfolio to the new strategic asset allocation the gross return for the next five years is expected to be 6.00% pa.

| <b>Inception to 31 December 2014</b> | <b>NZ\$m</b>  | <b>%pa</b> |
|--------------------------------------|---------------|------------|
| Opening Balance 14 November 2004     | <b>259.40</b> |            |
| Return after tax and before costs    | 148.33        | 5.64%      |
| Costs                                | -12.36        | -0.47%     |
| Net Performance after tax and costs  | 135.98        | 5.17%      |
| Release Payments                     | -178.84       |            |
| Closing Balance 31 December 2014     | <b>216.54</b> |            |

# Half Year Performance Summary – 31 December 2014

- The after tax and before fees investment performance for the half year ending 31 December 2014 was +1.75%.
- The PIF made release payments of \$4.53 million for the half year.
- The closing balance of the fund as at 31 December 2014 after release payments and costs was \$216.54 million.
- The PIF is unhedged against the foreign currency and has over 90% of the fund in offshore investments.
- The USD assets had a positive currency gain but this was offset with the AUD assets which had a negative currency impact over the half year. The net impact of this was -0.93% or -\$2.03 million.

| <b>Half Year End: 31 December 2014</b> | <b>NZ\$m</b>  | <b>%Half</b> |
|--|---------------|--------------|
| Opening Balance 1 July 2014            | <b>217.97</b> |              |
| Return after tax and before costs      | 3.82          | 1.75%        |
| Costs                                  | -0.71         | -0.33%       |
| Net Performance after tax and costs    | 3.11          | 1.43%        |
| Release Payments                       | -4.53         |              |
| Closing Balance 31 December 2014       | <b>216.54</b> |              |

# Comparable Market Returns in NZD's to 31 December 2014

- The PIF Invests in equity markets through exchange traded funds. It outperformed in market benchmarks for US, Europe and emerging markets.

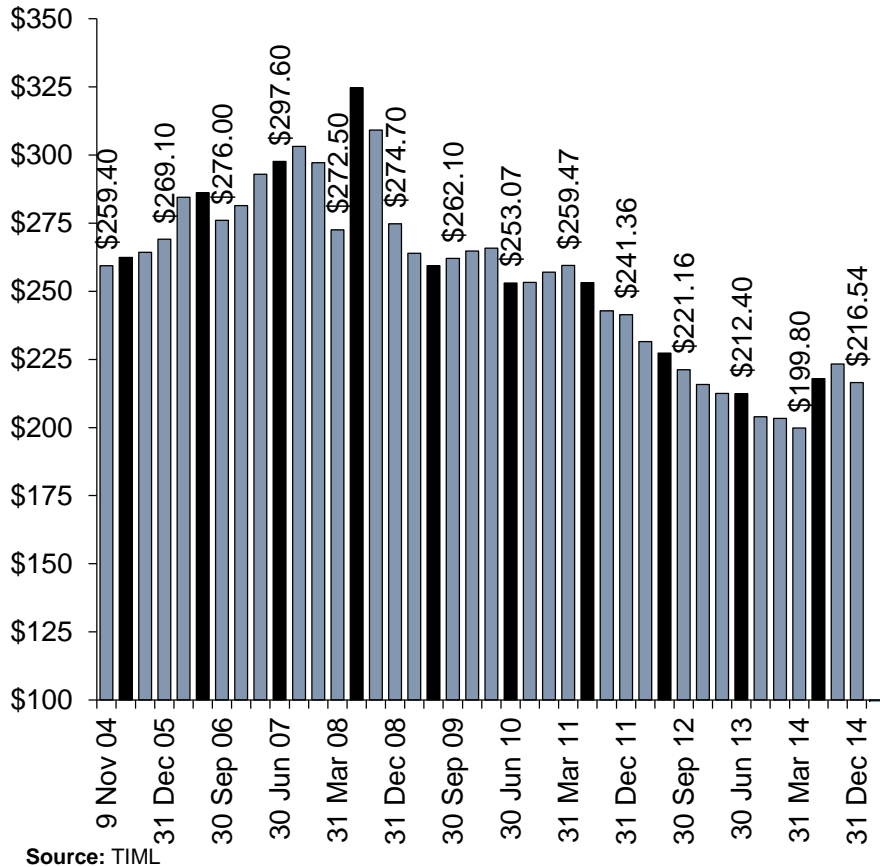
| Asset Class         | Half Year (%ch) | Full Year (%pa) | 10 Year (%pa) |
|---------------------|-----------------|-----------------|---------------|
| PIF                 | 1.75            | 9.33            | 5.64          |
| Kiwisaver -Balanced | n.m             | 10.8            | n.m           |
| Kiwisaver-Growth    | n.m             | 11.5            | n.m           |
| NZ Markets          | 8.30            | 17.55           | 6.22          |
| Aust Markets        | -2.40           | -2.25           | 2.57          |
| US Markets          | 17.99           | 17.51           | 4.57          |
| UK Markets          | -7.13           | -9.74           | -2.88         |
| HK Markets          | -0.07           | -2.01           | 0.28          |
| NZ Govt Bonds       | 4.84            | 7.78            | 6.20          |
| NZ 90 Day Bills     | 1.85            | 3.36            | 4.95          |

- Source: IRESS and Kiwisaver Morningstar Survey. Benchmarks: NZ Market (NZ50G), Aust Market (ASX 200), US Market (S&P 500), UK Market (FTSE 100), HK Market (Hang Seng) and NZ Govt Bonds (ANZ NZ Govt Bond Index). n.m = not measured.

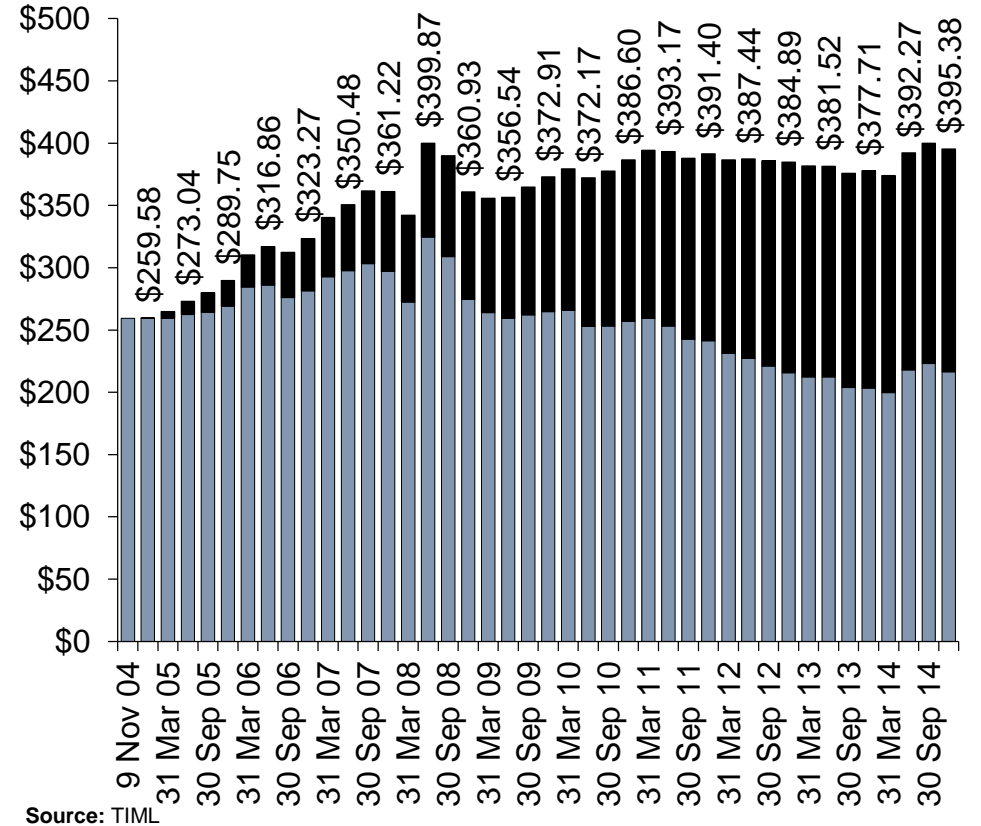
# Historic Performance

- The PIF paid release payments to NPDC totalling \$4.53m for the half year.
- The PIF has paid out \$178.84m in release payments since inception in November 2004.

Quarterly PIF Value Since Inception (NZ\$m)



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

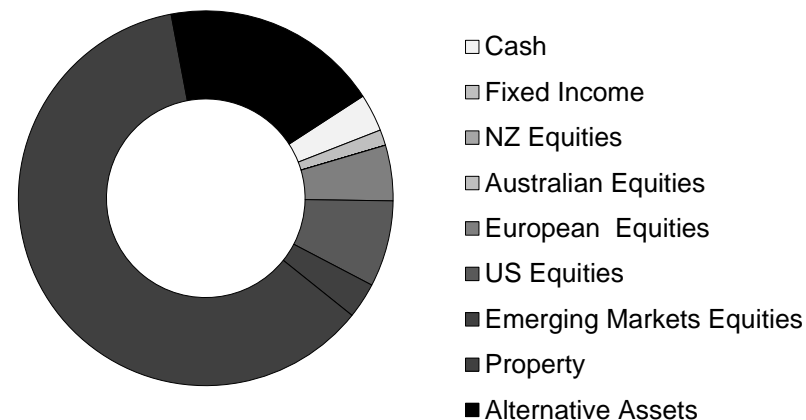


# Portfolio Asset Allocation

| Asset Class               | Performance Half End | Benchmark Return | Current Value (\$m) | Portfolio (%)  | Target Asset Allocation (%) |
|---------------------------|----------------------|------------------|---------------------|----------------|-----------------------------|
| Cash                      | 2.92%                | 1.86%            | \$7.02              | 3.24%          | 5.00%                       |
| Fixed Income              | 2.62%                | 4.84%            | \$2.95              | 1.36%          | 5.00%                       |
| NZ Equities               | n/a                  | 8.30%            | \$0.00              | 0.00%          | 5.00%                       |
| Australian Equities       | n/a                  | -2.60%           | \$0.00              | 0.00%          | 5.00%                       |
| European Equities         | 0.80%                | -0.94%           | \$10.37             | 4.79%          | 10.00%                      |
| US Equities               | 18.19%               | 17.67%           | \$16.13             | 7.45%          | 10.00%                      |
| Emerging Markets Equities | 5.48%                | 1.96%            | \$6.66              | 3.08%          | 10.00%                      |
| Property                  | 0.91%                | 3.43%            | \$132.72            | 61.29%         | 20.00%                      |
| Alternative Assets        | 0.22%                | 4.39%            | \$40.70             | 18.80%         | 30.00%                      |
|                           | <b>1.75%</b>         | <b>3.52%</b>     | <b>\$216.54</b>     | <b>100.00%</b> | <b>100.00%</b>              |

- A full or partial sale of Tasman Farms Limited is required before implementing a material transition in the strategic asset allocation.
- The inclusion in the portfolio of New Zealand and Australian equities will occur over the next 12 months.
- The overweight in TFL has created minimum 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 provide liquidity to the portfolio over the medium term.

Portfolio Asset Allocation



# Asset Classes

- Alternative Assets are a large proportion of the PIF and include:
  - Tasman Farms Limited (TFL): a food, land, soft commodity and inflation hedge investment.
  - Barings Asia Private Equities: a large private equity fund that provides exposure to private company growth in the Asian region.
  - Helmsman Capital: an Australian private equity fund specialising 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.
- The IRR's on our alternative investments are all positive and range from 7.00% to 60.00%.
- The times money multiples range from 1.1 to 3.4 times money invested.
- 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 has increased the OCR by 1% between March 2014 and July 2014. The RBNZ is now on hold until the second half of 2015.
- Construction skill shortages in the rebuild of Christchurch and adding housing supply to Auckland could increase the risk of inflation.
- The NZDUSD has pulled back 10 cents over the quarter offsetting some of the declines in global milk prices.
- The NZ economy has been growing steadily over the last 12 months but this may have peaked given recent weaker dairy price expectations.
- The global mining sector has come off the boil in line with declining hard commodity prices. Over the last 12 months the RBA lowered its cash rate to 2.25%.
- China's economic growth is starting to stabilise following recent weakness but their property market is soft and could become a drag on growth.
- 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 and we should see a gradual rise in the US dollar.
- Euro area economic growth remains low with double digit unemployment. Inflation is very low and we cannot rule out deflation or a second recession in this region. ECB cash interest rates are negative which is extremely rare and moves them into uncharted territory.



## Outlook (Cont.)

- The PIF is over its target strategic asset allocation level in property (TFL) and below in listed equities for the short term. This will be actively rebalanced where possible.
- The TIML Board has reviewed its long term strategic asset allocation targets and moved to a new target SAA on page 6. This will continue to deliver returns in excess of the new real release rule requirements in the long run.
- The Board recognises the concentration risk in holding 100% of TFL and will consider its options and discuss these with the shareholder in the second quarter of 2015.
- The Board continues to place emphasis on portfolio liquidity and is confident it has the liquidity in place to meet its release rule obligations for the next 24 to 36 month period.
- TIML is anticipating another solid performance from TFL in 2015 despite the lower forecast milk price as VDL has fixed the farmgate price for 70% of its milk production at around budget levels.

The logo for Taranaki Investment Management Limited is displayed on a black rectangular background. The text is arranged in four lines: 'Taranaki' in white, 'Investment' in orange, 'Management' in orange, and 'Limited' in light blue.

# Taranaki Investment Management Limited

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