Taranaki Investment Management Limited

Perpetual Investment Fund

Portfolio Investment Summary

31 December 2015

Half Year Performance Summary

- The after tax investment performance for the half year ending 31 December 2015 was $20.20 million or +7.97% before TIML costs.
- The PIF made release payments of $3.67 million for the half year.
- The closing balance of the fund as at 31 December 2015 after release payments and costs was $269.40 million.
- The main driver of performance over the half year was recognising the estimated net transaction value gain over book value of the Tasmanian Land Company.
- Global listed equity market returns were weak, commodity markets were down and volatility was up, on concerns about a hard landing in China as they work towards rebalancing their economy to a more consumer driven basis.

Half Year End: 31 December 2015	**NZ$m**	**%Half**
Opening Balance 1 July 2015	253.57	
Return after tax and before costs	20.20	7.97%
TIML costs	-0.70	-0.28%
Net Performance after tax and costs	19.50	7.69%
Release Payments	-3.67	
Closing Balance 31 December 2015	269.40	

Performance Summary Since Inception

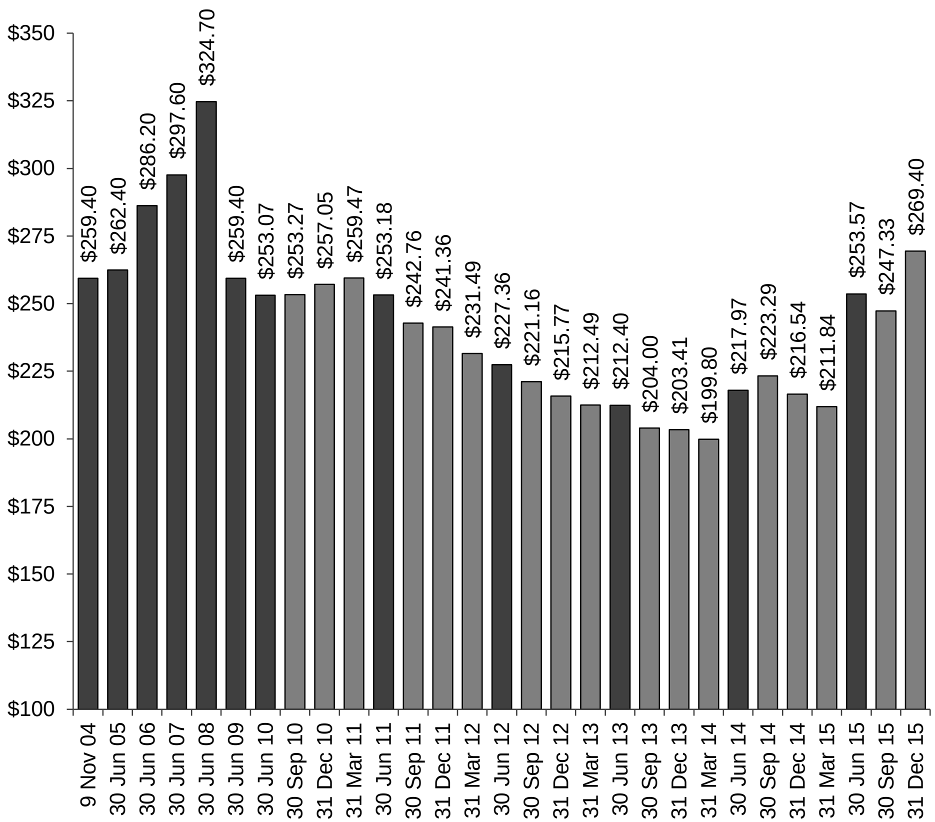
- The PIF asset allocation is designed for a long term investment horizon and matches the multi generational perpetual mandate of the PIF.
- The PIF therefore focuses on long term returns and has had an annualised after tax return of +7.22% pa and +$208.53m of investment income since inception.
- These 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 and central bank interventions including quantitative easing and historically low interest rates.
- The long term portfolio expected return at target asset allocation is 7.60% pa.
- As we adjust our portfolio to our target strategic asset allocation, the return for the next four years is expected to be 6.00% pa.
- Our long term view and that of our adviser actuaries is that we expect investment returns to exceed the release rule obligation of 3.30% plus inflation, fees, and costs

Inception to 31 December 2015	**NZ$m**	**%pa**
Opening Balance 14 November 2004	259.40	
Return after tax and before costs	208.53	7.22%
TIML costs	-13.77	-0.48%
Net Performance after tax and costs	194.77	6.74%
Release Payments	-184.77	
Closing Balance 31 December 2015	269.40	

Historic Performance

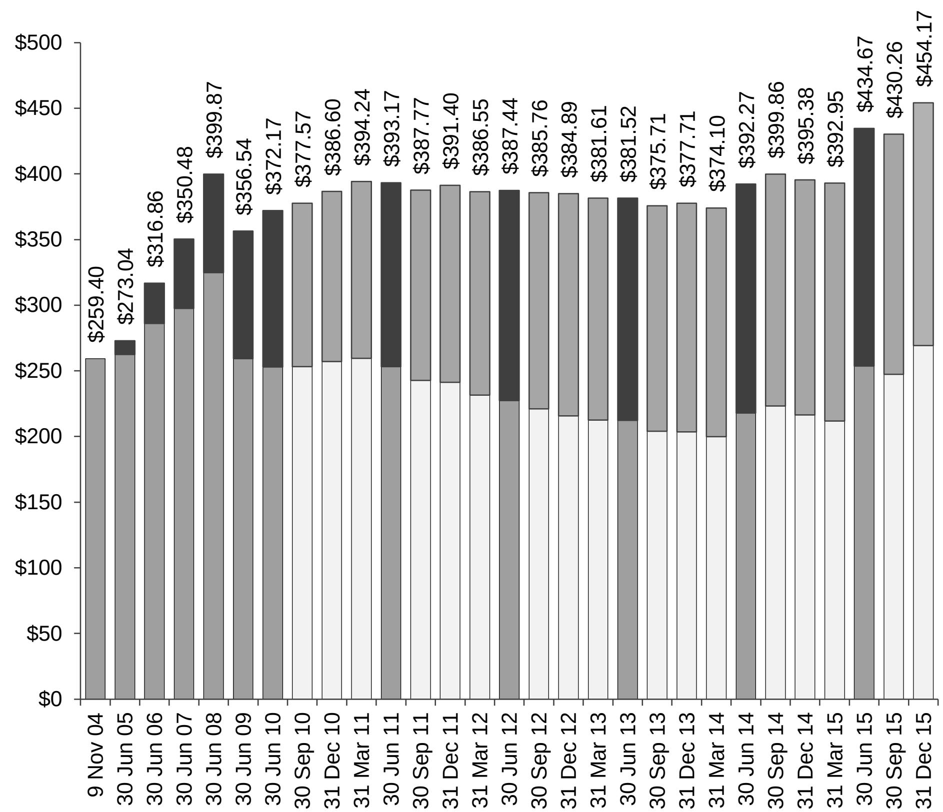
- The PIF paid release payments to NPDC of $3.67m for the half year.
- The PIF has paid out $184.77m in release payments from inception in November 2004 to 31 December 2015.

Quarterly PIF Value Since Inception (NZ$m)



Source: TIML

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

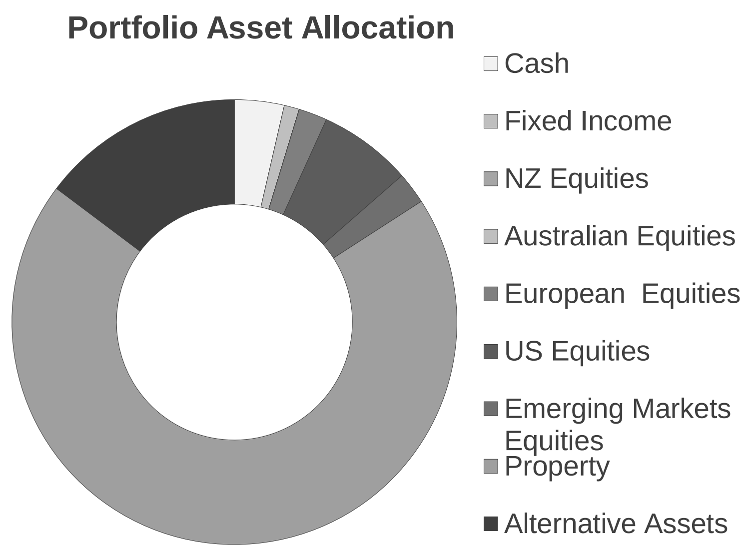


Source: TIML

Portfolio Asset Allocation

Asset Class	Performance Half Year End	Benchmark Return	Performance NZ$	Current Value ($m)	Portfolio (%)	Target Asset Allocation (%)
Cash	-4.43%	1.55%	-$0.38	$9.71	3.60%	5.00%
Fixed Income	1.22%	-0.52%	$0.03	$2.97	1.10%	5.00%
NZ Equities	0.00%	10.43%	$0.00	$0.00	0.00%	5.00%
Australian Equities	0.00%	-9.06%	$0.00	$0.00	0.00%	5.00%
European Equities	-7.97%	-14.43%	-$0.40	$5.59	2.07%	10.00%
US Equities	-3.47%	-1.83%	-$0.55	$18.27	6.78%	10.00%
Emerging Markets Equities	-10.82%	-24.44%	-$0.63	$6.22	2.31%	10.00%
Property	14.72%	3.16%	$21.58	$186.91	69.38%	20.00%
Alternative Assets	1.59%	4.12%	$0.55	$39.73	14.75%	30.00%
	7.97%	**-2.78%**	**$20.20**	**$269.40**	**100.00%**	**100.00%**

- A sale of Tasmanian Land Company Ltd has been negotiated and will allow a material transition to the target strategic asset allocation.
- The inclusion in the portfolio of New Zealand and Australian equities is expected to occur over the next 12 months.
- The overweight in TLC has previously caused underweight policy allocations in other asset classes.
- 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 further improve liquidity to the portfolio over the medium term.



Comparable Market Returns in NZD's

- The PIF performed favourably over intermediate and long term periods and out performed over short time frames.
- Although short term performance was pleasing, the Board focuses its attention on long term performance because of the nature of the portfolio and asset allocation.

Listed & public market Asset Class	Benchmark Half (%)	Benchmark 1 Year (%pa)	Benchmark 3 Year (%pa)	Benchmark 5 Year (%pa)	Benchmark 10 Year (%pa)
PIF	7.97	27.80	11.33	5.79	6.59
PIF Benchmark Return	-1.02	7.02	8.27	6.88	6.29
Cash	1.55	3.41	3.15	3.01	4.57
Fixed Income	-0.52	3.02	2.87	5.26	5.81
NZ Equities	10.43	13.58	15.86	13.83	6.50
Australian Equities	-9.06	-0.31	-1.03	-1.90	0.99
US Equities	-1.83	13.34	20.25	13.17	5.06
European Equities	-11.00	2.63	5.22	2.68	-0.51
Property	3.16	6.48	7.06	7.03	7.88
Kiwisaver - Balanced	N.M.	6.60	9.60	8.40	N.M.
Kiwisaver - Growth	N.M.	8.30	11.50	9.60	N.M.

Asset Classes

- Alternative Assets are a large proportion of the PIF and include:
    - Tasmanian Land Company Limited (TLC): a food, land, soft commodity and inflation hedge investment, which holds Tasman Farms Limited and the Van Diemen's Land Company.
    - 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, growth assets in private markets are expected to outperform listed markets on a risk adjusted basis.

Outlook

- The Reserve Bank of New Zealand is now on a neutral bias after raising the official cash rate 100 basis points in 2014 before removing these increases again in the last half of 2015.
- Most Central banks are generally on an easing or neutral bias, with the major exception being the Federal Reserve which increased interest rates in December 2015 after a prolonged period at near zero levels.
- Global inflation is still low and is one of the factors keeping a lid on interest rate increases globally.
- The NZDUSD exchange rate has reacted to the prospect of US interest rate hikes and sold off over the last six months, offsetting some of the declines in global milk prices and other commodities.
- In the US, economic data has generally turned the corner and listed markets have generally been strong over the past 24 months.
- The NZ economy is growing but at a lower rate as the recent weaker dairy price expectations flow through the economy.
- All commodities have continued to decline on generally higher inventory levels and lower demand. Oil in particular has been weak which is generally positive for consumers.
- China's economic growth is slowing with relatively high interest rates, weak property market, weak equity market and lower industrial production. During the period China devalued their currency causing a sell off in emerging markets and commodities.
- Euro area economic growth remains low with high unemployment. Inflation is very low and we cannot rule out deflation or a second recession in this region. The last round of quantitative easing has pushed equities higher and weakened the Euro which could aid a recovery. Lower energy prices and improved consumer confidence will also aid a recovery in the region.
- Japan's economy continues to struggle with a relatively weak yen failing to stimulate exports. The economy continues to face low inflation and challenging demographics.

Tasmanian Land Company Ltd Sale Update

- Moon Lake Investments Pty Ltd offered A$280m for TLC which was accepted by NPDC.
- Moon Lake has received FIRB approval and the contract is now unconditional.
- Post settlement, the net proceeds from the sale of TLC will be transitioned into the PIF strategic asset allocation over a 12 to 18 month period.
- During the initial stages of the transition period, the PIF expects to hold a high proportion of cash until such time as capital can be deployed to various asset classes and currency exposures.
- The Board will rebalance the PIF into a diversified portfolio consisting of listed equities in New Zealand, Australia, USA, Europe and emerging markets and adding additional exposure to new property and alternative assets. The Board will retain an exposure to high quality cash and New Zealand Fixed income investments.

Taranaki Investment Management Limited

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