Taranaki Investment Management Limited

Perpetual Investment Fund

Performance Report

Quarter Ended

31 December 2010

March 2011

SUMMARY

As at 31 December 2010 the total value of the PIF increased from $253.27m to $257.05m after release and expense payments for the quarter.

The PIF outperformed its external benchmarks in all six asset classes. The overall portfolio performance was +3.88% for the quarter.

The overall outperformance when compared to ‘budgeted’ benchmarks was +0.65%. Stock Selection (+2.51%) contributed positively while currency (-1.78%) and asset allocation (-0.08%) contributed negatively.

Quarter End: 31 December 2010
Performance Report Summary

	NZ$m
Opening Balance 1 October 2010	253.27
+ Performance	**9.43**
- Release Payments	5.24
- Costs	0.40
Closing Balance 31 December 2010	**257.05**
- Less NPDC Loan	9.17
Net PIF Balance at 31 December 2010	247.88

Portfolio Return = 3.88%

Half Year End: 31 December 2010
Performance Report Summary

	NZ$m
Opening Balance 1 July 2010	253.07
+ Performance	**15.23**
- Release Payments	10.45
- Costs	0.80
Closing Balance 31 December 2010	**257.05**
- Less NPDC Loan	9.17
Net PIF Balance at 31 December 2010	247.88

Portfolio Return = 6.48%

Inception to 31 December 2010
Performance Report Summary

	NZ$m
Opening Balance 14 November 2004	259.40
+ Performance	**134.13**
- Release Payments	129.54
- Costs	6.93
Closing Balance 31 December 2010	**257.05**
- Less NPDC Loan	9.17
Net PIF Balance at 31 December 2010	247.88

Portfolio Return = 7.63%

STRATEGY AND POLICY

Macro Environment

Equity markets largely shrugged off mixed economic data.
Mid term elections in the US occurred in November and markets followed the historic trend of rallying strongly post elections.

Bearish investors remain concerned about the economic challenges of many developed countries including:

- managing the reversal of low interest rates and quantitative easing;
- managing inflation;
- managing sovereign debt and credit risk;
- achieving a reduction in unemployment;
- achieving an increase in 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 solid growth is expected over the medium term in those regions.

Commodities

- Oil prices were up over the quarter increasing +14.46% to US$91.30 barrel.
- Gold rose +8.47% for the quarter to US$1418oz
- Hard and soft commodities were stronger over the quarter with copper prices up 20.93%.
- Whole milk powder is tracking higher and closed at US$3,620 per tonne.

ALTERNATIVE INVESTMENTS

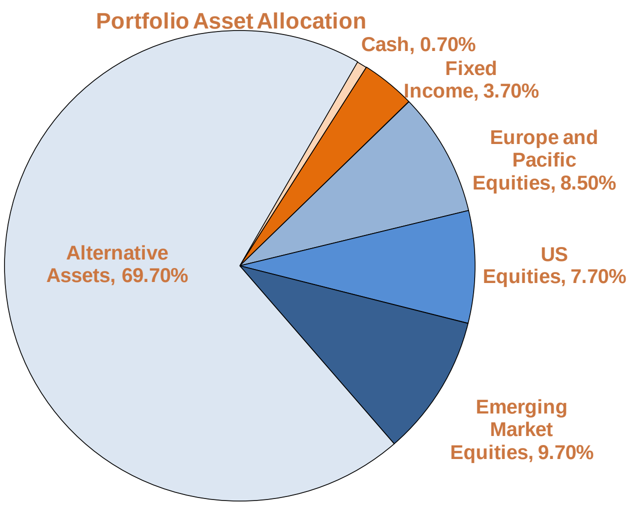
- Alternative assets is the largest asset class in the PIF's strategic asset allocation.

  The majority of the class is invested in Tasman Farms Limited, Baring Private Equity Funds III and IV and Direct Capital Funds III and IV.

- Alternative Assets were up (+4.41%) and out performed the benchmark of +3.59%.

PORTFOLIO ASSET ALLOCATION

Asset Class	Current Value ($)	Portfolio %	Asset Allocation Target %
Cash	1,737,167	0.7%	2.5%
Fixed Income	9,471,840	3.7%	2.5%
Europe & Pacific Equity	21,911,422	8.5%	11.0%
US Equity	19,783,677	7.7%	7.0%
Emerging Markets Equity	24,963,269	9.7%	7.0%
Alternative Assets	179,186,780	69.7%	70.0%
	257,054,155	**100.0%**	**100.0%**



The transition from our prior asset allocation is now complete.

All asset classes are now held at close to target allocation levels

QUARTERLY PORTFOLIO RETURNS

Gross Internal Rate of Return

	2010Q1	2010Q2	2010Q3	2010Q4
Alternative Assets	1.79%	-0.91%	0.65%	4.41%
Cash	0.99%	0.83%	0.57%	0.90%
Emerging Market Equity	4.82%	-6.94%	11.59%	2.66%
Europe & Pacific Equity	3.24%	-12.88%	10.10%	2.45%
Fixed Income	1.96%	0.92%	1.02%	1.39%
US Equity	7.61%	-8.50%	3.61%	5.15%
	2.64%	-2.99%	2.50%	3.88%

MARKETS

All global equity markets continued to rally over the quarter

- **New Zealand NZ50G (+ 4.12%),**
- **Australian ASX 200 (+3.45%),**
- **United States S&P 500 (+10.20%)**
- **UK FTSE 100 index (+6.33%)**
- **Hong Kong Hang Seng Index (+3.03%)**

CURRENCY

- Approximately 91% of the PIF is exposed to foreign currency movements.
- The NZDUSD has not traded within the treasury policy range where hedging may be commenced.
- The NZDUSD exchange rate increased 3.66 cents to 0.7706 which decreased the PIF value by NZ$4.46m in the quarter and NZ$11.57m in the half year.
- The PIF has hedged 38% of the Australian dollar denominated assets (which includes TFL) in the portfolio.

BENCHMARKING

Benchmarking

- The PIF out-performed in 6 out of 6 external benchmarks for its asset classes this quarter.

Performance Attribution

- The PIF also out-performed against its own internal ‘budgeted’ benchmarks by +0.65% for Quarter End 31 December 2010.

- The key driver of out performance for the quarter was stock selection (+2.51%), but currency (-1.78%) weighed negatively against that.

HISTORIC COMPARISONS

Current PIF Value

- The PIF closing amount was $257.05m, up on last quarter’s closing value of $253.27m

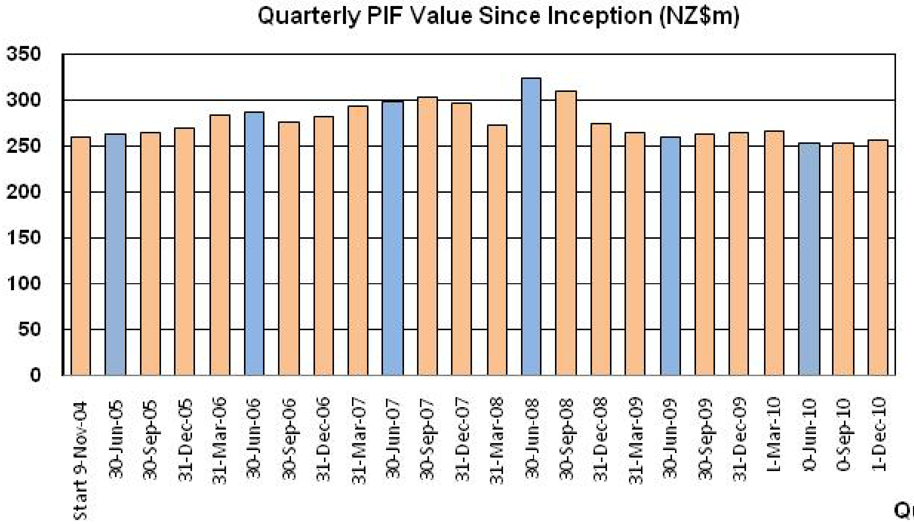
Release Payments for the Quarter

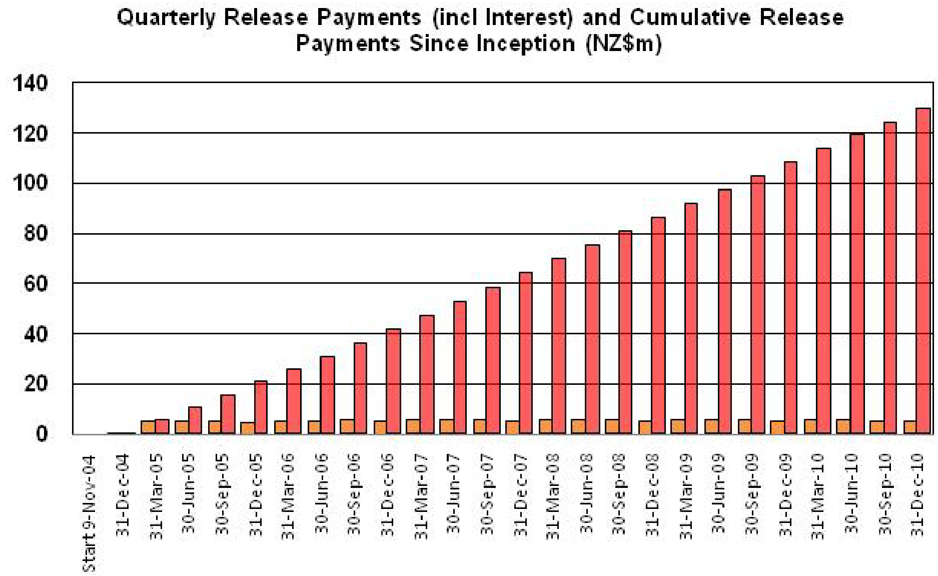
- The PIF paid release payments to NPDC totalling NZ$5.24m for the quarter. Costs for the quarter amounted to NZ$0.40m.

Release Payments since Inception

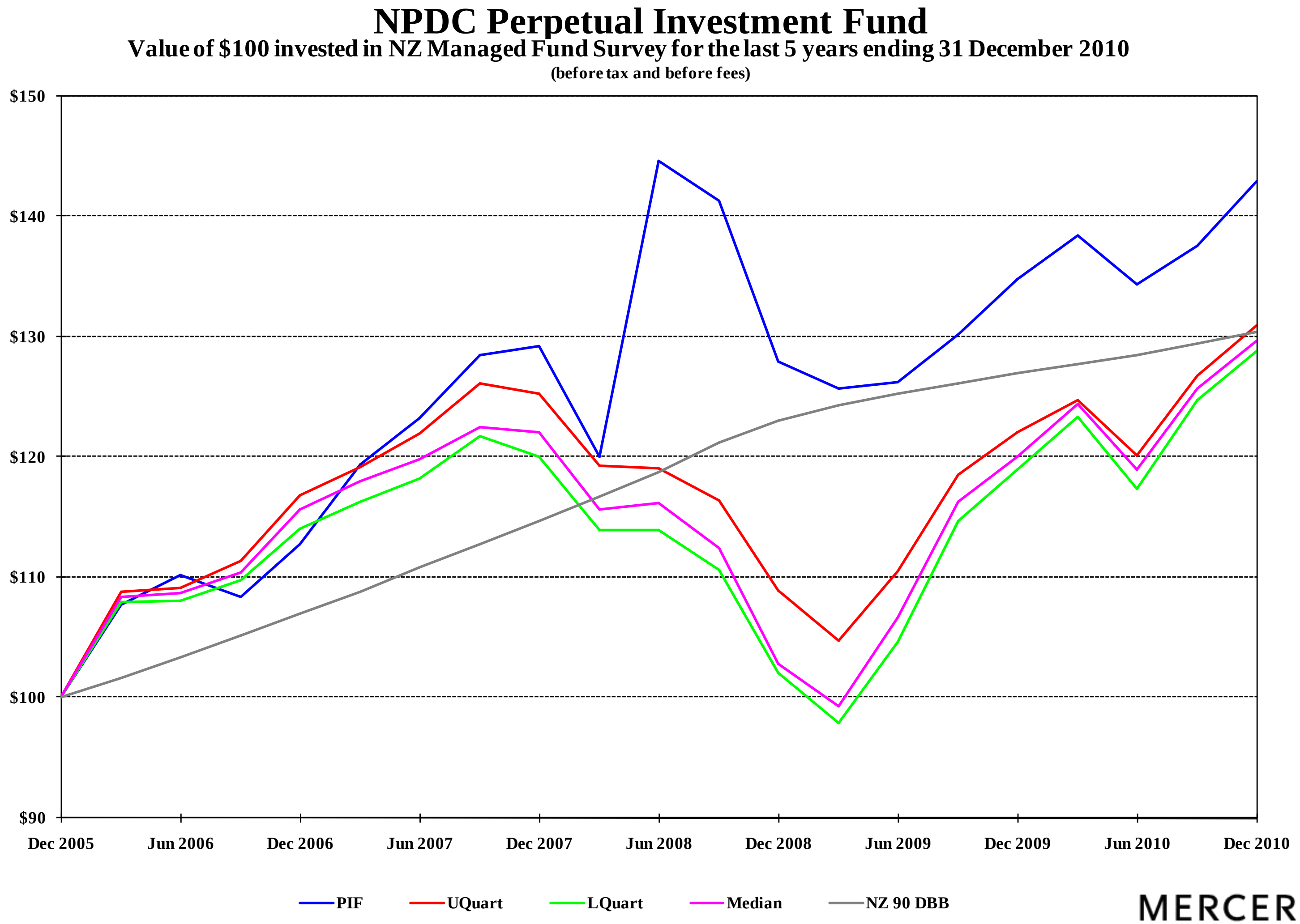
- The PIF has paid out NZ$129.54m since inception. This consists of quarterly release and interest payments.

HISTORIC COMPARISONS *(cont.)*





PIF Managed Fund



Outlook

The New Zealand dollar continues to track perceived market risk sentiment; the NZD is seen as a “risk on” asset and a soft commodity beneficiary and rises and falls with these factors. At some stage this will revert to being led by more normal economic market indicators.

Hard and soft commodities, equity, and currency market movements are expected to remain sensitive to the broader economic and political framework globally.

Broadly speaking we favour China, India, Australia and the US over Europe and Japan and have positioned the PIF accordingly.

Our equity exposures are effectively spread across indices in US, Europe and emerging economies weighted on our preferred thematics.

We expect to see further acquisition and investment opportunities emerge in alternative assets including those in the property and agricultural sectors and through private equity. Any further investment in the class will be from recycling of existing asset allocation as cash is released from existing investments.

On a long term and strategic asset allocation basis the board is satisfied the PIF is well positioned around its target levels and it does not intend to change its investment strategy.

We are monitoring economic growth and inflation risks closely as these will drive future interest rate increases globally which will be negative for bond values and company debt servicing.

The current extreme liquidity is masking a range of economic risks, but if Sovereigns and corporates demonstrate fiscal responsibility, interest rates rise and credit quality improves more money should switch back to long duration bonds from equities, cash and gold.

The currencies of the stronger performing countries should strengthen relative to others. At some point as domestic policies allow, the USD should move off its lows.

The Reserve Bank is now unlikely to increase cash rates this year and in fact, may cut rates as a result of the second Christchurch earthquake and as the economy stalls.. This should cause the NZD to drift down against stronger currencies.

Taranaki
Investment
Management
Limited

Disclaimer

This report has been prepared by Taranaki Investment Management Limited (**TIML**) solely to provide New Plymouth District Council (**NPDC**) with information about TIML, its investments and its investment management as required by the contract of service with NPDC.

TIML makes no representation or warranty, express or implied, as to the accuracy, adequacy or reliability of any statements, estimates or opinions or other information contained in this report.

This report, including any financial projections or forecasts contained in it, has been prepared in good faith but has not been independently verified.

TIML, its directors, officers, employees and agents (**Affiliates**) disclaim all liability and responsibility (including without limitation any liability arising from fault or negligence on the part of TIML and its Affiliates) for any direct or indirect loss or damage which may be suffered by any recipient of this report through use of or reliance on anything contained in, or omitted from, this report, to the maximum extent permitted by law. TIML will not be obliged to correct or update any information in this report.

This report may contain forward-looking statements, estimates, forecasts and projections (**Forward-Looking Information**). This Forward-Looking Information speaks only as of the date of this report, reflecting various assumptions. These assumptions may or may not prove to be correct. The Forward-Looking Information represents the views of TIML (based on the assumptions made). However, no express or implied representations or warranties are, or will be, made by TIML, nor any of its Affiliates as to the accuracy or completeness of these statements, estimates, forecasts or projections or the reasonableness of any assumptions that underpin them. The Forward-Looking Information involves known and unknown risks, uncertainties and other factors, which may cause actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements.

TIML is managing the investments of the Perpetual Investment Fund of NPDC. TIML and its Affiliates are not advising or encouraging any other party to make or divest any investment, to trade, or to abstain from trading securities, or advising or encouraging any other person to do so.