Taranaki Investment Management Limited

Perpetual Investment Fund
Performance Report
Financial Year End
30 June 2010

August 2010

SUMMARY

Year End: 30 June 2010 **Performance Report Summary**	**NZ$m**	**Quarter End: 30 June 2010** **Performance Report Summary**	**NZ$m**
Opening Balance 30 June 2009	**259.40**	Opening Balance 31 March 2010	**265.84**
+ Performance	15.85	+ Performance	-8.22
- Release Payments	21.95	- Release Payments	5.49
- Costs	1.56	- Costs	0.39
Closing Balance 30 June 2010	**251.74**	Closing Balance 30 June 2010	**251.74**
- Less NPDC Loan	9.17	- Less NPDC Loan	9.17
Net PIF Balance at 30 June 2010	242.57	Net PIF Balance at 30 June 2010	242.57
Portfolio Return = 5.94%		Portfolio Return = -3.39%	

SUMMARY

Fund Balance
The Perpetual Investment Fund (PIF) opened the financial year at $259.4 million.

During the year investment performance of 5.94% has added $15.85 million to the Fund and the PIF has made release payments of $21.95 million and cost $1.56 million to manage.

The closing balance of the Fund as at 30 June 2010 is therefore $251.74 million.

The PIF had been tracking strongly in the three quarters through to 31 March 2010 where the PIF balance had increased to $265.8 million, however the approximately 10% fall in equity markets in the June quarter and a reduction in the valuation of land and buildings for Tasman Farms Limited as at 31 May 2010 together contributed to an over $8.2 million reduction in performance to $15.85 million for the whole year.

Market Conditions
The investment environment over the year was an improvement on the prior year and while the volatility arising from the global financial crisis reduced over the 2010 year, there was still a significant flow on impact on confidence, consumption, and economic activity.

The recovery has therefore been muted and patchy. The strong performers have been China, non-Japan Asia, and Australia with reasonable performance also in emerging economies including Brazil and Russia. However the more conventional Western economies of UK and Europe struggled and the US economy has also remained under significant pressure.

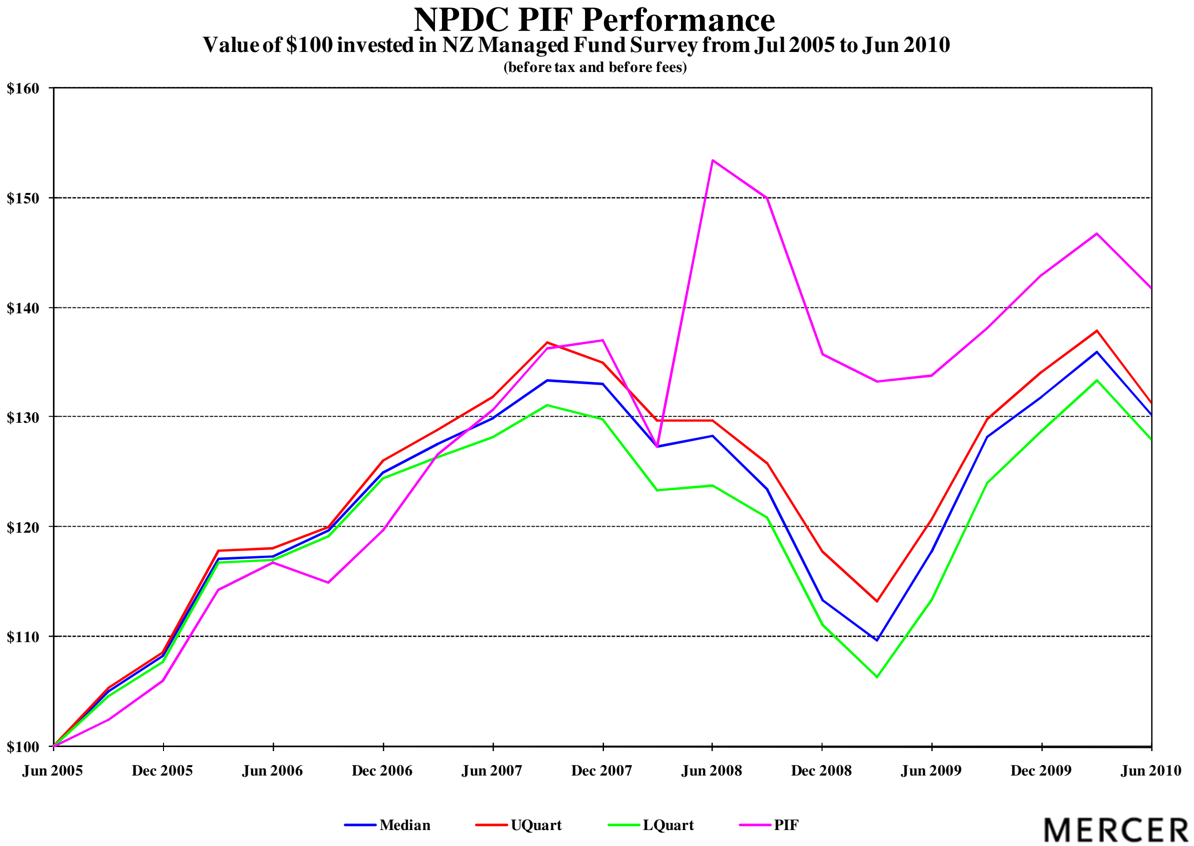
Monetary policies such as low interest rates, quantitative easing etc. have in the main been maintained by most developed economies. Exceptions being Australia which has increased interest rates and New Zealand which has recently (somewhat tentatively) commenced increasing interest rates.

There has been a relatively soft growth in earnings and listed equity values. Bonds have also been regarded as being overpriced, i.e. the ‘low’ long term interest rates available are no longer attractive for new investment.

SUMMARY *(Cont.)*

Benchmark Performance

The PIF outperformed its benchmarks for the year in US equities, Europe and Pacific equities and fixed income but underperformed in emerging markets, alternative assets and cash. It continues to be the top performing fund in the Mercer universe over its three to five year performance horizon.



SUMMARY *(Cont.)*

The PIF introduced treasury and investment policies over the year and has hedged NZD/AUD $40m to date of its Australian foreign exchange exposure.

During the 2010 financial year the PIF completed a substantial portion of its three year transition programme to its new Strategic Asset Allocation.

The PIF has also continued to hold overweight cash and bond positions at 13% of the portfolio, has reduced equity holdings to 24% and successfully exited the final holdings of SPARCS. Alternative assets now represent 63% of net assets, being the balance of the portfolio.

Tasman Farms Limited
The Tasman Farms Limited board utilised independent external valuers to value the land and buildings for its farming operations and this resulted in a $13.4 million write down for the year. The TIML board is of the view that this is reflecting mainly forced sales which occurred for those farmers who held excess debt subsequent to the global financial crisis and who were then also affected by the previous year's low milk price.

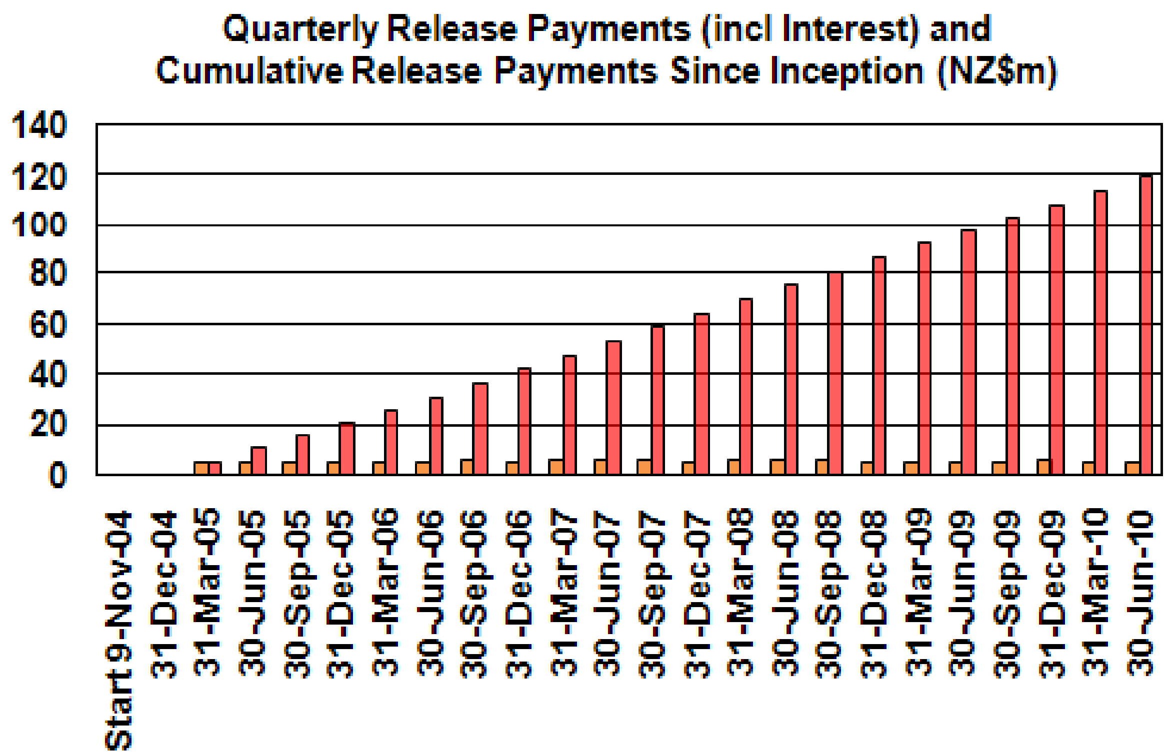
Hence, we see the reduction in value as temporary and expect to see it reversed over the medium term. A future revaluation is expected to more appropriately reflect the increased investment of around $14 million into the farms by way of capital fertiliser, fencing, farm development, run off and dairy conversions, and pasture enhancements made during the past year. There have also been improvements in the quality of animal welfare and livestock, and in productivity.

To some extent the improvement in livestock has been reflected by a significant $9.7 million gain in livestock valuations over the year which was a major contributor to the 230% increase in earnings before interest and taxation of $7.9 million for the year.

RELEASE PAYMENTS

Release payments to New Plymouth District Council since 2005 have now reached $119.1 million.

The Release Rule is working as intended to smooth out periodical variations in the Fund's performance to provide a long term sustainable approach.



STRATEGY AND POLICY

This year the PIF substantiality completed the execution of planned changes to its investment strategy and investment policy.

The TIML board believes these will provide the foundations for the long term growth and performance of the PIF, and they continue to be satisfied with the sustainability of the Release Rule, the appropriateness of the current Strategic Asset Allocation and the maintenance of liquidity and the cash-flow of the PIF.

During the 2010 year the board also approved revised investment and treasury policies and implemented policy based hedging programmes for our foreign exchange exposures.

ALTERNATIVE INVESTMENTS

The PIF continues to evaluate a range of opportunities, typically several investment opportunities are reviewed each month.

Ultimately, only a handful of new alternative investments are approved each year.

The key alternative investments currently held in the portfolio include Tasman Farms Limited, Barings Fund III and IV (which invest in Asia), and Direct Capital Fund III and IV (which invest in Australasia).

The board is satisfied with the performance of these key alternative investments.

ALTERNATIVE INVESTMENTS

TASMAN FARMS LIMITED

The board acknowledges the current investment in Tasman Farms Limited and likely future capital injections to grow the company, does introduce concentration risk into the portfolio. Hence very close attention is paid by both the board and the executive team to the strategy and operations of Tasman Farms Limited.

The improved operating performance (with EBIT up 230% on last year), ongoing land improvements and development (including an extra 400ha development), increasing milk production (33% increase since acquisition), and improvement in quality and value of livestock ($9.7 million revaluation) is part of the continuous positive improvements shown by Tasman Farms Limited.

A further expected improvement of at least 14% in milk price this year along with additional productivity gains (of up to 25%) and future land conversion and development opportunities all auger well for the medium term performance of Tasman Farms.

TIML will continue to maintain its overview and involvement to ensure we maximise the PIF's investment outcomes from its Tasman Farms Limited investment.

We have ongoing expectations for future improvements in production, profitability and capital value underpinned by population growth, demand for agricultural products and further economic growth in developing economies.

During the year we increased our investment in the company by 3.3%, increasing our ownership to 77.7%.

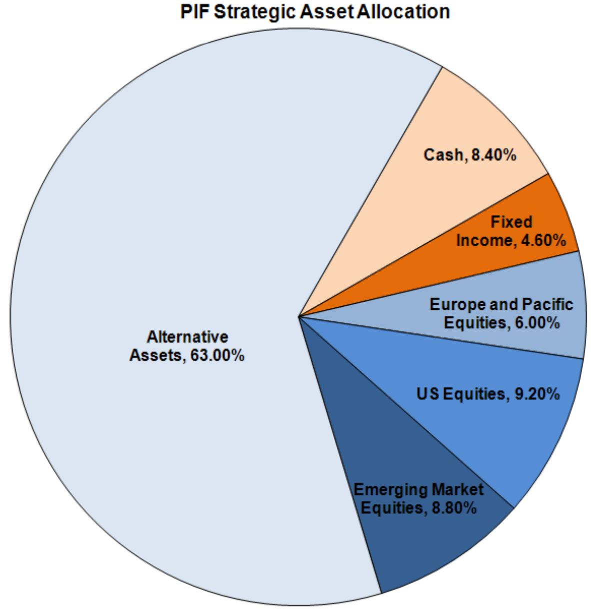
PORTFOLIO ASSET ALLOCATION

TIML

Portfolio Valuation as at: 30-Jun-2010

Asset Class	Cost	Current Value	Annual Income	Income Yield	Portfolio %	Benchmark %	Var %	Var $
Alternative Assets (N)	112,326,964	$158,631,762	$21,931	0.01%	63.0%	70.0%	-7.0%	$11,081,231
US Equity (N)	$23,232,388	$23,169,836	$605,295	2.61%	9.2%	7.0%	2.2%	$510,647
Emerging Mkt Equity	$21,947,730	$22,173,284	$313,095	1.43%	8.8%	7.0%	1.8%	$400,907
Cash	$21,075,937	$21,071,407	$1,481,058	7.02%	8.4%	2.5%	5.9%	$1,236,966
Europe & Pacific Equity	$17,087,770	$15,162,339	$420,542	2.77%	6.0%	11.0%	5.0%	$751,622
Fixed Income	$11,473,878	$11,529,904	$893,008	7.78%	4.6%	2.5%	2.1%	$239,835
	207,144,666	251,738,532	$3,745,929	1.49%	100.0%	100.0%		

PIF Strategic Asset Allocation



QUARTERLY/ANNUAL PORTFOLIO RETURNS

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Portfolio Valuation as at: 30 June -2010

Gross Internal Rate of Return

	% 2009 Q3	% 2009 Q4	% 2010 Q1	% 2010 Q2	Total Rolling 4 Quarters %
Alternative Assets	2.03	3.64	1.78	-1.60	5.85
Australian Equity	85.57	0.00	0.00	0.00	85.57
Cash	-1.13	1.33	0.99	0.83	2.02
Emerging Market Equity	-1.65	7.27	4.82	-6.94	3.50
Europe & Pacific Equity	10.86	2.78	3.24	-12.88	4.00
Fixed Income	5.42	2.65	1.96	0.92	10.95
New Zealand Equity	13.81	0.00	0.00	0.00	13.81
US Equity	3.88	5.02	7.61	-8.50	8.01
	3.14%	3.58%	2.64%	-3.39%	5.97%

EQUITY MARKETS

Global equity markets rallied over the course of the year but declined significantly during June.

Annual market movements were:

	Index	PIF
New Zealand NZ50G	+6.29%	+13.81%
Australian ASX 200	+8.76%	+85.57%
United States S&P 500	+12.12%	+8.01%
UK FTSE 100 index	+15.71%	+4.00%
Hong Kong Hang Seng Index	+9.52%	-
	(In local currency terms)	*(In NZ$ terms)*

MARKETS – Macro Environment

The year was characterised by limited corporate revenue growth in companies and ongoing cost cutting in the public and private sector.

Unemployment levels and economic growth projections initially improved before stalling in the final quarter.

The issues dominating market thinking in the last quarter include sovereign risk in Europe; moderation in Chinese growth; financial reform in the US; and a subdued global recovery profile.

Despite a focus on these risks (and some risk of a double dip recession) Australia, China and emerging Asia continue to increase activity, and solid growth is expected over the medium term in those regions.

Economic challenges still remain and include:

- removal of monetary and fiscal stimulus;
- reversal of low interest rates and quantitative easing before inflation accelerates;
- managing sovereign risk in Europe
- achieving a reduction in unemployment and an increase in employment opportunities;
- achieving an increase in consumption; and
- management of Government fiscal policy and budget deficits.

CURRENCY

Currency moved negatively against the PIF in the first quarter of the year but was steadily recovered over the balance of the year, resulting in a cumulative negative movement of -$1.71 million for the 12 month period.

Approximately 80% of the PIF is exposed to foreign currency movements with the major exposures being US and Australian dollars.

Under the PIF's new hedging policy, the Australian dollar has reached the policy levels for commencing hedging levels and 37.5% of the Australian exposure was hedged as at year end.

The US dollar is not within the policy based hedging ranges at this point.

CURRENCY OVERVIEW

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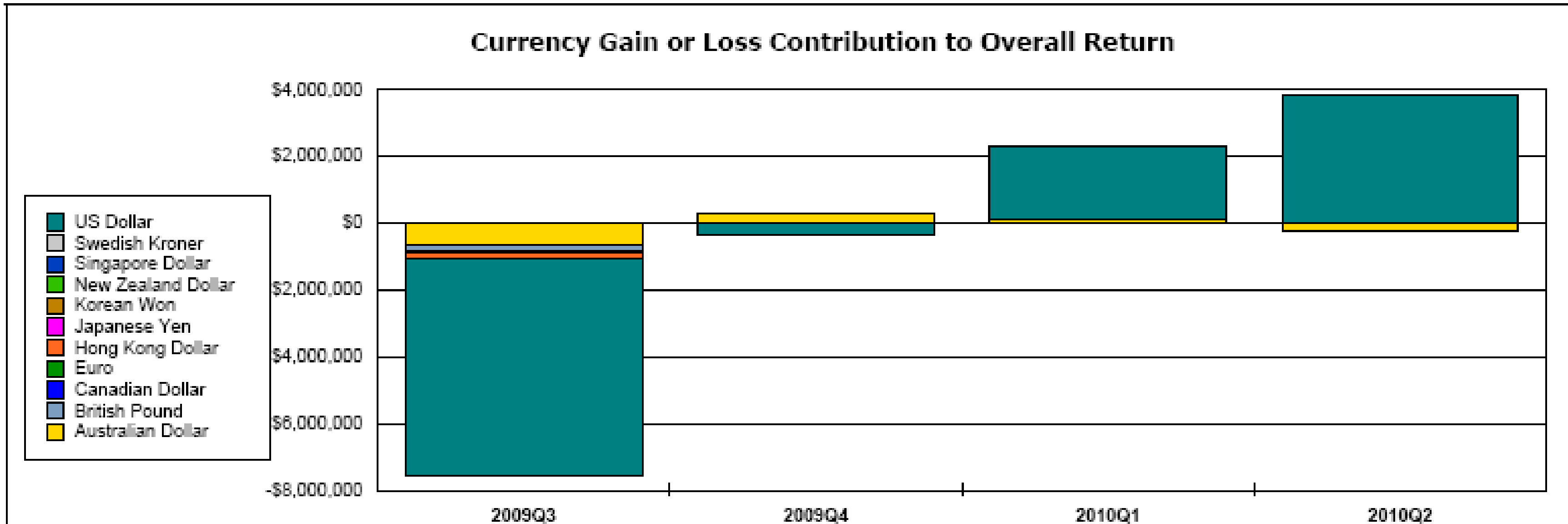
Portfolio Valuation as at: 30-Jun-2010

	2009Q3	2009Q4	2010Q1	2010Q2
Total Portfolio Value (NZD)	$262,159,588	$264,786,800	$265,789,375	$251,738,532
Total Period Cashflow (NZD)	$5,510,163.53	$6,701,521.99	$5,981,219.88	$5,126,264.70
NZD Return	2.06%	3.10%	2.62%	-2.97%
Local Return	3.90%	3.11%	1.77%	-4.16%
Currency Gain/Loss	**-1.84%**	**-0.01%**	**0.85%**	**1.19%**
Value Added	-$7,541,236	-$30,764	$2,263,441	$3,595,037



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

BENCHMARKING

The PIF continues to rate as the top performing fund in the Mercer survey of comparable NZ based funds over three to five years with a five year return of 7.24%. However, as noted last year, the significant changes to our asset allocation now makes direct comparison with other such funds less pertinent due to our higher exposure to alternative assets than many other funds.

The overall performance for the year was a 5.94% positive return, however against our own portfolio return expectations and benchmarks, this is an underperformance of 5.04%.

The key drivers of underperformance were the final quarter equity slump, currency movements and the underperformance of Tasman Farms due to the negative land and buildings revaluation for the year.

HISTORIC COMPARISONS

The following benchmark comparisons identify the over and under performance by class on a quarter by quarter basis over the period.

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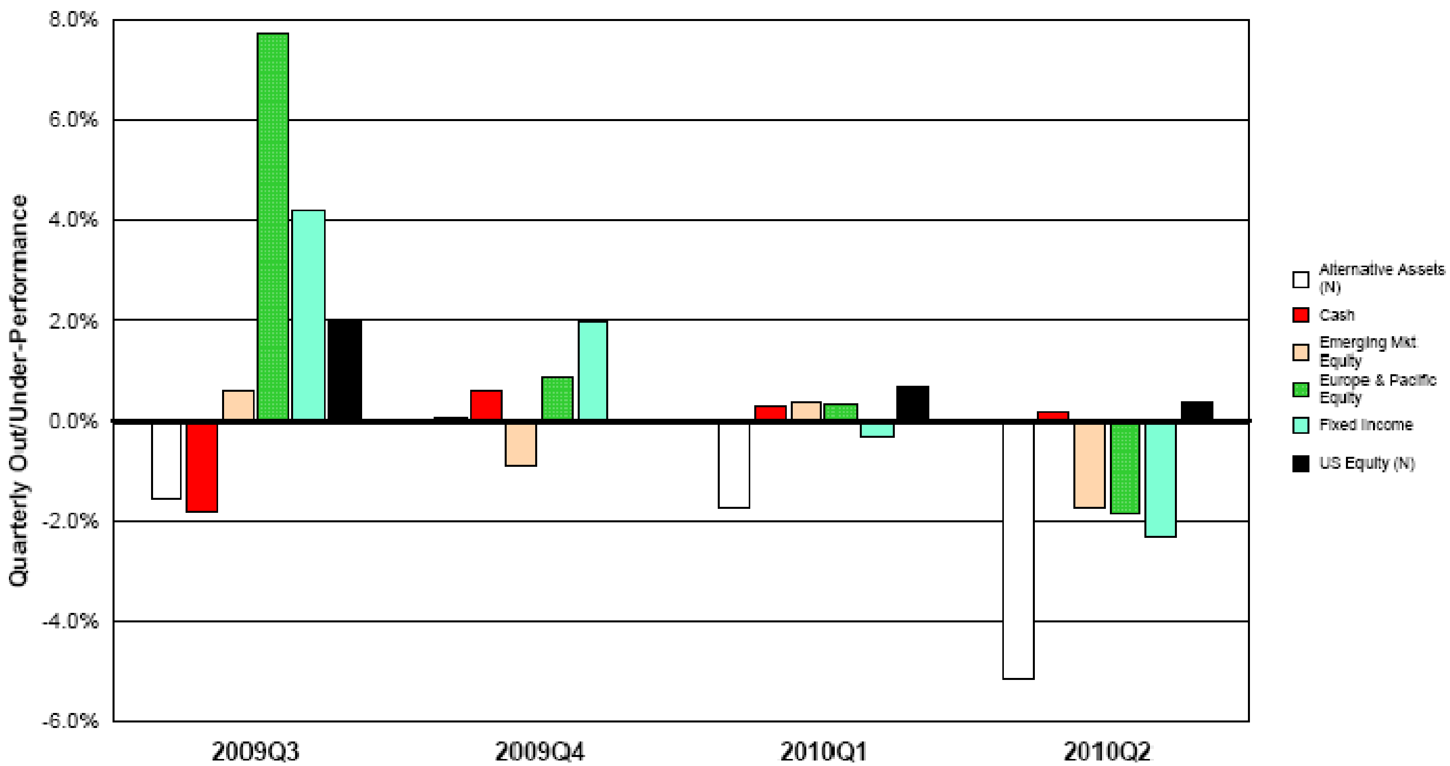
Portfolio Valuation as at: 30-Jun-2010

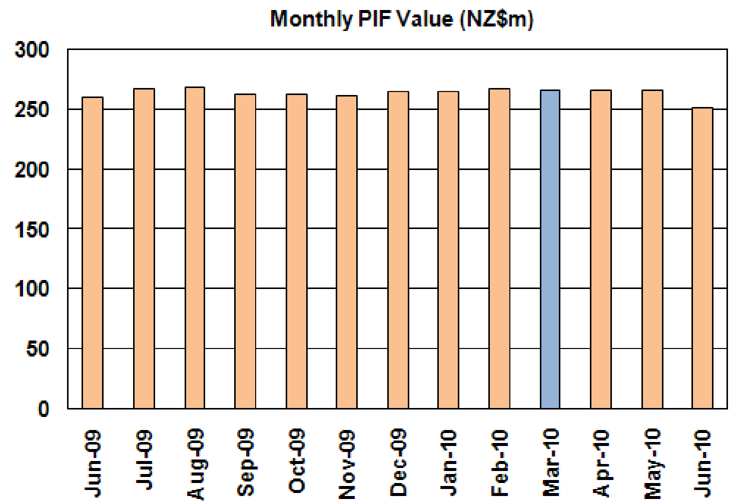


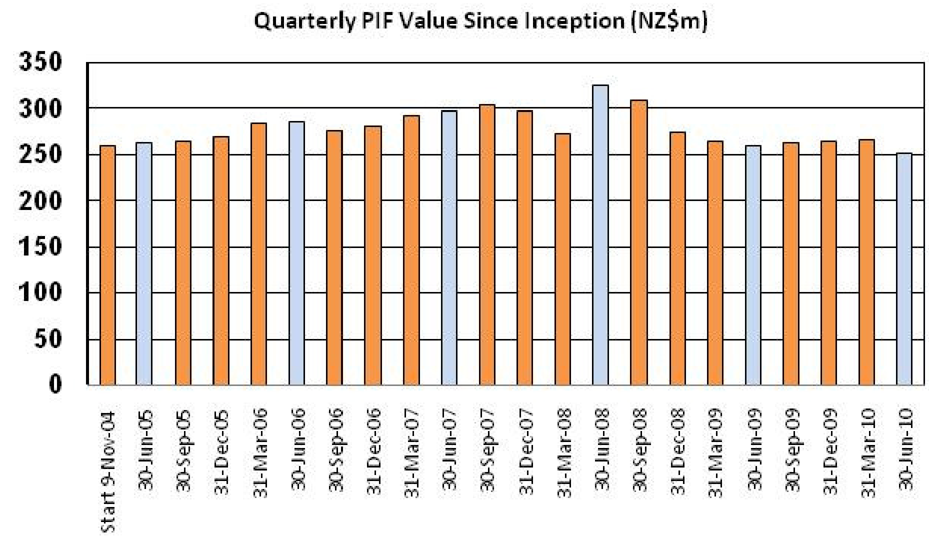
HISTORIC COMPARISONS *(cont.)*

The PIF closing amount was $251.74m, down on last year's closing value of $259.40m

The PIF paid release payments to NPDC totalling NZ$21.95m for the year. Costs for the year amounted to NZ$1.56m.

The PIF has paid out NZ$119.10m since inception. This consists of quarterly release and interest payments.





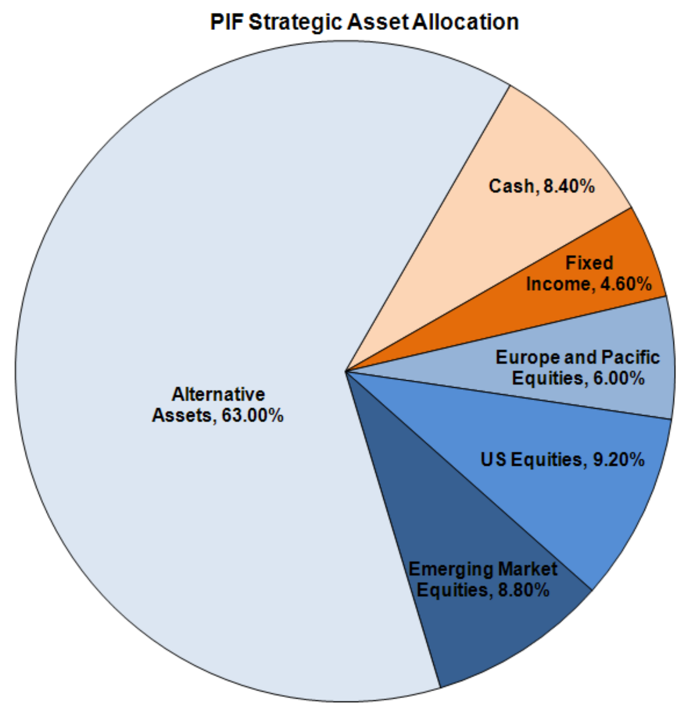
STRATEGIC ASSET ALLOCATION

Alternative assets is the dominant asset class in the PIF.

The majority of this is comprised of Tasman Farms Limited, Baring Private Equity Funds III and IV (based in Asia) and Direct Capital Funds III and IV (based in Australasia).

The PIF remains overweight in cash and fixed income and underweight in alternative assets compared to its own specific strategic asset allocation class ranges.

This will move within recommended ranges as alternative assets increase through private equity capital calls, revaluations and future investments into existing and new alternative asset opportunities.



OUTLOOK

The year was positive overall in listed equity markets but a soft June quarter took the shine off an otherwise solid year of listed market investment performance.

The New Zealand dollar is expected to continue to track risk sentiment and listed markets (particularly the US market).

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

We favour China, Australasia and emerging economies over US, Europe and Japan and have positioned the PIF accordingly.

TFL provides exposure to soft commodities and agriculture asset upside and Barings provides diversified sector exposure to China, India and non- Japan Asia.

Direct Capital is providing exposure to mid-size New Zealand companies and our listed equity exposures are effectively spread across ETFs in US, Europe and emerging economies.

We expect to see reasonable acquisition opportunities for real assets including those in the property and agricultural sectors and through private equity acquisitions.

A focus will be retained on liquidity and cash flow which will have some impact on investment return.

The board is satisfied it is well positioned on a long term and strategic asset allocation basis and it does not intend to change its investment strategy. It expects to continue to increase the actual strategic asset allocation to target levels during the upcoming year.

Taranaki
Investment
Management
Limited

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