Australian Share Fund

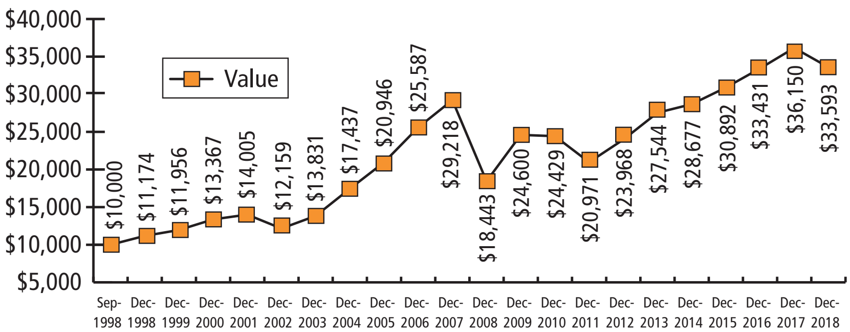
Performance

The Australian Share Fund provided investors with a total return of -7.91% for the quarter ended 31 December 2018.

Rate of return for the period	Performance (Net of Fees)	Benchmark (ASX 300 Acc Index)
3 Months	-7.91%	-8.05%
6 Months	-6.45%	-5.21%
1 Year	-7.07% p.a.	-6.96% p.a.
3 Years	2.83% p.a.	3.53% p.a.
5 Years	4.05% p.a.	3.74% p.a.

Note: Returns of less than 12 months are not annualised. Returns assume reinvestment of income and realised capital gains. Performance is after fees and charges. Past performance is not a reliable indicator of future performance.

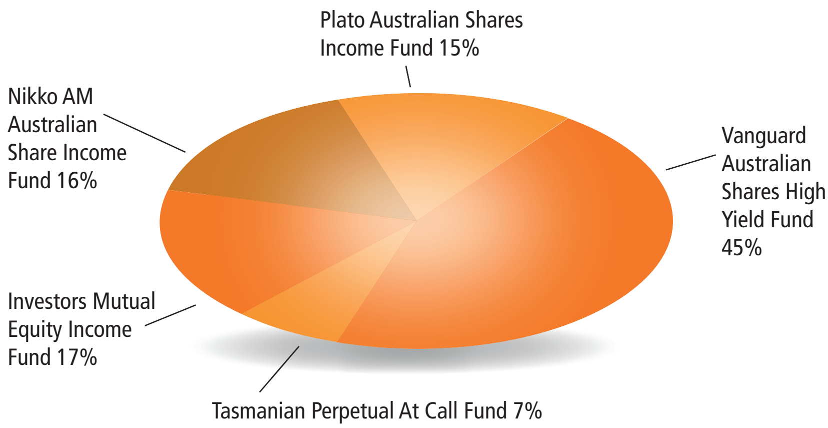
The value of $10,000 invested from inception to 31 December 2018 would have been:



Fund Investment Strategy

The Fund invests in the Vanguard Australian Shares High Yield Fund; Investors Mutual Equity Income Fund; Nikko AM Australian Share Income Fund; the Plato Australian Shares Income Fund and the Tasmanian Perpetual At Call Fund.

As at 31 December 2018 the strategic asset allocation of the Australian Share Fund was:



Market Commentary

The Australian share market (as measured by the S&P/ASX 300 Accumulation Index) dropped by 8.4% in the December quarter and 3.1% for the calendar year. Prior to mid-October, the local bourse had been modestly ahead for the year, with growth remaining good, US inflation under control and bond yields not rising too far. Everything though changed from mid-October, as a strong risk-off tone seized financial markets. Against a backdrop of geopolitical concerns, US-China trade war risks, signs of slowing global economic growth, the step-up in US quantitative tightening, another US Government partial shutdown, the end of European quantitative easing, drama surrounding Brexit, oil prices plunging over fears of oversupply, continued weakness in house prices on the Australian east coast, the Wentworth by-election forcing Scott Morrison into minority government and ongoing fallout from the Hayne Royal Commission, share prices slumped. While the losses were disappointing, Australian shares were spared the worst of the heavy falls in global markets (MSCI World ex Australia in $A terms) -11.1%.

All 11 industry sectors posted negative returns in the quarter, though traditionally defensive sectors outperformed by not falling as far as the broader market (REITs -1.7%, Utilities -3.1%, Consumer Staples -6.5%). Cyclical/growth-orientated sectors were generally the weakest (Information Technology -14.1%, Consumer Discretionary -14.2%). In addition, the Energy sector was overwhelmed by the dramatic fall in global oil prices. Large cap stocks outperformed, mid-cap and small caps. While High Yield and Value style stocks accounted for Growth and Momentum counterparts. For the calendar year, the Healthcare sector was the standout (+18.3%). Telecoms (-18.4%), Financials (-9.8%) and Energy (-8.4%) though led the overall market lower.

On the corporate front, AMP and IOOF were big (negative) news stories in the period, both experiencing the brunt of the Hayne Royal Commission. In contrast, BHP announced a large $A7.3B off-market share buy-back (return of capital to shareholders), with an additional US$5.2B special dividend to be paid in January 2019. RIO Tinto Limited also rewarded shareholders by completing its own $A4.4B share buyback in the period, following the sale of its coal assets. Not surprisingly, both buybacks were well supported by tax exempt and superannuation fund investors.

Economic data released in the quarter indicated US domestic growth was still solid but showed it was beginning to normalise post its tax stimulus 'sugar rush'. Non-farm payrolls (November) missed expectations. Despite this the US Federal Reserve raised interest rates for the 4th time in 2018 to 2.25%-2.50%, though Fed Chair, Jerome Powell suggested a more dovish tone, stating that the Fed "is going to be letting incoming (economic) data inform our thinking" moving forward. At home GDP growth slowed sharply to 0.3% and annual growth edged down to 2.8% (from a revised 3.1% in Q2). The key drivers of growth came from public (infrastructure) spending and exports. Falling inventories and a sharp drop in mining investment impacted negatively. On a brighter note, employment data indicated that the labour market continues to tighten (which is positive for wages and consumption growth). The Q3 headline annual inflation read remained below the Reserve Bank's 2%-3% policy target band. As a consequence, private market economists are not predicting an official rate rise (i.e. a full 25 bps) to occur before Q2 2020. This bodes well for business confidence and non-mining investment.

Contact us today on 1300 138 044 or visit our website www.tasmanianperpetual.com.au

Tasmanian Perpetual Trustees Limited ABN 97 009 475 629 AFS Licence 234630 Australian Credit Licence Number 234630 is a wholly owned subsidiary of MyState Limited ABN 26 133 623 962. Registered Office: Level 2, 137 Harrington Street, Hobart 7000 Tasmania Australia.

Tasmanian Perpetual Trustees

247800_02582B

Australian Share Fund

Fund Commentary

The Australian Share Fund (ASF) reported a -7.49% gross return (-7.91% after fees) in the December quarter, while posting a -5.35% gross return (-7.07% net return) over 12-months. These outcomes compare with those of the Fund's composite benchmark (BM) of -8.05% for the quarter and -6.96% for the year. Asset allocation was the main driver of excess return in the December quarter, as the Fund was conservatively positioned (i.e. overweight Cash) and most heavily weighted toward the best performing Australian equity manager in the Fund. Overall manager selection was mixed.

Investors Mutual was the best performing 'active' manager over the quarter (-5.27% after fees), delivering an excess return of 2.78%. It also retraced less than the composite BM over the 12 months (reporting an excess return of 2.64%). Their portfolio benefited from resilient performances from key holdings in good quality industrials such as CBA, Amcor, IAG Insurance, Spark Infrastructure and Shopping Centres Australasia. Elevated market volatility also presented the manager with greater opportunities to write option premium in the period.

The Plato Australian Share Income Fund also outperformed in the period (-7.73% net return) and was a particularly strong contributor over the full year (6.96% in excess return). Overweight positions in CBA, BHP (share buy-back), Scentre Group, Qantas (lower oil price), IAG and Woolworths underwrote returns. Participation in both the BHP and Rio Tinto off-market buy-backs added considerably to the accrued yield of the Fund in the period.

Nikko AM was the laggard in the quarter (-11.69%, net return). Their overweighting to Banks hurt returns (Hayne Royal Commission), as did their oil/gas (Origin Energy, Woodside) and construction exposures (Lend Lease, Boral and James Hardie) due to concerns over the Australian construction cycle and US housing sector. Despite Nikko AM's disappointing performance, the manager continues to generate a grossed-up income yield over 2% per annum above that of the S&P/ASX 200 Accumulation Index, thereby providing a very competitive and tax-effective income stream for our Australian Share Fund investors.

For the December quarter, the Australian Share Fund paid a quarterly distribution of 1.54 cents per unit (CPU). This compares favourably with the corresponding period last year (1.09 CPU) and again demonstrates our commitment to deliver highly competitive income returns via our team of Australian shares fund managers.

Looking ahead, market performance maybe more subdued (compared with recent years) as investors reset to slowing global economic growth and earnings expectations. Geopolitical tensions, the US-China trade dispute, Brexit, a Federal election in Australia, easing house values, the February corporate reporting season and further ramifications from the Hayne Royal Commission, could raise market anxiety in the short-term. Nevertheless recent events suggest there is the potential for a market rebound at some stage during the course of 2019. The underlying fundamentals of the Australian share market remain sound. Strong market earnings growth is still forecast in CY2019 (+12.5%) and the Australian bourse are trading on a prospective PE of 14.7 times (long-term average of 14.8 times) and a prospective gross dividend yield of 5.07% (80% franked), which is attractive, particularly given the very low interest rate environment.

Over the next 3 to 5 year timeframe, the Australian Share Fund with its diverse mix of quality investment managers is considered to be well positioned to meet the opportunities and challenges that lay ahead.

Continuous Disclosure Obligations

As part of our continuous disclosure obligations, in accordance with ASIC Regulatory Guide 97, we have calculated the costs and fees associated with our funds as at 30 June 2018. The details for which can be found on our website at:

www.tasmanianperpetual.com.au/managed-investments/continuous-disclosures

Are you a Resident of Another Country for Tax Purposes?

If so, new Common Reporting Standard legislation means we need to know about this. Please call us on 1300 138 044 or visit your nearest branch to provide your foreign tax resident details, including the country and your tax identification number. For more information, please visit

www.tasmanianperpetual.com.au/about-us/foreign-resident-tax-reporting

If our service to you as an investor does not meet your expectations, we want to know. We have established a complaints handling mechanism which is fully described in our brochure titled "Resolving Your Complaint". A copy of this brochure is available by contacting one of our Customer Service Officers at any of our branch locations.

Contact us today on 1300 138 044 or visit our website www.tasmanianperpetual.com.au

Tasmanian Perpetual Trustees Limited ABN 97 009 475 629 AFS Licence 234630 Australian Credit Licence Number 234630 is a wholly owned subsidiary of MyState Limited ABN 26 133 623 962. Registered Office: Level 2, 137 Harrington Street, Hobart 7000 Tasmania Australia.

Tasmanian Perpetual Trustees

247800_02582B