Diversified Property Fund

Performance

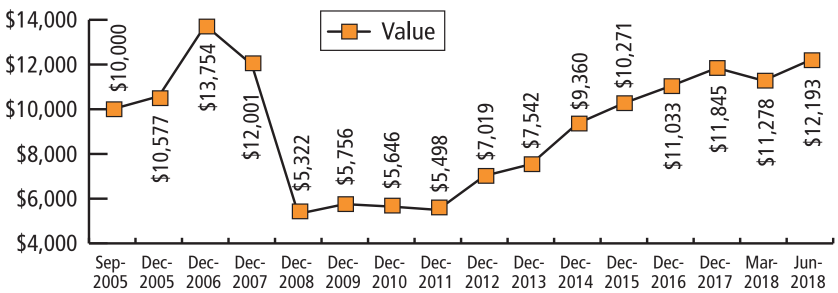
The Diversified Property Fund provided investors with a total return of 8.11% for the quarter ended 30 June 2018.

Rate of return for the period	Performance (Net of Fees)	Benchmark (Composite Index)[1]
3 Months	8.11%	8.56%
6 Months	2.92%	3.30%
1 Year	10.15% p.a.	10.31% p.a.
3 Years	8.14% p.a.	8.19% p.a.
5 Years	10.16% p.a.	10.20% 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.

[1]The UBS Developed Infrastructure and Utilities Net Total Return Index (hedged to AUD) ceased to be published, therefore from 31 March 2015 it was replaced with the S&P Global Infrastructure Index A$ Hedged Net Total Return.

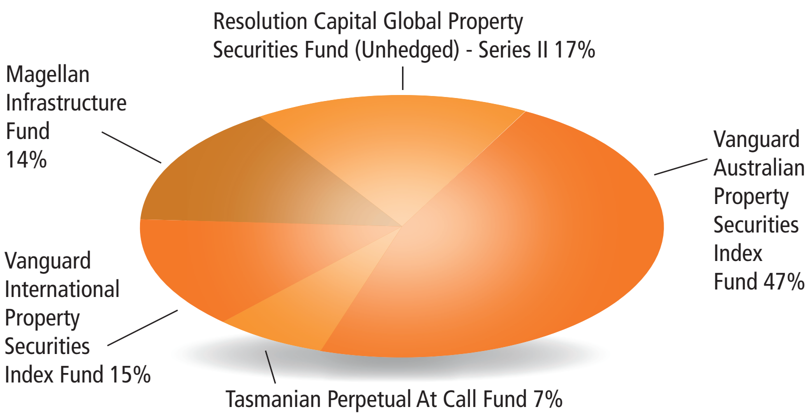
The value of $10,000 invested from inception to 30 June 2018 would have been:



Fund Investment Strategy

The Fund invests in the Vanguard Australian Property Securities Index Fund; the Vanguard International Property Securities Index Fund (Unhedged); the Resolution Capital Global Property Securities Fund (Unhedged) - Series II; the Magellan Infrastructure Fund and the Tasmanian Perpetual At Call Fund.

As at 30 June 2018 the asset allocation of the Diversified Property Fund was:



Market Commentary

Real assets performed very strongly in the June quarter and more than recovered the ground lost at the start of 2018, when they were hit by concerns over the potential impact of rising interest rates. They comfortably outperformed both global equities and global bonds in the period, thanks to a dramatic escalation in merger and acquisition activity in the REIT and infrastructure space, as corporates, private equity investors and pension funds took advantage of the discounts listed entities trade at relative to their unlisted asset counterparts.

Across the three major 'real asset' segments, investor's expectations appeared to adjust to the prospect of gradually higher inflation and bond yields, as listed Australian REITs (A-REITs) rallied 9.8% in the quarter, Global REITS (G-REITs)(developed markets) added 9.1% (unhedged $A) and Global Infrastructure (GLI) returned 5.1% (hedged $A terms). Evidence of lower vacancy rates and rental increases (in Melbourne and Sydney) saw the Australian office sector rise 11.3% in the quarter. The Retail and Residential sectors both posted double-digit returns, despite negative sentiment towards them and Industrial REITs also continued to perform well (+9.8%). Globally, Self-storage, Data Centres and Specialty REITS outperformed, while Healthcare REITs lagged (seen as more sensitive to rising bond yields).

Global Listed Infrastructure sector performance was mixed. Gas Utilities (+7.2%) and Oil and Gas Storage Transport infrastructure (+8.9%) stocks fared best, benefiting from their strong correlation to rising energy prices. The Water Utilities sector (-12.0%) was impacted by Brazilian water utility, Sanepar, which fell dramatically in the period, due to political and macro factors.

On the merger and activity front, private equity behemoth, Blackstone Group was particularly active in the quarter, making over US$16B in bids for 'real' assets, including a $5.15 per unit offer for Australian office REIT, Investa Office Fund. Elsewhere the Unibail-Rodamco proposed acquisition of Westfield Corporation received overwhelming approval from unitholders and Unibail-Rodamco CDIs commenced trading on the ASX on 31 May 2018.

A couple of Aussie REITs announced good quarterly results in the period. Scentre Group released its Q12108 earnings update, showing slightly stronger sales growth, which was driven by major retailers. Goodman Group announced its 9-months to 31 March 2018 earnings, which revealed 3.1% like-for-like net property income growth over the period. This reflects their attractive exposure to e-commerce growth and strong relationship with Amazon Australia. Aggregate A-REIT earnings estimates currently suggest 4% (funds from operations - FFO) growth in calendar year (CY) 2018 and 6% (FFO) growth in CY2019.

US Global REIT Q12018 reporting season was in line with expectations and 2018 guidance metrics (+0.4% FFO growth) were largely maintained (while FFO growth for CY2019 is projected to be +5.9%). Retail sector REITs reported better than expected results. The Lodgings sector also experienced early signs of increased activity, due to improvements in annual travel budgets. Similarly, UK regulated companies reported sound results for financial year ending March 2018. Across the Global Listed Infrastructure universe, aggregate EBITDA growth forecasts remain solid and supportive of valuations (+12.6% for CY2018 and +7.6% for CY2019).

At the close of the quarter, 'real' asset valuations largely reflected long-term averages (fair valuations). A-REITs were trading on a relatively attractive prospective dividend yield of 4.57% and Global REITs on 4.08%. REITs Price to Fund from Operations (P/FFO) prospective multiple stood at 15.9 times (long-term average 16.1 times). Global Listed Infrastructure was offering a 4.43% dividend yield and priced at 11.2 times EV/EBITDA (long –term average 9.9 times).

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

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Fund Commentary

The Diversified Property Fund returned 8.11% in the June quarter, while gaining 10.15% over 12-months. This compares with the Fund's composite benchmark (BM) of 8.56% for the quarter and 10.31% for fiscal 2017/2018. Asset allocation in the quarter was a marginal detractor (being slightly underweight A-REITs). Stock selection was mixed. Relative to BM, the hedging position was neutral. The Fund paid a 1.72 cent per unit (CPU) quarterly distribution to investors, taking the total distribution for FY2018 to 2.42 CPU (compared to 1.35 CPU for FY2017).

Core 'passive' portfolio holdings, the Vanguard Australian Property Securities Index Fund delivered a strong quarterly return, +9.7% (13.0% YoY) and a large distribution (due to the takeover of Westfield Corporation). Equally, the Vanguard International Property Securities Index Fund performed very well (+10.1% quarter-on-quarter, +9.2% YoY).

Resolution Capital Global Property Securities Unhedged $A Series II Fund continued to post competitive returns (+8.0% QoQ, +10.8% YoY). The manager's preferred retail exposures, Simon Property Group and Federal Realty rebounded in the quarter. UK/Continental European industrial REIT, Segro added to its solid returns this year and Australian office exposure, Investa Office was re-rated following the Blackstone takeover offer.

Magellan Infrastructure Fund, the only hedged exposure in the portfolio, posted a reasonable return (+4.9% QoQ) despite the fall in the AUD over the quarter. Over 12-months it has generated a very impressive 5.0% excess return relative to its underlying BM. Many of its key infrastructure (more economically-sensitive) holdings generated solid returns in the quarter, including Atlas Arteria (formerly Macquarie Atlas), Sydney Airport, Aeroporte de Paris, Auckland Airport and Canadian Pacific Railway. Other notables included energy transport/distributors, Enbridge (record volumes in Q1 2018) and Atmos Energy. Portfolio holding, APA Group benefited from a $13B cash takeover, being made by Hong Kong-based, CK Infrastructure.

Over the next few years, listed 'real assets', in which the Diversified Property Fund invests, face some headwinds, with the likelihood of gradually rising bond yields. Importantly 'real assets' continue to provide a dividend yield premium to bonds (120-170 bps), their balance sheets look historically conservative (average debt/enterprise value 30%-39%), they trade at a discount to private market values and their fair valuations are being assessed using a higher risk free rate (~4.0%), than the current 10-year bond yield (2.86%). We believe these factors ought to partially cushion the sector's sensitivity to future interest rate increases should inflation re-emerge and Central Banks respond. Further their share prices have the capacity to rebound post any short-term setbacks, given their current discount (in many cases) to their assessed fair valuations.

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.

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