Diversified Property Fund

Performance

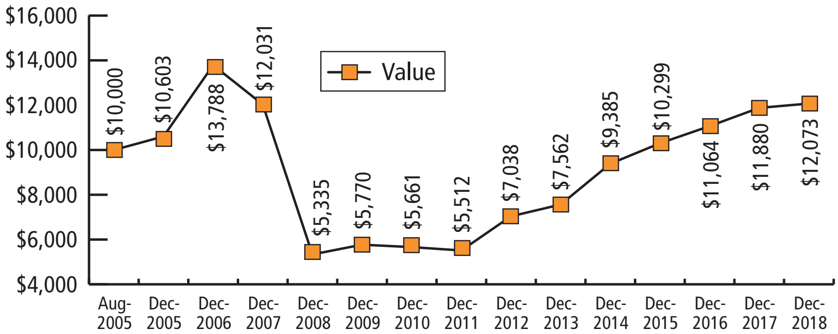
The Diversified Property Fund provided investors with a total return of -2.50% for the quarter ended 31 December 2018.

Rate of return for the period	Performance (Net of Fees)	Benchmark (Composite Index)[1]
3 Months	-2.50%	-2.42%
6 Months	-1.26%	-1.05%
1 Year	1.63% p.a.	2.21% p.a.
3 Years	5.44% p.a.	5.57% p.a.
5 Years	9.81% p.a.	9.89% 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.

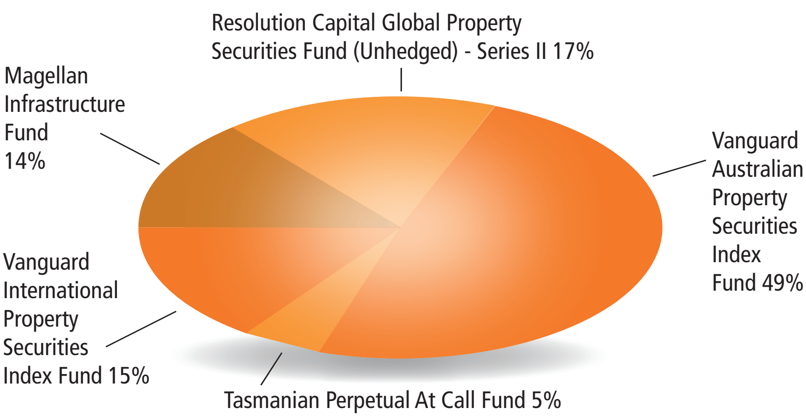
The value of $10,000 invested from inception to 31 December 2018 would have been:



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 31 December 2018 the asset allocation of the Diversified Property Fund was:



Market Commentary

Turbulence in risk markets in the December quarter saw investors focus on more defensive properties, utilities and infrastructure assets. A shift in investor sentiment also saw longer-term government bonds rally (yields fall), with US Treasury 10-year yields closing the quarter down 38 basis points (bps) to 2.68%. Consequently, real assets proved very resilient and demonstrated lower volatility than global equity markets. In the quarter, Australian listed REITs (A-REITs) eased 1.7%, Global REITs (G-REITs) retraced -3.5% (unhedged $A) and Global Listed Infrastructure (GLI) returned -4.2% (hedged $A). In comparison global equity prices (MSCI World ex Australia in $A terms) slumped -11.1%.

The strong risk-off tone that seized financial markets from mid-October, was caused by 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 and oil prices plunging over fears of oversupply.

Specialty (+5.6%), Healthcare (+4.7%) and Industrial (+3.1%) REITs were the best Australian sub-sectors. Globally, Real Estate Operating Companies, Office and Specialty REITs outperformed. In contrast Hotels/Resorts, Healthcare and Retail REITs were laggards. Geographically, the Asia/Pacific and Eastern Europe were the stronger regions. The US, Western Europe, Middle East/Africa were weaker.

With respect to the Global Listed Infrastructure sector, performance was largely split along utilities and infrastructure lines. Gas Utilities (+15.1%) and Water Utilities (+14.2%) generated particularly robust returns. Airports (-15.9%) and Ports (-6.8%), more economically-sensitive sub-sectors faced profit-taking. Oil and Gas Storage & Transport (-6.8%) assets were impacted by the sharp fall in global oil prices.

On the corporate front, quarterly updates by Scentre Group, Goodman Group and Charter Hall Group, saw them reiterate previous earnings guidance. Scentre Group noted an increase in sales growth and 99.5% occupancy, whilst Goodman Group's reported that its development pipeline continues to grow. US Q3 REIT earnings reporting season for the most part was in line with expectations (multifamily, office, industrials, retail did better than expectations). In other news, Zurich Airport received a particularly harsh proposal (decrease in allowable airport charges) from the Federal Office of Civil Aviation (the regulator).

Incorporating recent company announcements and revisions following reporting seasons both here and abroad, aggregate A-REIT estimates suggest funds from operations (compounded) growth between CY2018-2020 of 1.1% per annum and for Global-REITS +5.1% p.a. Similarly for the Global Listed Infrastructure universe, aggregate EBITDA growth forecasts remain highly supportive of valuations (+12.1% compounded growth per annum over 2018-2020).

At the close of the quarter, 'real' asset valuations remain within their fair valuation ranges. A-REITs were trading on a relatively attractive prospective dividend yield of 5.45% and Global REITs on 4.33%. REIT Price to Fund from Operations (P/FFO) prospective multiple stood at 15.7 times (long-term average 16.5 times). Global Listed Infrastructure was offering a 4.78% dividend yield and priced at 10.9 times EV/EBITDA (long term average 9.9 times).

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

Diversified Property Fund

Fund Commentary

The Diversified Property Fund retraced 2.08% in gross terms (-2.50% after fees) in the December quarter, while gaining 3.39% (1.63% after fees) over calendar 2018. This compares with the Fund's composite benchmark (BM) which fell 2.42% over the quarter and advanced 2.21% over the year. Asset allocation for the quarter was neutral. Manager selection was mixed but still added to 'active' return. The Fund paid a 0.76 cent per unit (CPU) quarterly distribution to investors (0.15 CPU a year ago), noting that both, Magellan and Resolution Capital issue their half-yearly distributions at the end of December.

Core 'passive' portfolio holdings, the Vanguard Australian Property Securities Index Fund and the Vanguard International Property Securities Index Fund, both delivered respectable returns of -1.66% (+3.10% CY2018) and -3.56% (+5.12% 12-months) in the quarter.

The Magellan Infrastructure Fund recorded a -2.09% return (after fees) over the quarter, outperforming both the composite BM (by 0.33%) and its own underlying BM (by 2.09%). Over 12 months the manager's outperformance has been even more impressive (+6.27% relative to its BM). Contributors to performance this quarter included Transurban, American Tower Corporation, Eversource Energy and Xcel Energy (US electric service companies, recently added to the portfolio) and Getlink (operator of the Channel tunnel). Airport stocks (Flughafen Zuerich and Aeroports De Paris), Canadian Pacific Railway and APA Group were detractors. (Treasurer Frydenberg deemed CKI Group's takeover of APA not in the 'national interest'). Note Magellan retains a relatively high Cash allocation (~10%).

The Resolution Capital Global Property Securities Unhedged $A Series II Fund posted a -3.75% return (after fees) in the quarter and 3.41% net return over the 12-months. Overweight holdings in HCP Inc., Dexus (office markets remain strong in key global cities), Equity Residential (upgraded normalised FFO guidance) and American Tower aided returns. Prologis, Boston Properties, Gecina and Interxion impacted negatively. The Manager has around a 6% allocation to Cash.

Over the next few years, listed 'real assets', in which the Diversified Property Fund invests, face some headwinds, with the potential for gradually rising bond yields. Importantly, operating fundamentals are favourable and 'real assets' continue to provide a dividend yield premium to bonds (165-210 basis points), their balance sheets look historically conservative (total debt/enterprise value 31%-43%), they trade at a discount to private market values (~10%) and their fair valuations are being assessed using a higher risk free rate (~4.0%), than the current 10-year bond yield (2.68%). 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.

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_02584B