Balanced Fund

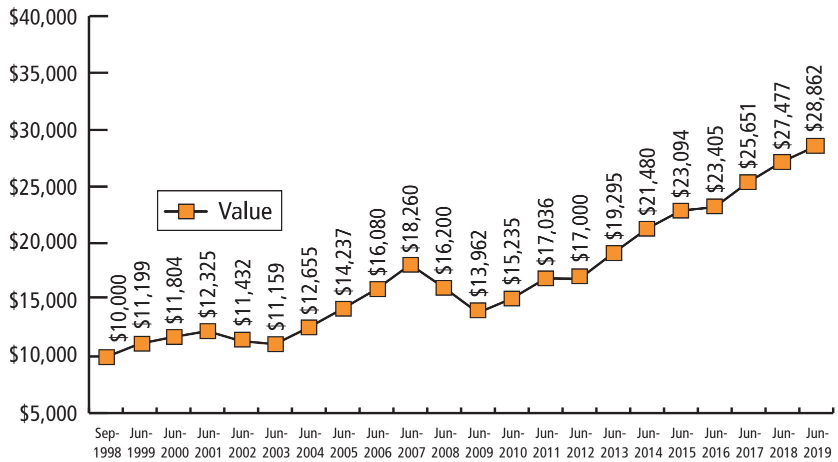
Performance

The Balanced Fund provided investors with a total return of 2.87% for the quarter ended 30 June 2019.

Rate of return for the period	Performance (Net of Fees)	Benchmark (Composite Index)
3 Months	2.87%	4.82%
6 Months	9.52%	12.98%
1 Year	5.04% p.a.	10.05% p.a.
3 Years	7.24% p.a.	11.03% p.a.
5 Years	6.09% p.a.	9.51% 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.

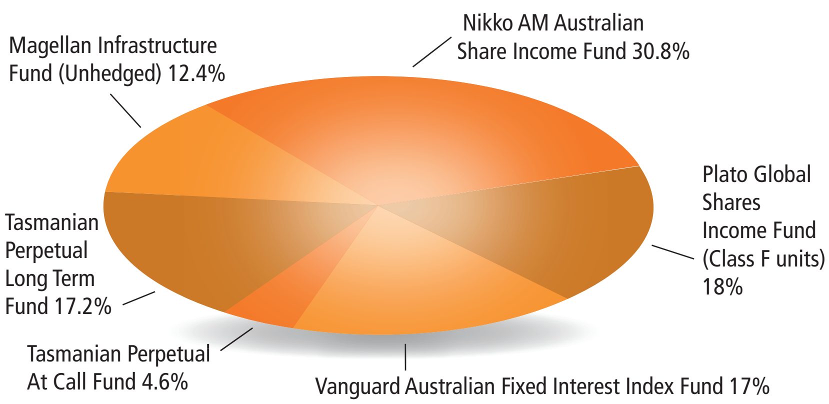
The value of $10,000 invested from inception to 30 June 2019 would have been:



Fund Investment Strategy

The Fund invests in the Nikko AM Australian Share Income Fund; Plato Global Shares Income Fund (Class F units); the Vanguard Australian Fixed Interest Index Fund; the Magellan Infrastructure Fund (Unhedged); the Tasmanian Perpetual Long Term Fund and the Tasmanian Perpetual At Call Fund.

As at 30 June 2019 the strategic asset allocation of the Balanced Fund was:



Market Commentary

All major asset classes achieved decent returns in the June quarter. Anxiety over slowing global growth and a further escalation of trade tensions between the US and China, caused Central Banks around the world to abruptly change course (that is, abandon policy normalisation) and move to a more accommodative stance. The resultant slide in global bond yields provided a major boost to equity valuations and bond proxies.

The Australian share market outperformed in a global context, with a total return of 8.0% in the June quarter and 11.5% for the full year, as investors piled into local equities following the surprise Coalition government election victory and the Reserve Bank of Australia (RBA) cut the cash rate to record lows. Ten out of eleven industry sectors achieved positive returns, with Telecom (+12.2%), Healthcare (11.5%), Financials (+10.8%) and Industrials (+9.2%) the front-runners. The Materials sector was boosted by supply disruptions in the global iron ore market, which lifted ore prices to near 5-year highs. On a factor basis, High Yield, Quality and Low Volatility stocks outperformed. Small caps and Value stocks underperformed.

Global equity markets also posted healthy gains, with the MSCI World ex Australia rising 5.2% in AUD currency terms (+11.9% over 12-months), the S&P500 +5.6%, the Nasdaq +5.5% and the German DAX Index +10.2%. Emerging markets (+1.8%) were somewhat constrained by concerns over developed economies growth and tariff worries. The IT, Financials, Consumer Discretionary and Industrials sectors enjoyed the biggest gains.

With respect to the Australian fixed interest asset class, anxiety over economic growth and safe-haven flows saw yields pushed lower. Australian government bond yields touched new all-time lows in the quarter, with the 3-year bond closing at 0.96% (-43 basis points) and the 10-year at 1.32% (-46 bps). Money market yields were also lower as cash rate expectations were lowered and bank funding costs continued to fall. The Australian 3-month BBSW rate ended the period at 1.20% (-57 bps). Domestic credit spreads tightened as investors chased yield. The Australian dollar closed the quarter at $0.7020.

The slide in bond yields (globally) reinvigorated the hunt for yield and proved highly supportive of long duration rate sensitive assets, such as Global Listed Infrastructure, which as an asset class advanced +6.6% over the quarter (AUD terms). Airports (+7.1%), Toll Roads & Rail (+6.9%), Water Utilities (+6.6%) and Gas Utilities (+5.9%) delivered solid returns. Oil & Gas Storage & Transport (-2.2%) were impacted by lower international oil prices.

Geopolitical developments in the period included President Trump proceeding to increase tariffs from 10 per cent to 25 per cent on US$200 billion of imports from China and China responding by announcing that tariffs would increase by 5–25 per cent on US$60 billion of US imports from 1 June 2019. In the UK, Theresa May's EU (Brexit) deal was rejected by parliament and she subsequently resigned as PM. Late in the period, strains between the US and Iran were reignited. At home, the surprise election victory by the Coalition government was quickly followed by the RBA making its first cut in the cash rate in three years (by 25 basis points to 1.25%) and APRA announcing their intention to lower the mortgage serviceability hurdle. All positive outcomes for the Australian housing market.

Economic data released over the quarter was mixed (at best). While in some economies, Q1 2019 GDP growth outcomes were slightly stronger than the second half of 2018, conditions in the global manufacturing sector and trade sectors weakened. The latest PMI data for China, Europe and the US highlighted the negative impact tariffs were having on their manufacturing sectors. A major miss from US Non-Farm Payrolls in May echoed leading indicators that suggest the US economic expansion is looking increasingly exhausted. A rise in German unemployment in May would have also concerned the ECB. In the UK, June retail sales were the weakest since the GFC. At home, Australia's Q1 2019 GDP figure disappointed (1.8% annual growth rate, the slowest in 9 ½ years) and a further reduction in the RBA cash rate in July was quickly priced-in by market participants.

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Balanced Fund

Fund Commentary

The Balanced Fund returned 3.31% in gross terms in the June quarter (2.87% after fees) and 6.86% over the past 12-months (5.04% after fees). These results compare with the Fund's composite benchmark (BM), which returned 4.82% and 10.05% respectively.

Asset allocation was mixed in the period, with the portfolio modestly overweight Credit / underweight Australian Fixed Interest. Manager selection (overall) detracted from active returns. The Fund's value-orientated growth asset managers experienced a challenging quarter.

The **Nikko AM Australian Share Income Fund** (the largest weight in the portfolio) underperformed its underlying index recording a net return of +4.8% for the quarter and the same for the year. Being a 'value' manager, their more defensively positioned portfolio (underweight IT, REITs, Diversified Metals & Mining; overweight Energy), did not fully participate in the market rally in the period. Furthermore a few disappointing performers (due to fallout from the Banking Royal Commission and Brexit uncertainty) stilted their performance. Over the quarter key portfolio contributors for Nikko AM included Iluka Resources, Aristocrat Leisure, Aurizon Holdings, Coles Group and Westpac. While over the year, holdings in G8 Education, RIO Tinto, Harvey Norman, Aristocrat Leisure and Incitec Pivot added value.

The **Plato Global Shares Income Fund** (F Class) disappointed, posting a net return of 1.7% for the quarter and 3.2% for the 12-months. While the manager actively captured attractive dividend income flows, its bias towards smaller cap stocks were detrimental to total fund returns.

The **Vanguard Australian Fixed Interest Fund** reported a net return of 3.0% in the period (9.4% over the year) and continued to benefit from the rally in bond markets and the flattening in the yield curve. The **TPT Long Term Fund** also contributed positive returns (+1.0%), though slightly below last quarter, as assets in the portfolio priced relative to BBSW rates were reset. Excess liquidity was reduced in the period (providing a partial offset) as new investments in high quality RMBS securities were made.

The **Magellan Infrastructure Fund** (Unhedged) delivered a net return of 5.5% for the quarter and 16.5% over the 12-months (heading its underlying BM by +1.0% and 4.1%, respectively). Toll road assets (Transurban, Atlas Arteria), airport exposures (Aena, Auckland Airport), rail (Canadian Pacific) and energy infrastructure (Sempra, Eversource Energy) underwrote returns. Given the likelihood that 'real assets' will benefit from investors ongoing search for yield (in a low interest rate environment), the exposure to the manager was increased in the period.

In accordance with its investment objectives, the Balanced Fund continued to generate excess income relative to its composite BM. In the June quarter, the Fund paid a distribution of 1.76 cents per unit (CPU). This took the annual distribution to 4.96 CPU (cf 4.86 CPU FY2018). The grossed-up dividend yield generated by the Fund for unitholders over FY2019 equated to 5.98%.

A number of refinements to the Balanced Fund's investment manager suite will be made in the September quarter to enhance returns, portfolio diversification and downside protection moving forward. The Fund's underlying investment strategy, strategic asset allocation and composite benchmark will remain unchanged, as will its ability to generate competitive and tax-effective income streams. Post these refinements the Fund, with its diversified asset mix and income-focused investment approach will be better positioned to take advantage of the opportunities and meet the challenges that lay ahead over a 3 to 5 year timeframe.

Cash transactions no longer available in our offices.

In order to provide a safe environment for our clients, staff members and your money, cash transactions will no longer be available at Tasmanian Perpetual Trustees offices from 1 July 2019.

There are a range of easy payment methods available to make additional contributions to your accounts.

Electronic Funds Transfer (EFT)
Transferring funds electronically from your bank or financial institution to your Tasmanian Perpetual Trustees accounts is a convenient way to transact.
BSB: 037 812
Account Number: Your Tasmanian Perpetual Trustees Account Reference Number (you will find this on your statement)

Cheque
Return your cheque to:
Tasmanian Perpetual Trustees
GPO Box 227
Hobart TAS 7001

BPAY®
Your **Biller Code** and **Reference Number** (Tasmanian Perpetual Trustees Account Reference Number) can be found on your statement.

We appreciate your understanding. If you have any questions about your account please contact us on **1300 138 044** or visit your nearest Tasmanian Perpetual Trustees office.

Are your contact details up to date?

We're currently working on enhancing our client services. To keep you updated on these upgrades, we need to ensure your contact details are up to date.

How can I update my contact details?

- Call us on **1300 138 044**; or
- Complete the Update Contact Details form found on our website, sign and return to info@tptl.com.au or by post: **Tasmanian Perpetual Trustees, GPO Box 227, Hobart TAS 7001**; or
- Visit your nearest Tasmanian Perpetual Trustees office.

Information about the new services will be made available on our website www.tasmanianperpetual.com.au

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

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