Diversified Property Fund

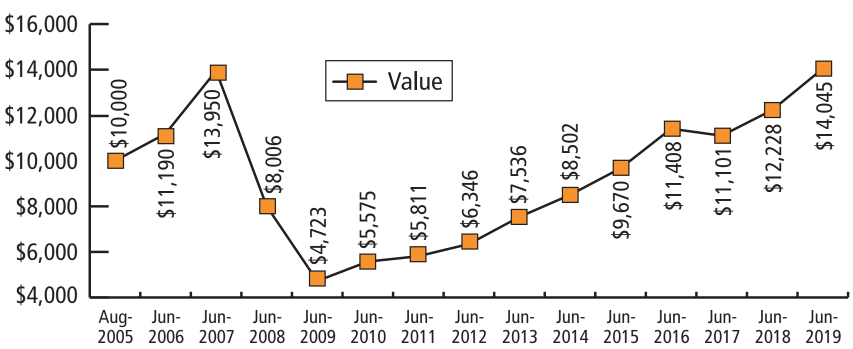
Performance

The Diversified Property Fund provided investors with a total return of 3.00% for the quarter ended 30 June 2019.

Rate of return for the period	Performance (Net of Fees)	Benchmark (Composite Index)
3 Months	3.00%	3.18%
6 Months	16.33%	16.95%
1 Year	14.86% p.a.	15.68% p.a.
3 Years	7.18% p.a.	7.50% p.a.
5 Years	10.56% p.a.	10.76% 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.

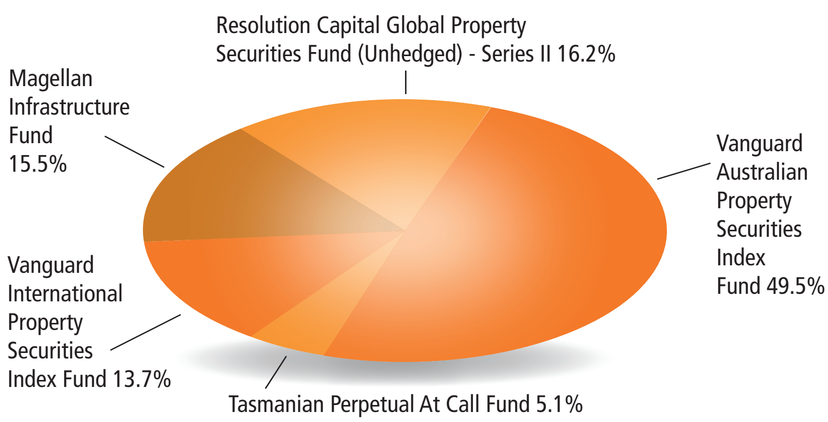
The value of $10,000 invested from inception to 30 June 2019 would have been:



Fund Investment Strategy

The Fund invests in the 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 2019 the asset allocation of the Diversified Property Fund was:



Market Commentary

Real assets, posted another good set of numbers in the June quarter, as anxiety over 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 bond yields reinvigorated the hunt for yield and proved highly supportive of long duration rate sensitive assets, such as REITs, infrastructure and utilities. The surprise Coalition government election victory and the Reserve Bank of Australia (RBA) cash rate cut to record lows provided an additional boost to local 'real' assets. Other developments in the period included, the rejection of Theresa May's EU deal by the UK parliament (and her subsequent resignation) and reignited strains between the US and Iran became a fresh wild card.

In the quarter, Australian listed REITs (A-REITs) delivered another healthy return, +4.1%, Global REITs (G-REITs) advanced 1.2% (unhedged $A) and Global Listed Infrastructure (GLI) was up 4.5% (hedged $A). In comparison global equity prices (MSCI World Index A$) rose 5.2% (or 3.4% in hedged $A terms).

Diversified (+8.9%), Office (+6.7%) and Industrial (+6.7%) REITs were the best Australian sub-sectors. Major diversified stocks, Mirvac and Stockland rallied on anticipation of a rebound in the residential housing market, following the LNP election victory. The Office segment continued to benefit from cap rate compression and robust rent growth, while Industrials are being underwritten by solid ecommerce trade. Retails REITs underperformed (-2.5%). They are under pressure on rents, higher vacancy rates and rising incentives/capex. The issue is being compounded by there also being ~ $12B of retail property currently offered for sale, which is weighing on asset values.

Globally, Industrial, Healthcare and Office REIT sectors outperformed. Hotel & Resorts, Retail and Residential REITs were laggards. Geographically, the Asia Pacific was the strongest performing region in the quarter. Over the year, North American and Asia Pacific REITs outperformed. Trends from the US Q1 reporting season were positive. 81% of companies either met or beat consensus estimates and 91% either maintained or raised 2019 guidance. Another takeaway was that the overall sector payout ratio was close to record lows, which indicates a cushion for the sustainability of dividends at current levels.

With respect to Global Listed Infrastructure sector performance, 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.

Incorporating recent company announcements and analyst revisions both here and abroad, aggregate A-REIT estimates suggest funds from operations (compounded) growth between CY2018-2020 of 2.4% per annum and for Global-REITS +8.2% p.a. Similarly for the Global Listed Infrastructure universe, aggregate EBITDA growth forecasts remain supportive of valuations (+11.4% compounded growth per annum over 2018-2020).

Given their solid price performance over the last few quarters 'real' asset valuations have moved marginally above their fair valuation ranges. At period close the G-REIT price to fund from operations (P/FFO) prospective multiple was 16.7 times, which compares with its long-term average at 16.5 times. Similarly Global Listed Infrastructure was priced at 11.6 times EV/EBITDA (long term average 9.9 times). Allowing for low interest rates and bond yields they remain reasonable value and continue to provide competitive income returns. A-REITs are currently trading on a prospective dividend yield of 4.44%, Global REITs on 3.84% and Global Listed Infrastructure on 4.18%.

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

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Tasmanian Perpetual Trustees

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Fund Commentary

The Diversified Property Fund grew 3.44% in gross terms (3.00% after fees) in the June quarter, while advancing 16.84% (14.86% after fees) over the past 12-months. This compares with the Fund's composite benchmark (BM) which rose 3.18% over the quarter and 15.68% over the year. Asset allocation for the quarter was neutral. Manager selection added to 'active' returns.

The Fund did not declare a quarterly distribution. The total distribution for FY2019 was 1.09 CPU (cf. 1.18 CPU FY2018).

Core 'passive' portfolio holding, the **Vanguard Australian Property Securities Index Fund** was the major contributor, delivering a solid absolute return of 4.1% in the quarter and 19.4% over the year. Both satellite managers, outperformed their respective benchmarks.

The **Resolution Capital Global Property Securities Unhedged $A Series II Fund** recorded a net return of 1.7% for the quarter and 14.4% for the year (equivalent to +0.5% and +1.0% in excess returns, respectively). Pro-growth sectors continued to deliver, including Industrials (Prologis), data centres and towers (Interxion and American Tower) and office (Dexus). Hong Kong exposure, Link Real Estate Investment Trust also performed well. Relatively recession-resistant holdings in the healthcare (HCP Inc, Assura Plc) and manufactured homes (Equity Lifestyle Properties) sectors were other notable contributors.

The **Magellan Infrastructure Fund** posted 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 of Spain, Auckland Airport), rail (Canadian Pacific) and energy infrastructure (Sempra, Eversource Energy) underwrote returns.

Despite it being a long market cycle, operating fundamentals for 'real assets' remain sound. They continue to provide a dividend yield premium to bonds (180-240 basis points), their balance sheets look historically conservative (total debt/enterprise value 32%-42%) their discount to private market values continues to drive merger and acquisition activity and their fair valuations are being assessed using a higher risk free rate, than the current 10-year bond yield (2.01%). We believe these factors ought to partially cushion the sector's sensitivity to future interest rate increases should inflation re-emerge in the next few years. Furthermore in the short term 'real assets' are likely to benefit from investors ongoing search for yield.

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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