International Share Fund

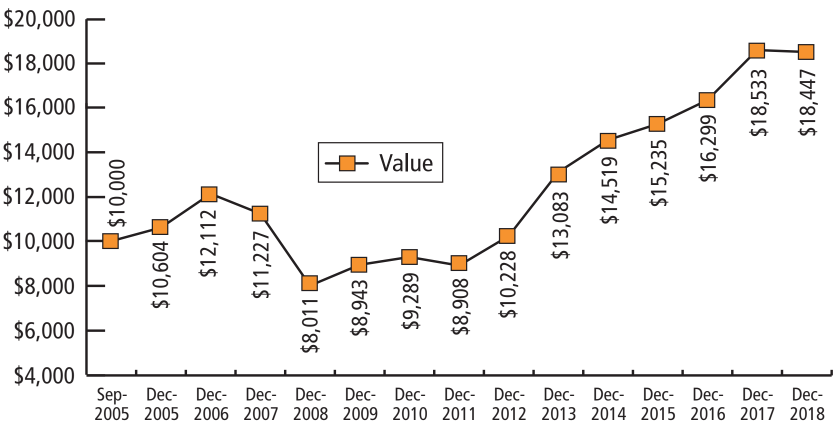
Performance

The International Share Fund provided investors with a total return of -4.08% for the six months ended 31 December 2018.

Rate of return for the period	Performance (Net of Fees)	Benchmark (Composite Index)
3 Months	-9.51%	-11.15%
6 Months	-4.08%	-5.30%
1 Year	-0.46% p.a.	-0.74% p.a.
3 Years	6.58% p.a.	8.17% p.a.
5 Years	7.11% p.a.	9.21% 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.

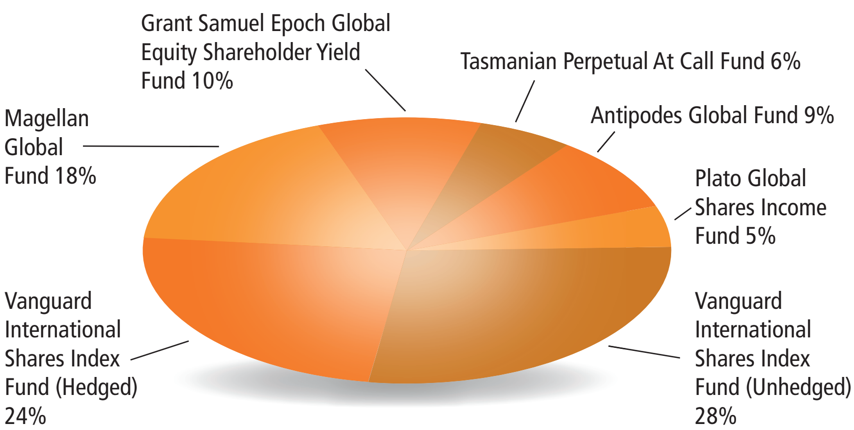
The value of $10,000 invested from inception to 31 December 2018 would have been:



Fund Investment Strategy

The Fund invests in the Magellan Global Fund; the Antipodes Global Fund; the Plato Global Shares Income Fund; the Vanguard International Shares Fund (Unhedged); the Grant Samuel Epoch Global Equity Shareholder Yield Fund; the Vanguard International Shares Index Fund (Hedged) and the Tasmanian Perpetual At Call Fund.

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



Market Commentary

Global shares (as measured by the MSCI World Index ex Australia, in $A terms) fell 4.56% over the half, after experiencing a particularly challenging December quarter. Over the full calendar year, global shares managed a small increase of 1.52%. Notably, the period experienced two quite distinct halves. US Q2 earnings season got things off to a good start, with the strongest results since 2010. Further confirmation that the US economic expansion remained robust and suggestions that the Bank of Japan would not be tightening its policy settings anytime soon, saw global shares advance 7.4% in the September quarter. Regionally, US and Japanese shares were the standouts (S&P500 +9.6%, Nasdaq +10.7% and the Nikkei Index +7.9%).

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 and oil prices plunging over fears of oversupply, share prices slumped. In the December quarter global shares retraced 11.10%, with the S&P500 (-13.5%) and Nasdaq (-16.8%) reporting their worst quarterly performances since 2008. Japanese and Chinese shares were not spared (declining 16.8% and 11.6%, in local currency terms).

Over the second half, cyclical sectors (more leveraged to economic growth) felt the full brunt of the change in investor sentiment. Information Technology stocks declined 11.4%, Financials -12.4%, Materials -15.2% and Consumer Discretionary stocks -11.3%. Traditional defensive sectors outperformed (Healthcare +0.4%, Utilities +0.1%, Telecoms -3.2%, Consumer Staples -5.3% and REITs -6.8%). In addition, the Energy sector was overwhelmed by the dramatic fall in global oil prices (-22.2%). In the period, emerging markets modestly outperformed developed markets (-3.96%), thanks to a new free trade agreement being signed by the US, Mexico and Canada. Large cap stocks outpaced, mid-cap and small caps. While High Yield and Value style stocks accounted for Growth and Momentum counterparts.

On the economic front, investors became more mindful of downside risks to the global economy. US domestic growth while still solid, indicated it was beginning to normalise post its tax stimulus ‘sugar rush’. Non-farm payrolls in November missed expectations (as they approach full capacity). 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. In Europe business surveys weakened further and the manufacturing sector’s new export orders showed a sharp decline, in part due to a slowdown in demand from China.

At the close of calendar 2018, global shares (using the MSCI World ex Australia Index) were trading on a prospective PE of 14.3 times and a dividend yield of 2.85%. Following their de-rating in the December quarter, global shares PE valuation now sits marginally below their LT-average (14.9 times) and represent good value. Valuations continue to incorporate healthy earnings expectations (+14.9% CY19, +9.9% CY20). According to current equity risk premium and bond earnings yield measures, global equities represent ‘fair value’ relative to bonds.

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International Share Fund

Fund Commentary

The International Share Fund fell 3.21% in gross terms (-4.08% after fees) in the December half and recorded a small gain of 1.37% (-0.46% after fees) in calendar 2018. This compares with a benchmark (BM) return of -5.30% for the half and -0.74% for the past 12-months. The Fund's asset allocation and manager selection both contributed positively to fund (excess) returns in the December quarter. The Funds modest tilt favouring unhedged exposures (relative to BM) also aided returns, as the AUD weakened in the period. The Fund paid a December half distribution of 0.36 cents per unit (CPU).

Performance-wise 3 out of 4 of the Fund's 'active' managers delivered positive alpha in the half (excess returns relative to BM). Magellan Global Fund headed the leaders table, followed by Grant Samuel Epoch and then Antipodes Global.

Magellan achieved a positive return of 1.55% (after fees). The Managers large allocation to Cash (18% of the total portfolio) and more 'defensive' holdings including HCA Healthcare, Starbucks, McDonalds, Visa and Yum Brands, exposures to which (some) had been increased last period, aided performance. In contrast Facebook (privacy fears, higher regulatory imposts) and Apple (slower iPhone sales) faced headwinds.

Grant Samuel Epoch enjoyed a sharp snap back in performance in the December half (-0.75% net return), as investors preferences changed and they sought out higher paying dividend yield stocks. The Manager outperformed the Fund's benchmark by over 4.5% (after fees) in the period and by 0.68% for CY2018. Its underweighting to IT stocks was a substantial contributor, while holdings in Verizon Communications, Deutsche Telecom, Astrazeneca PLC, Pfizer, Duke Energy and GlaxoSmithKline delivered strong capital returns and yield.

Antipodes Global Fund returned -3.26% after fees in the 2H2018 and 1.49% for calendar 2018. KT Corporation, Gilead Sciences, Electricite de France, Microsoft, Cisco and portfolio shorts were good contributors. The Fund remains overweight domestic Europe and China.

Plato Global (the smallest exposure in the Fund) was a minor detractor to active returns in the half, as mid-small cap stocks, which the manager generally invests, lagged their larger colleagues. Elsewhere, returns from the Vanguard International Shares Index Fund Hedged AUD (-8.70%) were impacted by the fall in the Australian dollar.

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, EU-Italian Budget talks, EU Parliament election and 2019 general elections in India, Israel and Indonesia, 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 if any of these impasses is resolved satisfactorily. As highlighted earlier, the underlying fundamentals of global shares remain sound and valuations are far more compelling post the recent sell-off, particularly given the very low interest rate environment is anticipated to continue for some time.

Over the next 3 to 5 year timeframe, the International 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

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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

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