

### MARKET COMMENTARY

## The end of the bull market or an opportunity to buy?

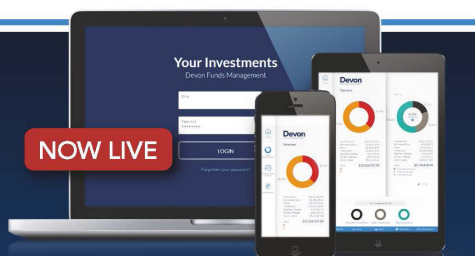
For those investors that were hoping for a Christmas rally in equities, the gifts found under the tree this year were disappointing. In fact, in a month which is renowned for its positive performance, the US Dow Jones Index recorded its worst December since 1931 and for the first time ever, 2018 saw December deliver the worst returns of any month during the year. With headlines dominated by trade wars, a US government shut down, Brexit and the Federal Reserve shrinking its balance sheet and hiking interest rates, the Dow Jones Index finished the month down 8.7%, whilst Australian shares recorded their worst December-quarter since 2011. The question now is whether 2019 will prove that the recent volatility was a sign of worse things to come, or rather, if this has been an opportunity to buy.

For those who believe that the future is likely to be more challenging, they will also identify that alongside the recent unsettling performance in equities, credit markets have been similarly an area of concern. It is through these markets that companies and governments raise debt-funding via instruments such as investment-grade bonds... [Read More](#)

## Devon Online Investor Portal

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Track your portfolio's value, download historical data & access documentation.



### MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	-0.1%	4.9%
S&P/ASX200G	AUSTRALIA	-0.1%	-2.8%
MSCI World Index	GLOBAL	-7.6%	-8.2%
S&P500	USA	-9.0%	-4.4%
FTSE100	UK	-3.5%	-8.7%
NIKKEI 225	JP	-10.3%	-10.3%
NZ 90 Day Bank Bill	NZ	0.2%	1.9%



### AT A GLANCE

#### UNIT PRICES

##### DEVON ALPHA FUND

**\$1.5828**

##### DEVON AUSTRALIAN FUND

**\$1.2731**

##### DEVON DIVIDEND YIELD FUND

**\$1.7752**

##### DEVON DIVERSIFIED INCOME FUND

**\$1.5423**

##### DEVON TRANS-TASMAN FUND

**\$3.5803**

##### GLOBAL THEMES FUND

**\$2.4946**

Prices as at 31 December 2018

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### DEVON ALPHA FUND

### FUND OUTLINE

The Alpha Fund invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

The Fund does not follow any index, is actively managed and aims to generate capital growth over the long term. Currency exposure is actively managed.

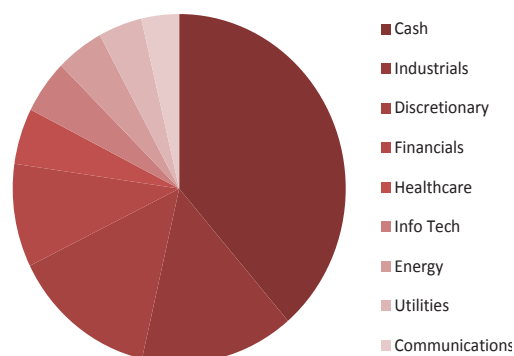
### DEVON ALPHA FUND

December proved a very difficult month for the Alpha strategy. This occurred despite the Fund maintaining a cash weighting above 25%. By far the biggest culprit was GTN. This radio advertising business has been a long term holding in Alpha but in recent months we had been selling this stock from the portfolio due to concerns over its operating environment in Australia. Unfortunately we were unable to reduce our exposure sufficiently and were negatively impacted when the company issued a profit warning on 20 December. The market responded aggressively to this with its share price falling by 39% despite their earnings falling below expectations by only 12%. Whilst arguably this is an over-reaction we have continued to sell our shares in this company. The largest positive contributor for the month was BHP which rose 12% after it confirmed a significant capital return. We remain confident in the return potential of Alpha's core holdings and increasingly see good opportunities in the current market environment.

### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

New Zealand Equities	20.2%
Australian Equities	41.1%
Cash	38.7%
Total	100.0%
Currency Hedge	29.16%

### PERFORMANCE

As at 31/12/18

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	-4.0%	-10.6%	-4.0%	3.6%	6.5%
OCR	0.1%	0.4%	1.7%	1.9%	2.4%

Devon Alpha Fund returns are after all fees and expenses, but before tax which varies by investor.

### NET PERFORMANCE

Based on \$10,000 invested at 1 January 2011

### Devon Alpha Fund



NOTE: Further information on the Devon Alpha Fund can be found in our Quarterly Fund Updates by visiting <https://devonfunds.co.nz/alpha-fund> or by clicking [HERE](#)

### PORTFOLIO MANAGER

Nick Dravitzki



Over the last decade Nick has specialised in investing in high yield equities and is Portfolio manager for the Devon Alpha, Diversified Income and Dividend Yield Funds. At Devon,

Nick has responsibility for the analysis of consumer staples, IT, consumer discretionary and property sectors. Nick is also responsible for our quantitative screening process.



### DEVON AUSTRALIAN FUND

### FUND OUTLINE

The Australian Fund is actively managed and invests in a select portfolio of approximately 25 to 35 companies which are primarily Australian listed companies.

The Australian market is much larger than the NZ market and offers exposure to a number of sectors that are not available in NZ. The Australian dollar currency exposure of this Fund is typically unhedged.

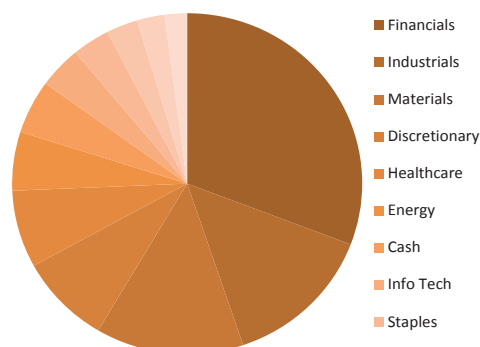
### DEVON AUSTRALIAN FUND

The Australian portfolio underperformed its benchmark during the month with a number of our smaller cap holdings finding the current market volatility particularly challenging. Disappointingly this included GTN which reported a slowdown in second half revenue due to a more difficult advertising environment in Australia. A number of our US dollar exposed investments including PWR Holdings, Atlas Arteria, Aristocrat Leisure and QBE also fell despite the Australian dollar depreciating against the US dollar. We believe these companies are all trading well below their fair value and expect them to recover well when broader market conditions stabilise. On the positive side our mining businesses, BHP Billiton and Rio Tinto both performed strongly. Rio, which rallied 7% over the month, is benefiting from a resilient iron ore price due to expectations that the Chinese government will commence additional fiscal stimulus to support their economic growth. Company management also announced asset sales which should support further capital management.

### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

Australian	90.9%
New Zealand	4.0%
Cash	5.1%
Total	100.0%
Currency Hedge	0.0%

### PERFORMANCE

As at 31/12/18

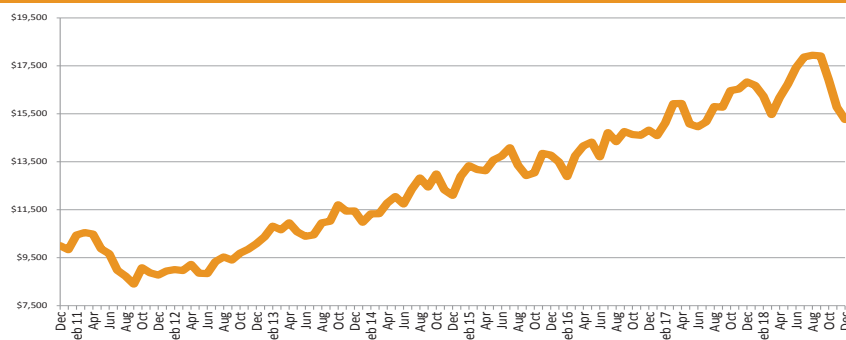
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	-3.2%	-14.8%	-9.3%	3.5%	5.9%
ASX200 Index Gross (NZD)	-1.4%	-11.7%	-7.2%	6.3%	4.9%

Devon Australian Fund returns are after all fees and expenses, but before tax which varies by investor.

### NET PERFORMANCE

Based on \$10,000 invested at 1 January 2011

### Devon Australian Fund



NOTE: Further information on the Devon Australian Fund can be found in our Quarterly Fund Updates by visiting <https://devonfunds.co.nz/australian-fund> or by clicking [HERE](#)

### PORTFOLIO MANAGER

Tama Willis



After a long period in international investment markets, Tama returned to NZ after a very successful career in London and Singapore to join Devon's investment team and holds responsibility for

Devon's Australian and Trans Tasman Funds. Tama is widely regarded as a leading expert on resource and mining stocks.



### DEVON DIVERSIFIED INCOME FUND

### FUND OUTLINE

The Devon Diversified Income Fund aims to give New Zealanders access to a diverse and good quality portfolio of high yielding investments.

The Fund aims to generate better-than-bank income rates by investing in a carefully selected portfolio of government and corporate bonds, cash, listed property, infrastructure, utility companies, high yielding equities, credit securities and other yielding financial assets.

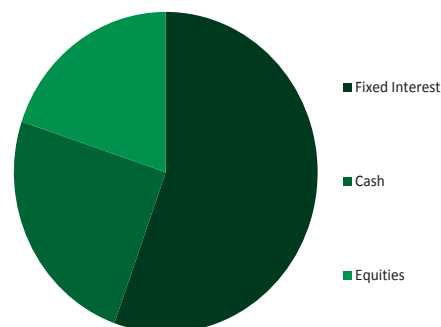
### DEVON DIVERSIFIED INCOME FUND

Global bonds rallied during the month with the yield on US 10-year Treasuries falling from 2.99% in late November to close December at 2.71%. There were a number of important catalysts for this including an increase in concerns over the prospects for global growth. The trade dispute between the US and China remains unresolved, the US government is in partial shut-down and the US Federal Reserve continues to tighten monetary conditions, recently announcing their ninth rate hike for this cycle. Closer to home, the most significant news was the announced proposals by the RBNZ that our major banks will need to hold a considerably higher level of capital going forward. The changes are targeted at creating a more sustainable banking system and if implemented would require the largest 4 banks to increase their Common Equity by an additional \$13bn. This would potentially have notable implications for mortgage pricing in New Zealand.

### KEY HOLDINGS



### ASSET ALLOCATION



### GROWTH

NZ Equities	13.7%
AU Equities	6.2%

### DEFENSIVE

Cash	24.6%
NZ Corporate Bonds	55.5%
NZ Government Bonds	0.0%

### PERFORMANCE

As at 31/12/18

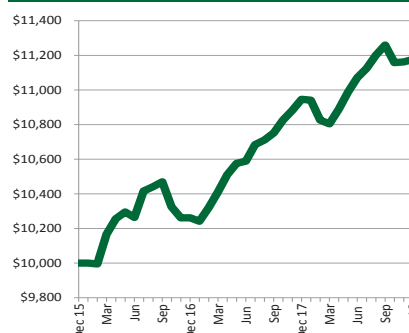
	1 Mth	3 Mth	1 Yr	2 Yr p.a
Devon Diversified Income Fund	0.1%	-0.7%	2.1%	4.3%
OCR + 1.5%	0.3%	0.8%	3.3%	3.3%

Devon Diversified Income Fund returns are after all fees and expenses, but before tax which varies by investor. Inception date for the Fund is 1 January 2016.

### NET PERFORMANCE

Based on \$10,000 invested at 1 January 2016

#### Devon Diversified Income Fund\*



\*Fund commenced on 1 January 2016

NOTE: Further information on the Devon Diversified Income Fund can be found in our Quarterly Fund Updates by visiting <https://devonfunds.co.nz/diversified-income-fund> or by clicking [HERE](#)

### PORTFOLIO MANAGER

Nick Dravitzki



Over the last decade Nick has specialised in investing in high yield equities and is Portfolio manager for the Devon Alpha, Diversified Income and Dividend Yield Funds. At Devon, Nick has responsibility for the analysis of consumer staples, IT, consumer discretionary and property sectors. Nick is also responsible for our quantitative screening process.

### AT A GLANCE

Targeted Portfolio Yield	5.0%
Commenced	January 2016
Total strategy	\$6.33m
Distributions	Target distributions of 1.5 cents per unit after tax paid quarterly



### DEVON DIVIDEND YIELD FUND

### FUND OUTLINE

The Devon Dividend Yield Fund consists of a select group of up to 25-35 New Zealand and Australian listed companies.

These stocks are chosen for their attractive dividend yields and growth prospects with the aim of maintaining the dividend yield and capital value in real terms. The Australian dollar currency exposure is typically fully hedged.

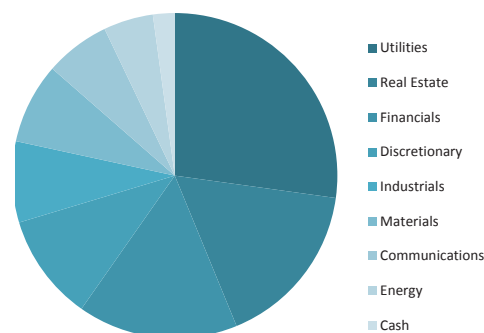
### DEVON DIVIDEND YIELD FUND

Positive contributors to this Fund came from the solid performances of many of New Zealand's defensive and higher yielding securities. All of the listed electricity stocks and the vast majority of the listed property sector provided positive returns for the month. Highlights included Stride Property Group (returned 5.2% for the month including dividends) and Meridian Energy which rallied 3%. Weaker performance was driven out of Australia. Stocks that saw negative movements included long dated infrastructure assets such as Spark Infrastructure and Atlas Arteria which faced transitional traffic weakness due to the "Gilet Jaunes" protests in France. The listed insurers were also disappointing with Suncorp selling off after announcing higher than expected losses from Sydney hailstorms, whilst the banks remained challenged by the Australian Royal Commission and falling house prices. As with the other retail funds the largest negative contributor over the month was GTN.

### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

New Zealand Equities	67.4%
Australian Equities	30.4%
Cash	2.2%
Total	100.0%
Currency Hedge	99.0%
Yield	7.3%

### PERFORMANCE

As at 31/12/18

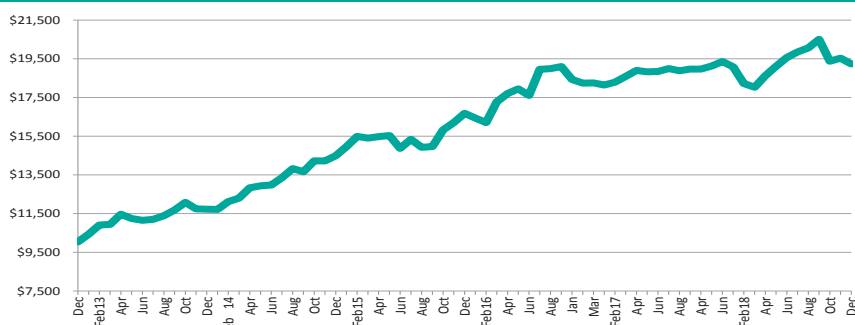
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	-1.5%	-6.2%	-0.7%	4.8%	10.6%
TT Index (Hedged)	-0.1%	-7.0%	1.0%	9.2%	9.4%

Devon Dividend Yield Fund returns are after all fees and expenses, but before tax which varies by investor.

### NET PERFORMANCE

Based on \$10,000 invested at 20 December 2012

### Devon Dividend Yield Fund\*



\*Fund commenced on 20 December 2012

NOTE: Further information on the Devon Dividend Yield Fund can be found in our Quarterly Fund Updates by visiting <https://devonfunds.co.nz/dividend-yield-fund> or by clicking [HERE](#)

### PORTFOLIO MANAGER

Nick Dravitzki



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Devon, Nick has responsibility for the analysis of consumer staples, IT, consumer discretionary and property sectors. Nick is also responsible for our quantitative screening process.



### DEVON TRANS- TASMAN FUND

### FUND OUTLINE

The Trans-Tasman Fund provides a broad and actively managed exposure to the NZ and Australian equity markets.

This Fund typically holds 25 to 35 shares listed on the NZ and Australian stock exchanges which have been carefully selected as offering good value and attractive medium term growth prospects. The Australian dollar currency exposure is typically unhedged.

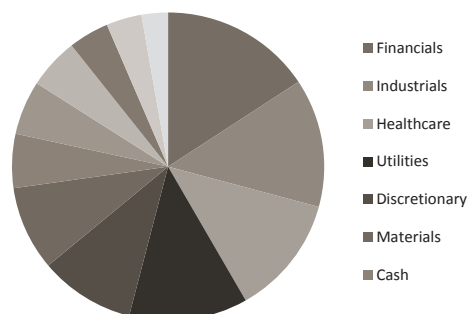
### DEVON TRANS-TASMAN FUND

We were disappointed that this strategy underperformed its benchmark over the month. This was largely due to a profit warning from GTN which reported weaker revenue due to a more challenging advertising environment in Australia. Despite this frustration, we were encouraged by the performance of a number of our other key holdings including BHP Billiton, Freightways, Vista Group and Meridian. BHP has now rallied 21% over the past 12-months as investors rewarded the group for divestments and significant capital return. In late 2018, BHP announced the return of US\$10.4bn in proceeds from the sale of their US Onshore assets through a combination of an off-market buyback in December 2018 of US\$5.2bn and a special dividend payable on 30 January 2019 of a further US\$5.2bn. In terms of portfolio changes, we have added to our holding of Freightways after recent share price weakness. Currently this portfolio has a greater exposure to New Zealand although we continue to review new investment opportunities in Australia.

### KEY HOLDINGS



### ASSET ALLOCATION



### GEOGRAPHIC ALLOCATION

New Zealand Equities	49.9%
Australian Equities	44.4%
Cash	5.7%
Total	100.0%

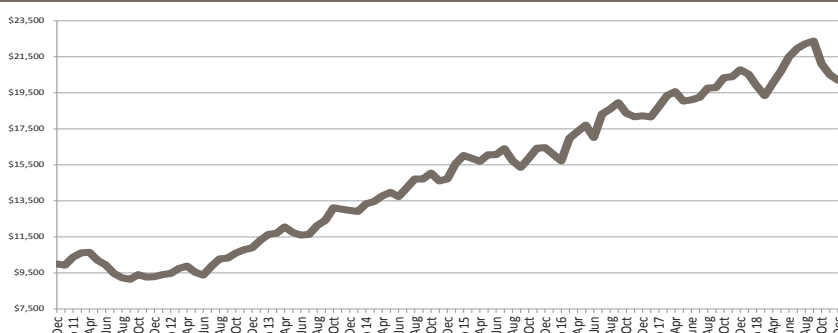
PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
As at 31/12/18					
Devon Trans-Tasman Fund	-1.5%	-9.7%	-2.8%	6.0%	8.6%
Trans-Tasman Index Gross	-0.8%	-8.7%	-1.2%	9.0%	9.1%

Devon Trans Tasman Fund returns are after all fees and expenses, but before tax which varies by investor.

### NET PERFORMANCE

Based on \$10,000 invested at 1 January 2011

### Devon Trans-Tasman Fund



NOTE: Further information on the Devon Trans-Tasman Fund can be found in our Quarterly Fund Updates by visiting <https://devonfunds.co.nz/trans-tasman-fund> or by clicking [HERE](#)

### PORTFOLIO MANAGER

Tama Willis



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Devon's Australian and Trans Tasman Funds. Tama is widely regarded as a leading expert on resource and mining stocks.



### GLOBAL THEMES FUND

### FUND OUTLINE

The Global Themes Fund invests in Global Financial Assets predominantly Global Exchange Traded Funds (ETF's). We identify macroeconomic or thematic investment ideas with a 2-5 year time horizon, and implement the investment ideas through appropriate high quality assets. Portfolio risk is managed by ensuring broad diversification, ample liquidity and close monitoring of tracking variation versus a passive equity benchmark. The Global Themes strategy has been run by JBWere since March 2005. In October 2014 Devon Funds Management created a NZ PIE Fund to follow the Global Themes strategy and has appointed JBWere as the adviser.

### FUND UPDATE

December has been yet another very challenging month for global equity investors, being the worst December for the US market since 1931, and capping off 2018 as the worst year for stocks since 2008. We had expected the ceasefire agreement between Presidents' Trump and Xi on the sidelines of the G20 meeting at the start of December to help allay investors' concerns around trade. However, this was quickly overshadowed by continued concerns around where global (and in particular US) growth will end up in 2019, what this will mean for corporate earnings, and how it might be impacted by Fed interest rate moves. Fears of the Fed moving too far too fast with rate hikes and crimping growth have been front of mind for investors during December.

We remain optimistic, however. While we expect growth to slow in 2019, we don't expect it to plunge. Rather, we expect it to remain above-trend, and move towards a more sustainable level. Combined with a lack of imbalances in the global economy, the risk of a recession over the next 12 months, and therefore a sustained bear market, is low. That said, given the stage in the cycle we are in, with central banks tightening monetary policy, we expect volatility to remain elevated in 2019.

In our view, the market sentiment pendulum has swung too far to the negative, particularly given that many of the major concerns going into this sell-off have improved: we now have a less hawkish Fed, oil prices have fallen (a significant positive for the US economy in that it increases the disposable income of consumers), we have seen a US-China trade war ceasefire (which demonstrates genuine will to 'do a deal' from both parties), the Italian budget negotiations with Brussels are going well, and equity valuations have significantly improved.

India, Brazil and European Telecoms were again our top performing themes during December, relative to the benchmark. India was relatively insulated from the sell-off on the back of a "dovish hike" from the US Federal Reserve, combined with lower oil prices. European Telecom stocks have continued to benefit from their defensive nature, combined with a solid recent earnings season and optimism around both M&A and a lighter regulatory touch going forward.

### RETURNS

The Global Themes Fund fell 8.2% in December, finishing the month at a unit price of \$2.4946. This compares with a 6.1% fall in our global equity benchmark. Our fund has risen 5.5% per annum since inception net of fees, versus 7.8% per annum

growth in the iShares MSCI All Country World Index Exchange Traded Fund (50% hedged to NZD).

### CURRENCY EXPOSURES

The currency hedge level in the fund remains at its benchmark weight of 50%, which we are comfortable with for now. However, we continue to keep a close eye on local economic data and movements in the currencies of our key trading partners.

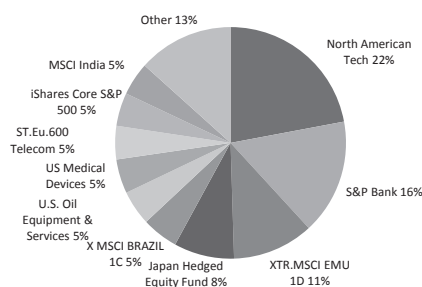
### PORTFOLIO MANAGER

Following the resignation of Bernard Doyle, JBWere wishes to advise clients of a change in the

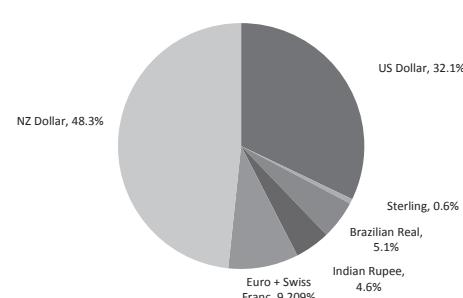
management of the Devon Global Themes fund. While Bernard remains an employee until early 2019, going forward the fund will adopt a broader collaborative approach to its management, and draw on additional resources from within the current JBWere Investment Strategy Group. Andrew Thompson, who has been involved alongside Bernard with the fund, will assume day to day management and thematic analysis. Hayden Griffiths and Philip Borkin will join the portfolio investment team to provide greater depth around risk, global strategy and macro support.

We believe these additions will strengthen the proposition yet retain underlying management consistency.

### SECTOR ALLOCATION

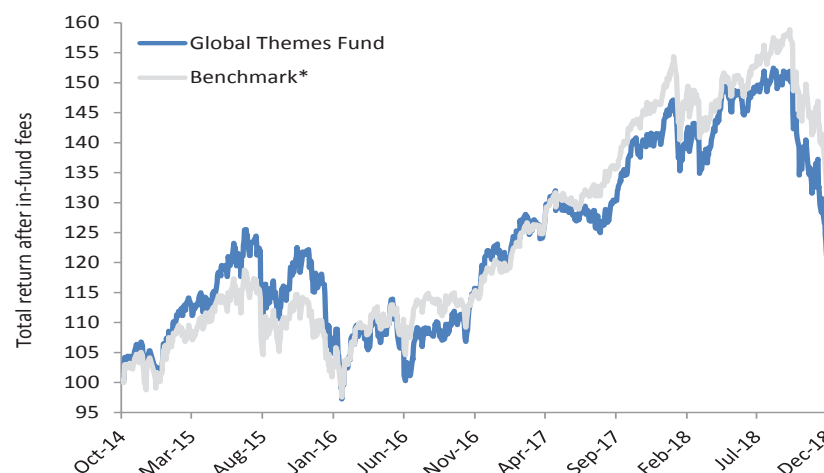


### CURRENCY EXPOSURE



### NET PERFORMANCE SINCE INCEPTION

Returns versus Benchmark



NOTE: Further information on the Devon Global Themes can be found in our Quarterly Fund Updates by visiting <https://devonfunds.co.nz/global-themes-fund> or by clicking [HERE](#)