

MONTHLY REPORT

Keeping you up to date with Devon Funds and the markets

November 2018

MARKET COMMENTARY

November Interest Piece

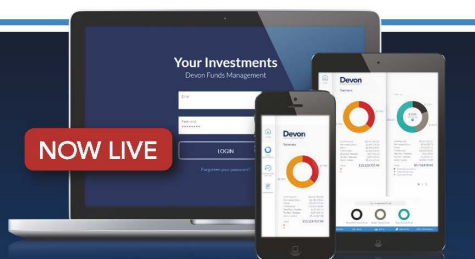
Global equity markets continued to trade with an elevated level of volatility during November as investors were challenged by slowing global growth and tightening financial conditions. Despite this backdrop the New Zealand exchange was again a relative outperformer. As we head into the conclusion of 2018 with financial headlines full of references to trade wars and political uncertainty, it is important for investors to be aware of the strong fundamentals that have supported our local market in recent times and to understand how these characteristics could influence outcomes in 2019.

Since January 2008, the NZX50 Index has returned over 117%. This performance is impressive in an absolute sense but it should also be considered in a relative context. Over the same period other major markets have also rallied, but not to the same extent. The MSCI World Index (which is the most commonly referenced global equity index) is up 79% whilst our two largest trading partners, Australian and China have generated returns of 50% and 19% respectively. Looking at just the past year, New Zealand has again outperformed. What is also equally important to note though is that since January 2008 our local outperformance has been achieved with a lower level of risk than was evident in many of the other international markets. ... [Read More](#)

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AT A
GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.6480

DEVON AUSTRALIAN FUND

\$1.3158

DEVON DIVIDEND YIELD FUND

\$1.8025

DEVON DIVERSIFIED INCOME FUND

\$1.5404

DEVON TRANS-TASMAN FUND

\$3.6340

GLOBAL THEMES FUND

\$2.7174

Prices as at 30 November 2018

MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	0.8%	7.8%
S&P/ASX200G	AUSTRALIA	-2.2%	-1.0%
MSCI World Index	GLOBAL	1.2%	0.7%
S&P500	USA	2.0%	6.3%
FTSE100	UK	-1.6%	-0.7%
NIKKEI 225	JP	2.0%	0.3%
NZ 90 Day Bank Bill	NZ	0.2%	1.9%

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Level 10, Rabobank Tower, 2 Commerce Street, Auckland 1010
PO Box 105609, Auckland 1143, New Zealand
Phone: 0800 944 049 | +64 9 925 3990 | Fax: +64 9 307 7088

Client Services: admin@devonfunds.co.nz Website: DevonFunds.co.nz

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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

While this strategy has outperformed the Australasian markets during the selloff that has occurred in the last quarter, mainly due to its large cash weighting and its investment in Trade Me, a number of our holdings let us down during November. A meaningful detractor came from our position in Janus Henderson. Janus is a very large global funds management company and has seen its share price come under pressure as a result of volatile markets and outflows. Due to these challenges, Janus is now being priced at a 40% discount to the broader Australian diversified financials. We believe this valuation is compelling and have been modestly adding to our position in recent weeks. Other investments which negatively affected the portfolio included Redbubble and Aristocrat Leisure. The most significant positive impact came from our exposure to Trade Me after this business received a takeover bid by private equity firm, Apax Partners. Despite a negative absolute performance for the past month we remain confident in our key high conviction ideas and see this portfolio as being well positioned to deal with current market conditions.

PORTFOLIO MANAGER

Nick Dravitzki

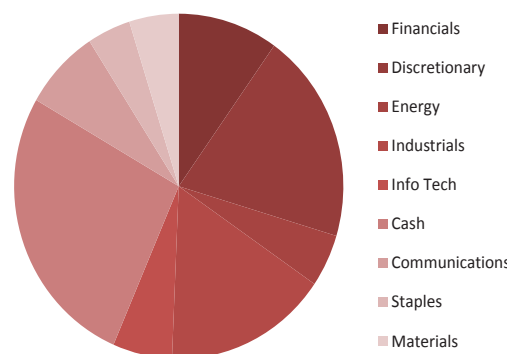


Over the last decade Nick has specialised in investing in high yield equities and is Portfolio manager for the Devon Alpha, Diversified Income and Dividend Yield Funds. At Devon, Nick has responsibility for the analysis of consumer staples, IT, consumer discretionary and property sectors. Nick is also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

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	21.2%
Australian Equities	51.9%
Cash	26.9%
Total	100.0%
Currency Hedge	30.58%

PERFORMANCE

As At 30/11/2018

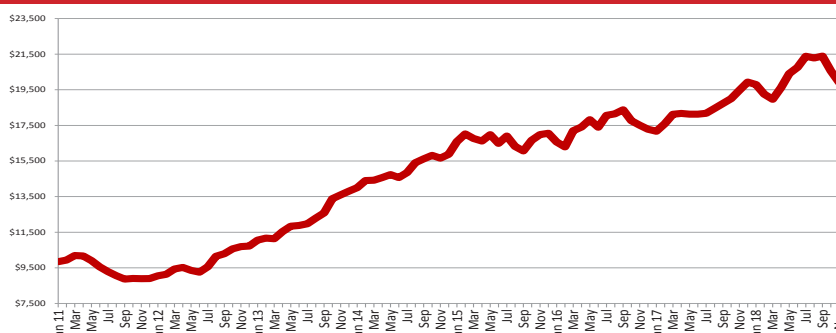
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	-3.2%	-6.4%	2.3%	5.1%	7.7%
OCR	0.1%	0.4%	1.8%	1.9%	2.4%

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](#)



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

During the month our investment in National Tyre and Wheel was negatively impacted by a weaker than expected trading update by the company. Although this was disappointing, we continue to own shares in this business as we expect an improvement in subsequent periods on new product launches and a return to more normal consumer buying patterns. Other stocks that impacted relative performance included Aristocrat and GTN which closed down 13% and 10% respectively. We completed a number of research trips to Australia in November including a visit to Brisbane based PWR Holdings (PWH). PWH is involved in the design and the production of customised cooling solutions for motorsports and the automotive industry. An exciting area for the Group that we see driving future earnings growth is the Emerging Technologies division which includes cooling solutions for electric and autonomous vehicles.

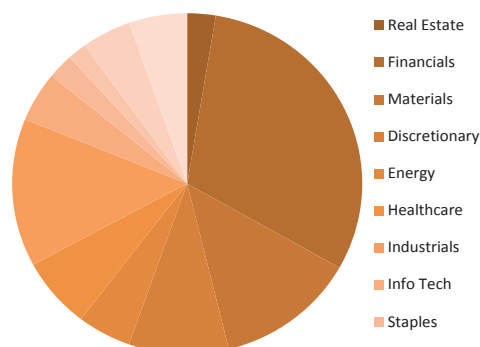
KEY HOLDINGS

Brambles

spark infrastructure

Woolworths

ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

Australian	90.7%
New Zealand	4.7%
Cash	4.6%
Total	100.0%
Currency Hedge	0.0%

PERFORMANCE As At 30/11/2018

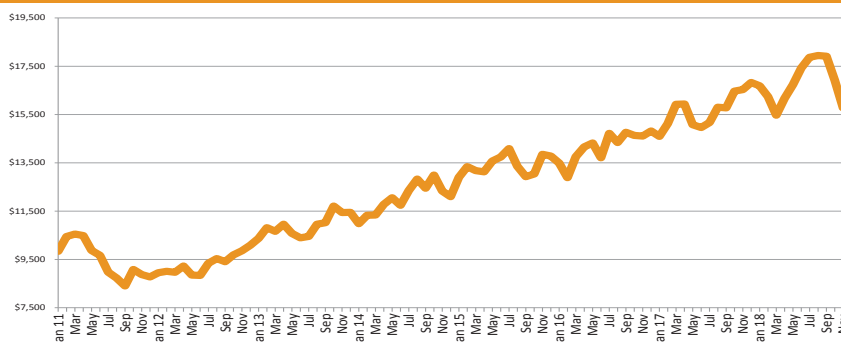
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	-6.8%	-12.1%	-4.6%	4.4%	6.6%
ASX200 Index Gross (NZD)	-4.2%	-11.5%	-4.8%	6.5%	4.7%

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.

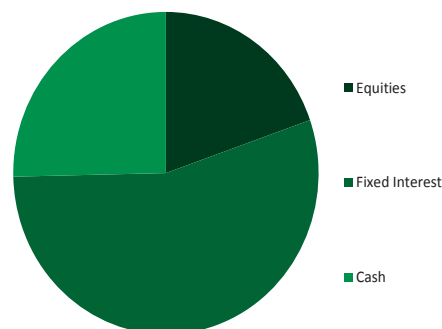
DEVON DIVERSIFIED INCOME FUND

Global bond markets rallied during the month with the US 10-year closing below 3% for the first time since September. A major contributor to this pricing dynamic were comments by US Federal Reserve Governor, Jerome Powell, that the Fed Funds rate is currently "just below" neutral settings. This was seen by investors as a more dovish stance, suggesting that there is likely to be fewer increases to interest rates over the medium-term. Both the RBNZ and RBA also met during November and kept rates unchanged. The RBNZ did announce a change though to their view on loan-to-value policies. These have been in place since 2013 with the objective of improving the quality of the banking system but recent pressure in the housing market has resulted in the RBNZ implementing a modest easing to these restrictions. There were a number of bond issues during the month including deals done by Chorus and the Kiwi Property Group.

KEY HOLDINGS



ASSET ALLOCATION



GROWTH

NZ Equities	13.1%
AU Equities	6.6%

DEFENSIVE

Cash	25.3%
NZ Corporate Bonds	55.0%
NZ Government Bonds	0.0%

PERFORMANCE

As At 30/11/2018

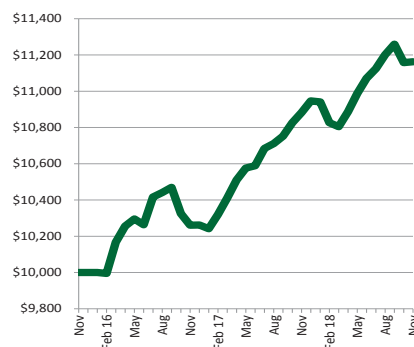
	1 Mth	3 Mth	1 Yr	2 Yr p.a
Devon Diversified Income Fund	0.0%	-0.3%	2.6%	4.3%
OCR + 1.5%	0.3%	0.8%	3.3%	3.3%

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](#)

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AT A GLANCE

Targeted Portfolio Yield	5.0%
Commenced	January 2016
Total strategy	\$6.45m
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.

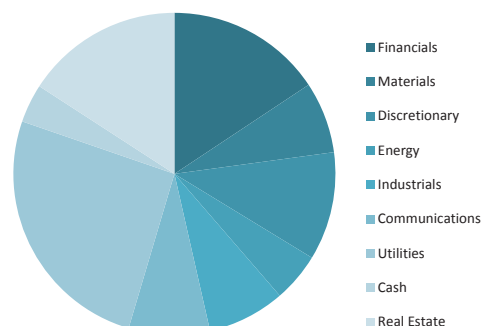
DEVON DIVIDEND YIELD FUND

The Dividend Yield Fund performed solidly over November. In another volatile month for markets (particularly in Australia) the attraction of defensive, high dividend yield stocks was again evident. All of the major New Zealand electricity generator / retailers (all of which are holdings in the Dividend Yield Fund) returned more than 4% over the month. The strongest individual performer was Genesis, which was up 9.4%. Genesis held an investor day in early November at which they reiterated guidance and repeated their view that they think materially higher earnings are achievable in coming years. Property stocks also performed well. Kiwi Property Group, the largest property holding in the Fund, was up 5.3% after reporting a good result for the first half of the 2019 financial year. This result was striking for highlighting that its top retail assets are performing very strongly, with specialty sales per square metre up to \$11,000 from \$10,200 over the last 12 months.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	63.9%
Australian Equities	32.2%
Cash	3.9%
Total	100.0%
Currency Hedge	100.1%
Yield	7.14%

PERFORMANCE

As At 30/11/2018

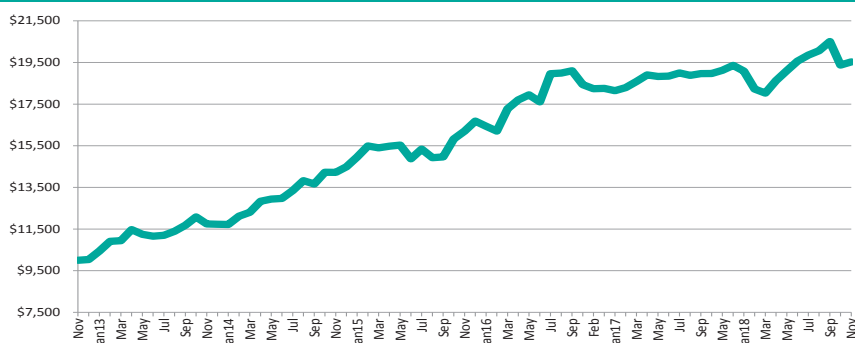
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	0.8%	-2.6%	2.1%	6.3%	10.9%
TT Index (Hedged)	-0.7%	-7.3%	3.4%	10.4%	9.4%

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*



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](#)

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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.

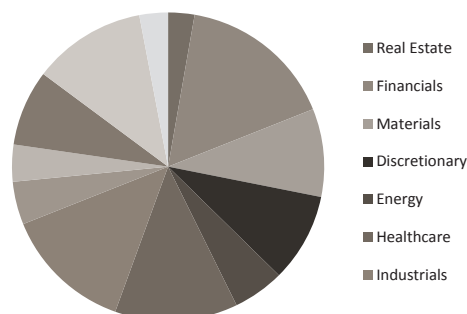
DEVON TRANS-TASMAN FUND

The largest negative contributor to the relative performance of the Trans-Tasman strategy was Aristocrat Leisure (ALL), which fell 11%. ALL operates as a developer, manufacturer and distributor of gaming content, platforms and systems and also operates in the on-line social gaming sector. The group reported a strong result, with profit of \$730m (+34%), although slightly below market expectations due to continued investment for future growth. We remain constructive on the investment case. On the positive side, Trade Me (TME) received a non-binding, indicative proposal from Apax Partners, a London based private equity firm, to takeover 100% of the company at \$6.40 per share in cash. This was a 25% premium to the last traded price. The Board agreed to allow Apax to proceed with due diligence on an exclusive basis until Dec 12. There were no major changes made to the portfolio although we did add to our holding of Freightways.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	50.2%
Australian Equities	46.8%
Cash	3.0%
Total	100.0%

PERFORMANCE

As At 30/11/2018

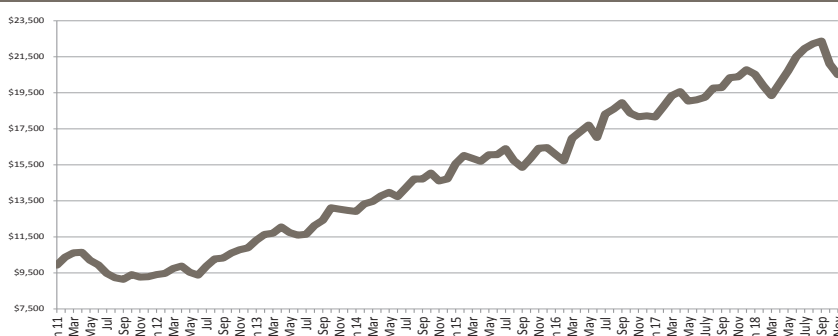
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	-2.8%	-7.7%	0.6%	6.6%	8.8%
Trans-Tasman Index Gross	-1.7%	-8.4%	1.5%	9.8%	8.9%

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

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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

As we previewed last month, November has been a big month. Equity investors have had plenty to chew on (trade, Brexit, Italy, US mid-term elections, an oil price plunge, earnings season), which has made navigating equity markets challenging – very much the theme of 2018! However, despite heightened volatility and a continuation of October's sell-off, equity markets managed to stabilise into month end, with the sell-off struggling to extend much beyond a 10% drawdown at any point. As we've previously maintained, for an equity market sell-off to push towards a 15% drawdown, we would expect to see meaningful evidence that fundamentals (economic or corporate) are deteriorating, and we're simply not seeing it. We know economic growth and corporate earnings are likely to slow next year, though they're unlikely to plummet. While both are still positive, a recession over the next 12 months looks unlikely to us. Against this backdrop, a sustained bear market is unlikely – though in this game, as we know, nothing can be ruled out.

As at the time of writing, at the G20 Summit Presidents' Trump and Xi have agreed to a ceasefire in their trade dispute, with the US delaying any further tariffs and China agreeing to purchase more from the US while negotiations continue. This outcome was what we had hoped for, and better than what the market was pricing. Combined with positive developments on NAFTA and negotiations with Europe and Japan, this should help alleviate some of the trade war fears out there. That said, 90 days is a short period of time to sort out a wide range

SENIOR INVESTMENT ADVISER

Bernard Doyle

Bernard oversees equity strategy and global tactical asset allocation for JBWere New Zealand. Prior to this role, Bernard was the New Zealand Equity Strategist for Goldman Sachs and Partners, where his team was rated #1 for Strategy and Economics by INFINZ for a number of years. Bernard has 18 years experience in financial markets. He graduated in 1993 with Honours in Economics from Victoria University of Wellington. Bernard will be departing JBWere in the new year. As such, the management of the Global Themes Fund is in the process of transitioning to existing members of JBWere's Investment Strategy Group. Further details will be provided in the next Monthly Report.



of complex issues, so we suspect investors' sensitivity to headlines and tweets will remain heightened over the new year period.

India and European Telecoms were our top performing themes during November. India performed well on the back of relatively dovish comments from the US Federal Reserve, combined with lower oil prices, which Indian equities like.

RETURNS

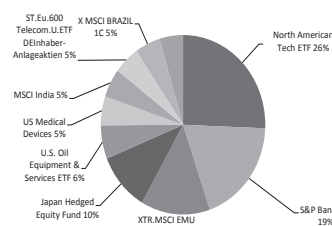
The Global Themes Fund fell 1.8% in November, finishing the month at a unit price of \$2.7174. This compares with a 1.1% fall in our global equity benchmark.

Our fund has risen 7.8% per annum since inception net of fees, versus 9.6% per annum growth in the iShares MSCI All Country World Index Exchange Traded Fund (50% hedged to NZD).

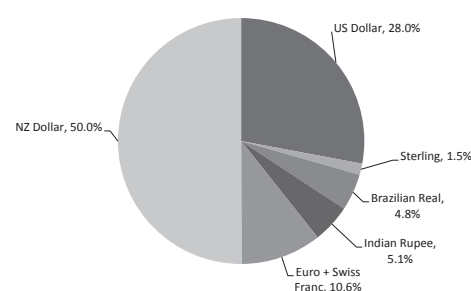
CURRENCY EXPOSURES

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.

SECTOR ALLOCATION

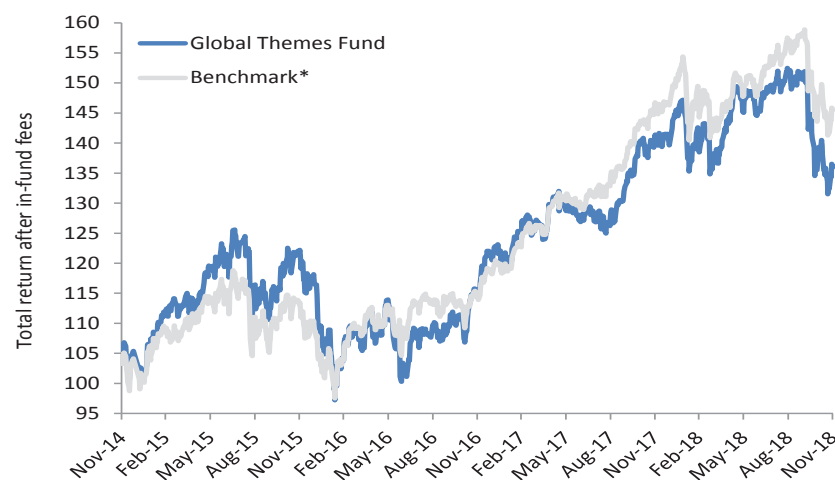


CURRENCY EXPOSURE



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](#)