

MARKET COMMENTARY

Paul Glass: Why business confidence has fallen

New Zealand business confidence has fallen to levels last seen during the Global Financial Crisis. While the magnitude of the decline is hard to explain, as economic conditions are clearly far better than during the GFC period, the direction is far easier to understand. Some commentators have blamed the decline on businesses not getting the Government they expected or wanted.

I think that is far too simplistic and what we are seeing is that businesses are growing increasingly concerned about the coalition Government's lack of clear strategy and poor execution of policy. We are clearly experiencing management by an unwieldy committee.

New Zealand has been blessed for much of the last two decades, under both Clark and Key, for having political leaders who were more pragmatic and less ideologically driven than the current lot. Remembering that financial resources are scarce and that expenditure needs to be prioritised, let's look at coalition execution around a number of policies...

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MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	0.4%	17.9%
S&P/ASX200G	AUSTRALIA	-1.3%	14.0%
MSCI World Index	GLOBAL	0.6%	11.8%
S&P500	USA	0.6%	17.9%
FTSE100	UK	1.2%	6.1%
NIKKEI 225	JP	6.2%	20.8%
NZ 90 Day Bank Bill	NZ	0.2%	1.9%



AT A
GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.7968

DEVON AUSTRALIAN FUND

\$1.5238

DEVON DIVIDEND YIELD FUND

\$1.9159

DEVON DIVERSIFIED INCOME FUND

\$1.5684

DEVON TRANS-TASMAN FUND

\$4.0431

GLOBAL THEMES FUND

\$3.0041

Prices as at 30 September 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

The Alpha strategy generated a positive return during September with the most significant contribution being made by our investment in the Australasian debtor and trade finance business, Scottish Pacific Group (SCO). Shares in this company rallied strongly after announcing to the market that they had received a takeover offer from the private equity group, Affinity Equity Partners. The bid was at an 18% premium to its previous closing price. The leadership team at SCO have confirmed that they are in favour of the offer and SCO finished the month up over 22%. The transaction remains subject to regulatory approval and a shareholder vote. Other notable contributions came from our investments in GTN and Atlas Arteria, which closed up 14.5% and 3.2% respectively. We continue to have a large cash weighting in Alpha but subsequent to a number of recent research trips, expect to deploy some of these funds in the next few months.

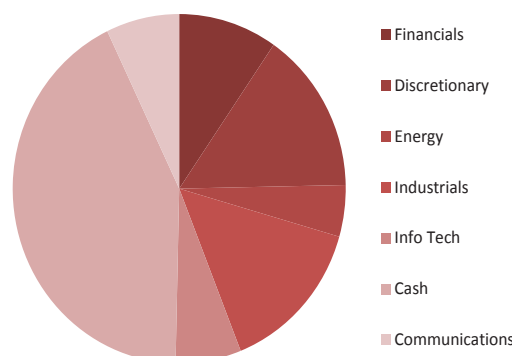
KEY HOLDINGS



Brambles

ARISTOCRAT

ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	11.1%
Australian Equities	46.3%
Cash	42.5%
Total	100.0%
Currency Hedge	28.99%

PERFORMANCE

As At 30/09/2018

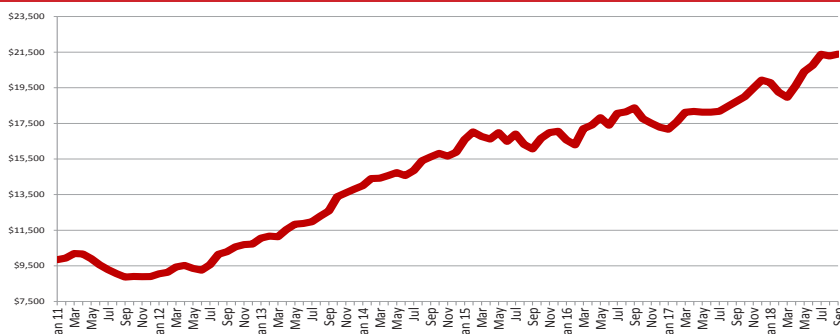
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	0.5%	3.0%	14.2%	9.7%	11.0%
OCR	0.1%	0.4%	1.7%	2.0%	2.4%

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.

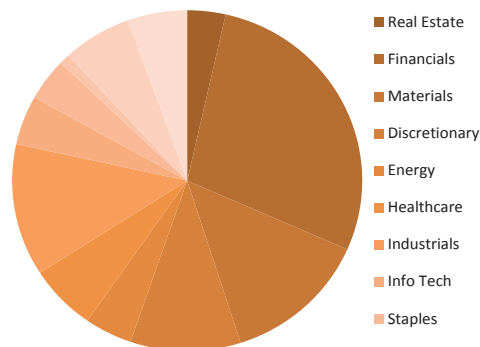
DEVON AUSTRALIAN FUND

This Fund enjoyed strong outperformance of its benchmark during the month. Positive contributions were made from our investments in the Mining sector with BHP Billiton and Rio Tinto rallying 6.9% and 8.3% respectively. These companies, and others in the sector, were positively leveraged to better than-expected economic data from China with their August industrial production growing at 6.1%. Woodside Petroleum was also a good performer, finishing the month up 4.6%, as the oil price pushed higher. In a relative sense we also benefitted from our underweight position in the Banking sector, which underperformed due to the ongoing effects of the Australian Financial Services Royal Commission. During the month the Commissioner Kenneth Haynes delivered his interim report which identified an array of areas that need to be addressed and highlighted inadequacies by the regulators, ASIC and APRA, in properly executing their responsibilities. Among the smaller businesses that we own, People Infrastructure was a notable performer, finishing up 3.4%.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

Australian	89.0%
New Zealand	4.7%
Cash	6.4%
Total	100.0%
Currency Hedge	0.0%

PERFORMANCE As At 30/09/2018

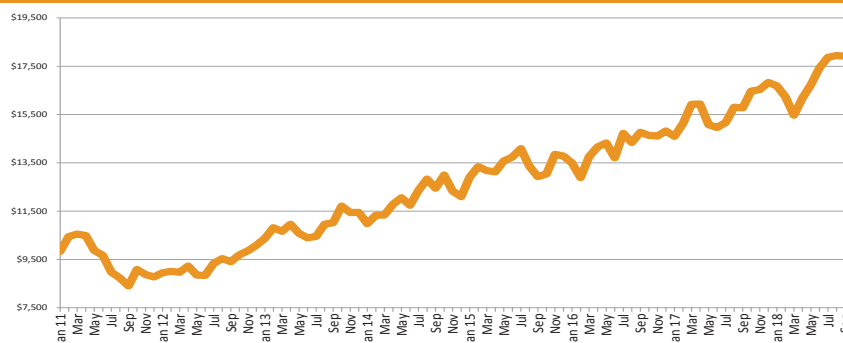
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	-0.2%	2.8%	13.6%	11.5%	10.2%
ASX200 Index Gross (NZD)	-1.1%	1.5%	14.6%	11.9%	7.6%

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.

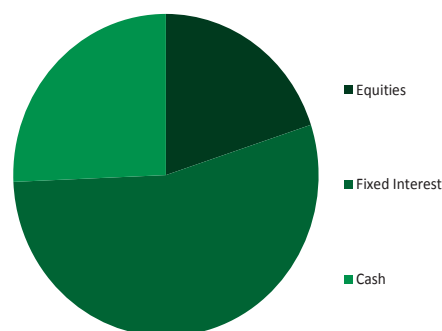
DEVON DIVERSIFIED INCOME FUND

Global interest rates moved higher during September with the US 10-year finishing at 3.06%. As had been expected by the market, the US Federal Reserve raised the Federal Funds Rate by 0.25%. This was the third time that the Fed had lifted rates this year and the market is now pricing in a strong probability that a further hike will occur in December. US economic data continues to remain positive with the number of Americans filing for unemployment benefits recently falling to their lowest level in 49-years. The story in New Zealand is very different with the market here now pricing in a 30% chance that the RBNZ will cut the cash rate over the next 12-months. Against this backdrop, local corporate bond activity is increasing with a number of local corporations including Property for Industry and Auckland Airport raising debt during the month.

KEY HOLDINGS



ASSET ALLOCATION



GROWTH

NZ Equities	12.2%
AU Equities	6.6%

DEFENSIVE

Cash	26.8%
NZ Corporate Bonds	54.4%
NZ Government Bonds	0.0%

PERFORMANCE

As At 30/09/2018

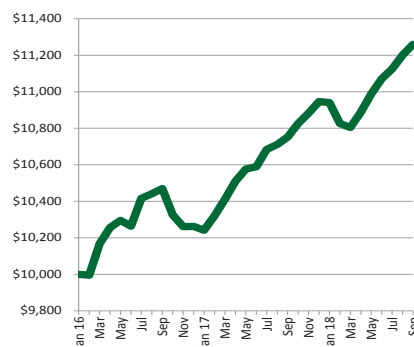
	1 Mth	3 Mth	1 Yr	2 Yr p.a
Devon Diversified Income Fund	0.5%	1.7%	4.7%	3.7%
OCR + 1.5%	0.3%	0.8%	3.3%	3.3%

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.

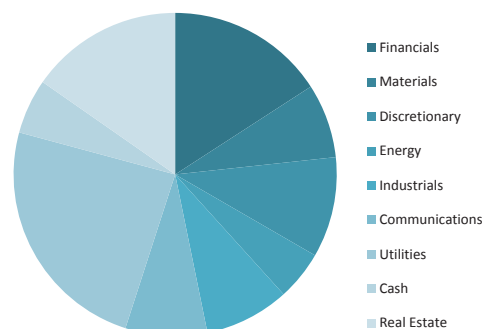
DEVON DIVIDEND YIELD FUND

The Dividend Yield portfolio generated strong absolute and relative performance during the month with a range of our investments delivering impressive returns. Amongst these were the New Zealand Gentailers including Mercury NZ and Meridian Energy that rallied 6.3% and 5.8% respectively. This sector was buoyed by the release of an independent review of the electricity sector which found there was no evidence that the generators or the distributors were making excessive profits and therefore additional regulation is not required. This review was conducted by a panel of industry experts and consumer representatives as part of the coalition and support agreements between Labour, the Green Party and NZ First. Other stocks that performed well included GTN which closed 14.5% higher and Scottish Pacific Group which rallied 22.4% after receiving a takeover bid from Affinity Equity Partners. Subsequent to this price move we sold our shares in Scottish Pacific.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	61.3%
Australian Equities	33.2%
Cash	5.5%
Total	100.0%
Currency Hedge	97.2%
Yield	

PERFORMANCE

As At 30/09/2018

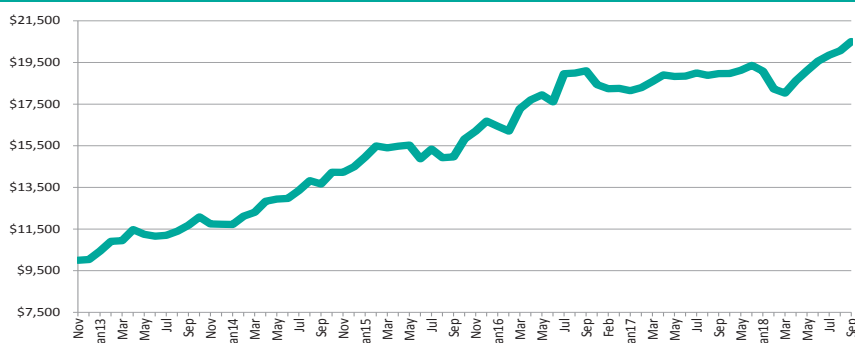
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	2.2%	4.8%	7.9%	11.0%	12.1%
TT Index (Hedged)	-0.4%	3.0%	15.9%	15.4%	11.4%

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, 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.

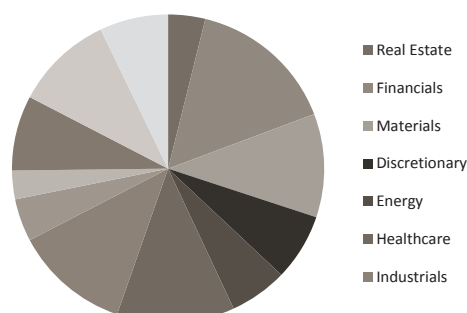
DEVON TRANS-TASMAN FUND

We are very pleased with the relative returns that this portfolio generated during September. The investments which made the most notable contributions included GTN which rallied 14.5% and Ebos which continued its recent strong momentum and closed the month up 9.0%. The catalyst for the jump in the price of GTN was the sale of shares by the private equity group, GTCR. This organisation has been a large and long-term investor in GTN but they have been reducing their exposure due to the closure of the fund that these shares were being held in. Subsequent to the sale of their remaining stake, the share price rebounded. We continue to believe that the opportunities for GTN in Brazil, Canada and Australia are very attractive and that there is good valuation support for this investment at current prices. The largest detractor for this strategy during the month was CSL, which fell 11% although it has risen substantially over the past year.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	45.4%
Australian Equities	47.5%
Cash	7.1%
Total	100.0%

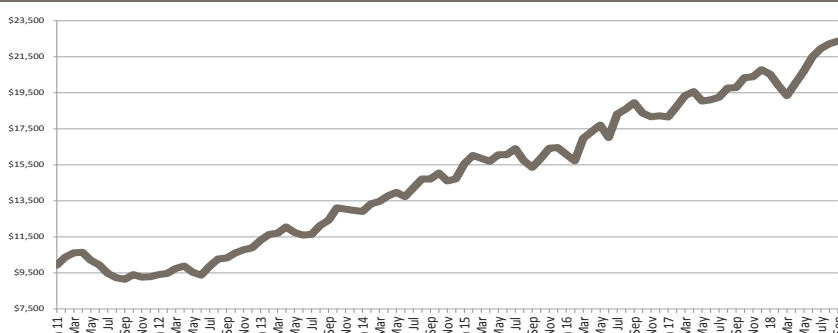
PERFORMANCE	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
As At 30/09/2018					
Devon Trans-Tasman Fund	0.7%	4.0%	13.1%	12.2%	11.8%
Trans-Tasman Index Gross	-0.4%	3.1%	16.3%	15.3%	11.1%

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](#)

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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

At the risk of sounding like a broken record, trade remains king when it comes to market sentiment. The US' 10% tariffs on another \$200b of Chinese imports was announced and went live during September, and is due to increase to 25% from the start of 2019. Given this effectively locks down uncertainty for the remainder of the year, we weren't surprised to see equities rally on this. While tariffs on the remaining ~\$267b of Chinese imports into the US remains a genuine threat, we are conscious that more than half of these would be consumer goods – something we think President Trump will tread carefully around, given mid-terms on November 6. Outside of China, a trade deal with Canada looks close, and the US and Japan have agreed to begin negotiations. Although further escalation cannot be ruled out, recent market reactions suggest that we may have reached the point of peak uncertainty.

After a turbulent few months for emerging markets, sentiment looks to have somewhat stabilised, with the Turkish central bank raising interest rates in a bid to arrest the tumbling Lira, and the IMF and Argentina agreeing a record bailout deal. Combined with election uncertainty, recent turmoil has seen us only partially implement our new Brazil allocation thus far – though it proved our best performing theme this month. However, with both rounds of the general election in October, we expect to move to our target allocation soon – all going well.

Despite a jump in bond yields, US banks underperformed during September on concerns around the outlook for earnings. We'll be watching Q3 earnings season closely – particularly for signs of

loan growth. India came under pressure from broader emerging market sentiment, as well as higher oil prices and some softer economic data.

Despite a relatively challenging month, US consumer confidence and ISM manufacturing pushed on to cycle highs, highlighting that the world's largest economy remains in good shape. We also expect another solid upcoming quarterly earnings season.

RETURNS

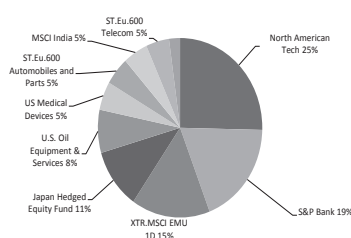
The Global Themes Fund fell 0.9% in September, finishing the month at a unit price of \$3.0041. This compares with a 0.6% rise in our global

equity benchmark. Our fund has risen 11.0% per annum since inception net of fees, versus 12.3% per annum growth in the iShares MSCI All Country World Index Exchange Traded Fund (50% hedged to NZD).

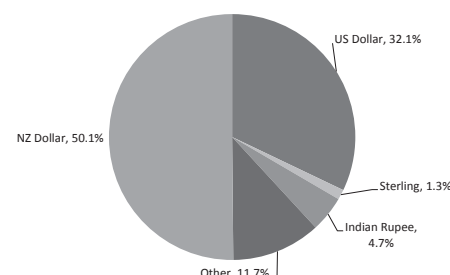
CURRENCY EXPOSURES

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. NZD/USD below 0.64 would likely see us closer to increasing our hedging ratio.

SECTOR ALLOCATION

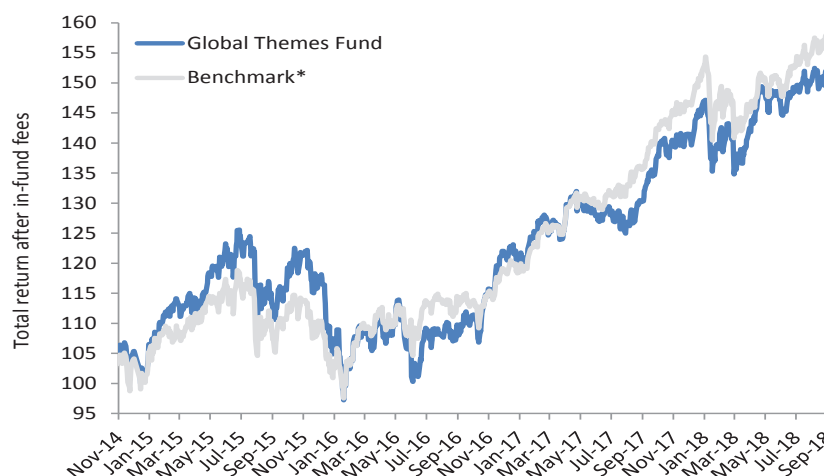


CURRENCY EXPOSURE



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](#)

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 INFIZ 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.