

MARKET COMMENTARY

What does the future hold for our capital markets?

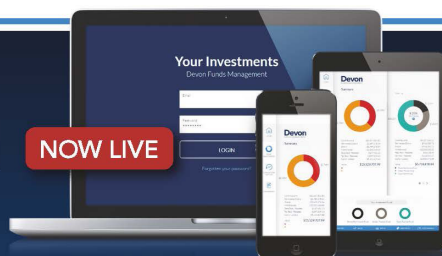
The New Zealand financial markets regulator (FMA) and the New Zealand Stock Exchange (NZX) have announced that they will be undertaking a review of our Capital markets, called Capital Markets 2029. The review is ambitious and is designed to deliver a 10-year growth agenda and vision for the sector.

The term capital markets refers to the debt and equity markets that businesses and other entities use to raise either equity or debt capital. Capital markets play a critical role in the successful functioning of any economy. It is via this platform that companies are able to raise the funds that they require to grow and individuals are given the opportunity to invest their savings and generate a return. Many studies have highlighted the linkages between strong capital markets and long term GDP growth and prosperity. It is because of the importance of this infrastructure that governments and regulators are continually reviewing how their domestic markets function and the opportunities that exist for improvement. We are about to embark on the next iteration of this in New Zealand and its timing couldn't be better ... [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	2.0%	6.4%
S&P/ASX200G	AUSTRALIA	3.9%	1.4%
MSCI World Index	GLOBAL	6.9%	-6.9%
S&P500	USA	7.1%	-3.2%
FTSE100	UK	3.6%	-3.5%
NIKKEI 225	JP	3.8%	-8.2%
NZ 90 Day Bank Bill	NZ	0.2%	2.0%



AT A GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.6244

DEVON AUSTRALIAN FUND

\$1.3139

DEVON DIVIDEND YIELD FUND

\$1.7971

DEVON DIVERSIFIED INCOME FUND

\$1.5391

DEVON TRANS-TASMAN FUND

\$3.6859

GLOBAL THEMES FUND

\$2.6840

Prices as at 31 January 2019

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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.

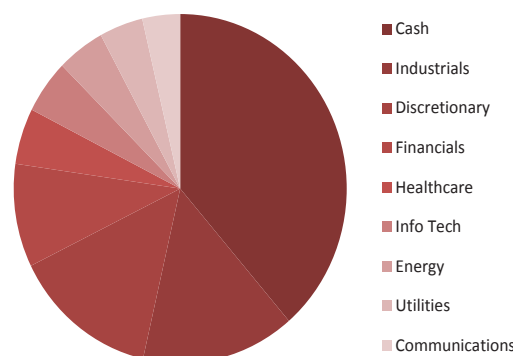
DEVON ALPHA FUND

The Alpha strategy performed well during the month and there were a number of investments which contributed positively to this outcome. Included amongst these were CSL and Atlas Arteria which rallied 5.2% and 6.2% respectively. CSL was recently purchased for the portfolio after its share price had retreated back into value territory. This is a high quality global biotechnology business and there is evidence of strong demand for their blood plasma therapies and influenza related products. Atlas Arteria recovered some of its recent price weakness after the company highlighted that the impact of the "Yellow Vest" protests on their French tolling revenues had been more moderate than expected. During the December quarter total traffic on their APRR road fell by 1.8% compared to a year earlier whilst tolling revenue actually lifted by 1.3% due to recent toll increases.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	20.4%
Australian Equities	40.5%
Cash	39.1%
Total	100.0%
Currency Hedge	29.58%

PERFORMANCE

As at 31/01/19

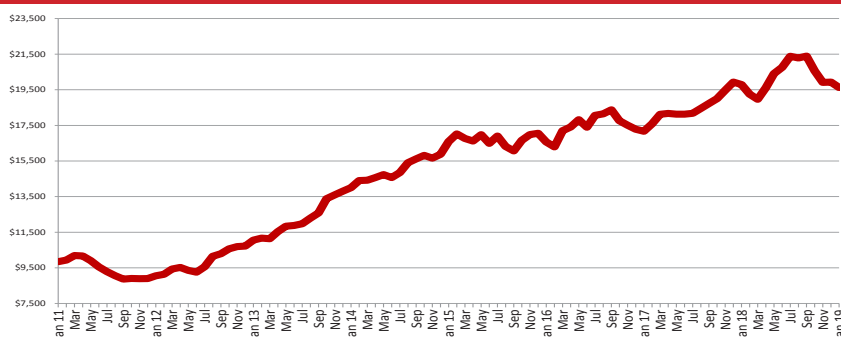
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	2.6%	-4.6%	-0.8%	5.5%	6.8%
OCR	0.1%	0.4%	1.7%	1.9%	2.4%

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.

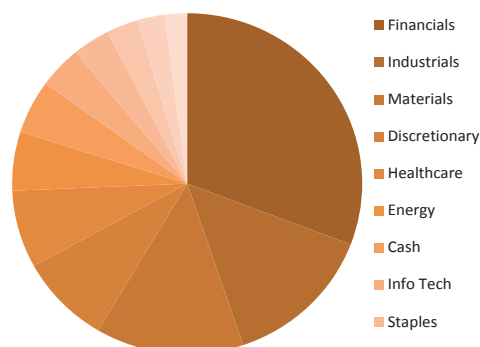
DEVON AUSTRALIAN FUND

Although we were disappointed that this strategy underperformed its benchmark over the month, we were nonetheless encouraged by the performance of a number of our key holdings. These included strong returns from Oz Minerals which finished 11% higher and Woodside that closed up 9.5%. We have added Macquarie to the portfolio during the recent market correction. In mid-November 2018, Macquarie upgraded guidance from at least 10% to at least 15% net profit growth in FY19. While markets have been volatile recently, Macquarie Asset Management's unique business mix including its Macquarie Infrastructure and Real Asset (MIRA) business offer significant growth opportunities. For example, MIRA has raised \$29 billion of capital over the past two years. Contributing to our relative underperformance was our underweight position in Telstra which closed the month higher, and our investment in Resmed which was weak on the back of a disappointing financial result.

KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

Australian	91.0%
New Zealand	4.3%
Cash	4.7%
Total	100.0%
Currency Hedge	0.0%

PERFORMANCE

As at 31/01/19

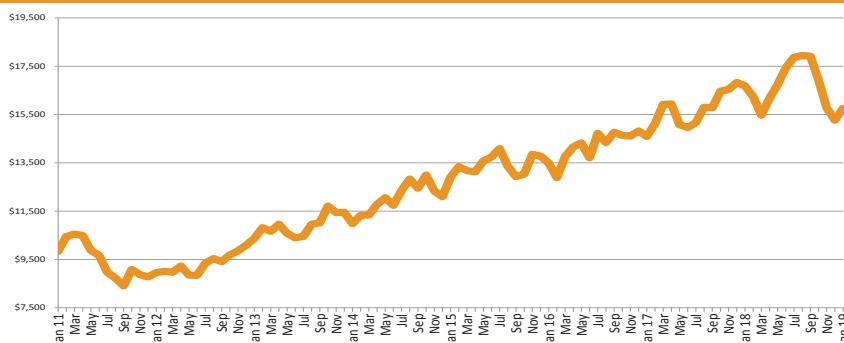
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	3.2%	-6.9%	-5.6%	5.3%	7.5%
ASX200 Index Gross (NZD)	4.0%	-1.7%	-2.6%	8.7%	6.5%

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.

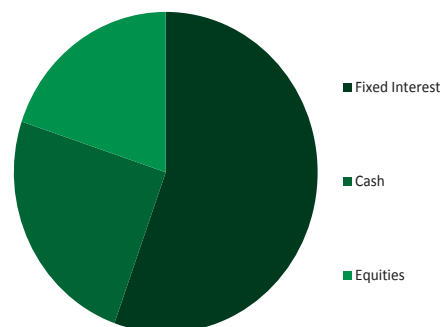
DEVON DIVERSIFIED INCOME FUND

Bond markets were reasonably stable during January although they did rally strongly at month-end with US 10-year Treasuries closing at 2.63%. This occurred against a backdrop of increasing economic concerns. The IMF reduced its 2019 forecast for global growth for the second time in three months and Central Banks talked of a more dovish approach to monetary policy going forward. A good example of this was comments by the US Federal Reserve who promised to be patient about further interest rate hikes and the extent of its balance sheet reduction. In New Zealand there was inflation data reported for the fourth quarter of 2018, which at 1.9% annualised, was below the level expected by the RBNZ. This supports the fact that the NZ Official Cash Rate has remained at 1.75% since it was reduced to that level in November 2016.

KEY HOLDINGS



ASSET ALLOCATION



GROWTH

NZ Equities	14.3%
AU Equities	6.2%

DEFENSIVE

Cash	24.0%
NZ Corporate Bonds	55.5%
NZ Government Bonds	0.0%

PERFORMANCE

As at 31/01/19

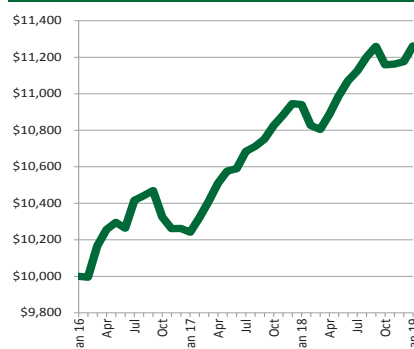
	1 Mth	3 Mth	1 Yr	2 Yr p.a
Devon Diversified Income Fund	0.8%	0.9%	3.0%	4.9%
OCR + 1.5%	0.3%	0.8%	3.3%	3.3%

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



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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

This strategy generated a solid absolute return for its investors during January. One of the most significant contributors was Z Energy whose share price jumped over 9% after the company upgraded its profit guidance for FY19 from \$400-\$435m to \$420m-\$450m. As a consequence of this strong performance, management also upgraded the dividend target to \$0.38-\$0.47 per share. This was a positive surprise for investors as Z Energy margins benefitted from the recent decline in the price of crude oil and their market share stabilised in both the retail and commercial segments. Other notable investments included Telstra and Spark Infrastructure which rallied 9.1% and 9.0% respectively. The worst performing stock during the month was Kathmandu which suffered after management delivered a disappointing trading update to investors. Chief Executive Officer Xavier Simonet highlighted that same store sales activity over the Christmas to Boxing Day period were below expectations.

PORTFOLIO MANAGER

Nick Dravitzki



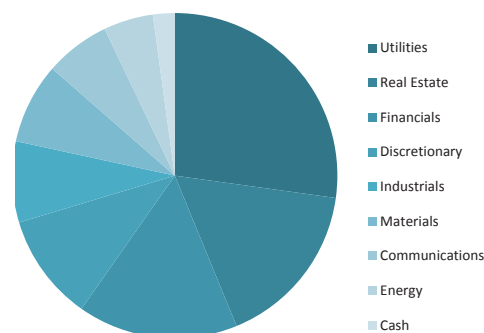
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KEY HOLDINGS



ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	69.0%
Australian Equities	30.0%
Cash	1.0%
Total	100.0%
Currency Hedge	99.3%

PERFORMANCE

As at 31/01/19

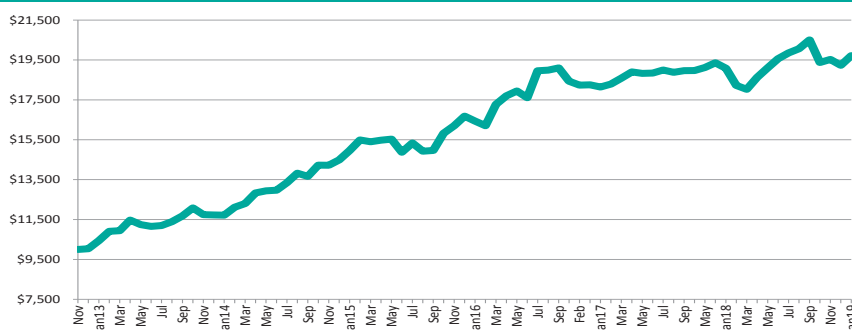
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	2.5%	1.7%	3.3%	6.2%	11.2%
TT Index (Hedged)	2.9%	2.1%	3.9%	11.7%	10.1%

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](#)



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 strategy generated solid absolute returns in January and performed broadly in line with its benchmark. Highlights during the month included impressive returns being generated by Aristocrat Leisure and Rio Tinto, with these stocks rallying 13% and 11% respectively. Resource investments including Woodside, BHP and Rio Tinto performed strongly in January as oil and iron ore prices rallied. Despite mixed Chinese economic data the iron ore price rose 17% to US\$84.5/t due to a tragic mining accident in Brazil that will impact supply during the next three years. Investors will also be looking for an update from Rio Tinto on capital return at its February result given their limited net debt position, recent receipt of divestment proceeds and strong operating cash flows. Partially offsetting the positive contributions from these holdings were negative returns from our exposure to Resmed and Metlifecare.

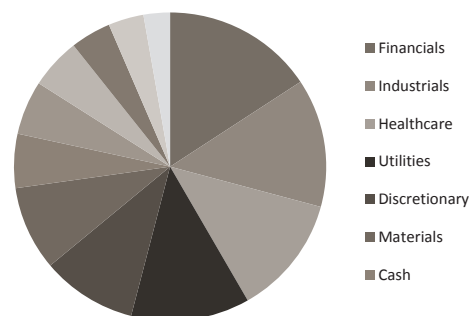
KEY HOLDINGS

ARISTOCRAT

Contact

VISTA
GROUP

ASSET ALLOCATION



GEOGRAPHIC ALLOCATION

New Zealand Equities	50.6%
Australian Equities	43.9%
Cash	5.5%
Total	100.0%

PERFORMANCE

As at 31/01/19

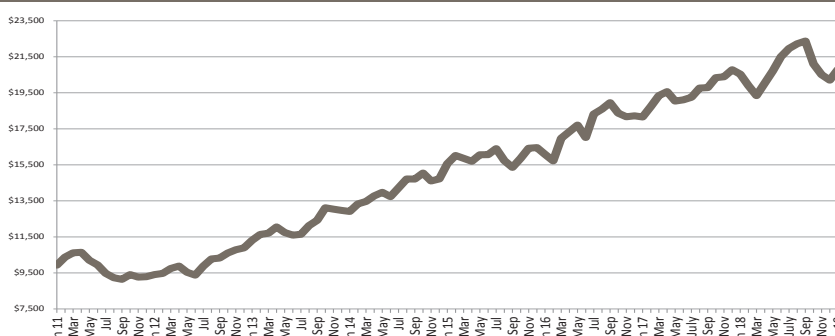
	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	2.9%	-1.4%	1.3%	7.9%	9.4%
Trans-Tasman Index Gross	3.0%	0.5%	1.9%	11.0%	9.8%

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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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

Equity markets breathed a sigh of relief in January, starting the year on a much more positive note following last quarter's sell-off, and leaving the US market with its best January since 1987. This is in sharp contrast to last month, which was the worst December for the US market since 1931. We expressed our view last month that markets had become overly bearish about global growth, and overly frightened of the Fed, and that the path of least resistance from that point was upwards. This has largely played out during January, with a lack of any real progress on trade, a deterioration of sentiment around Brexit, and a somewhat lackluster start to earnings season not enough to dampen the spirits of a market once again in a risk-on mood. Friendlier messaging from the Fed around being cautious on future rate hikes further helped into the end of the month.

Earnings season has begun in the US, and we're a little over a third of the way through. So far, the numbers are looking a little soggy than investors have become accustomed to over the last few years. To date, around 60% of companies have beaten analyst expectations on earnings, and earnings growth is tracking at around 12% yoy. These are not bad numbers but, as expected, they are lower than the mid-20% growth of the last couple of years. Tax cuts are now in the comparables, and we know that economic growth is beginning to slow. Nearly half of companies have beaten expectations on revenues, with growth tracking at around 6% yoy. Industrials, materials and communication services have reported the strongest earnings growth to date, at over 20% yoy.

In a sharp turnaround from December, oil services was our best performing theme during January on the back of a significant jump in the oil price. US banks have had a strong month following a reasonably good set of earnings results. Brazil has continued to perform well on economic reform hopes, and European autos rose partly on confidence of a resolution to trade woes. Our only two themes to fall slightly during January were India and European telcos. A rising oil price tends to upset Indian equities, and we expect volatility in this theme will remain heightened as we head towards India's upcoming budget announcement and its general election in May.

As we've noted previously, we remain broadly optimistic in 2019. While we expect growth to slow, we expect it to remain at or above trend. We still assess the risk of a recession (and therefore a bear market) during 2019 as low. That said, given the

stage in the cycle we are in, with central banks broadly tightening monetary policy (though a Fed pause over the first half of 2019 would not surprise us), we expect volatility to remain elevated this year. We continue to monitor market developments closely and anticipate making some changes to portfolio positioning over the next few months in order to best take advantage of the landscape we expect in 2019.

RETURNS

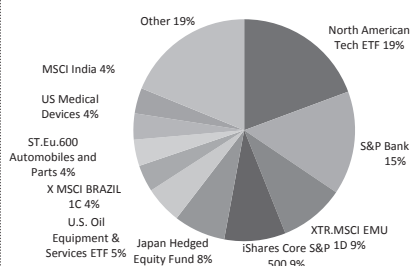
The Global Themes Fund rose 7.6% in January, finishing the month at a unit price of \$2.684. This compares with a 6.5% rise in our global equity benchmark. Our fund has risen 7.2% per annum since inception net of fees, versus 9.2%

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

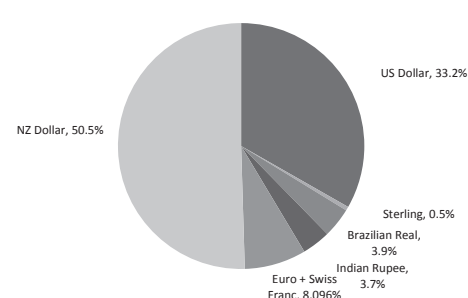
CURRENCY EXPOSURES

The currency hedge level in the fund remains at its benchmark weight of 50%, which we are comfortable with for now given our view that the NZ dollar is trading around fair value. However, we continue to keep a close eye on local economic data and movements in the currencies of our key trading partners, and would look to alter the hedging level if the NZ dollar were to become materially under- or over-valued.

SECTOR ALLOCATION

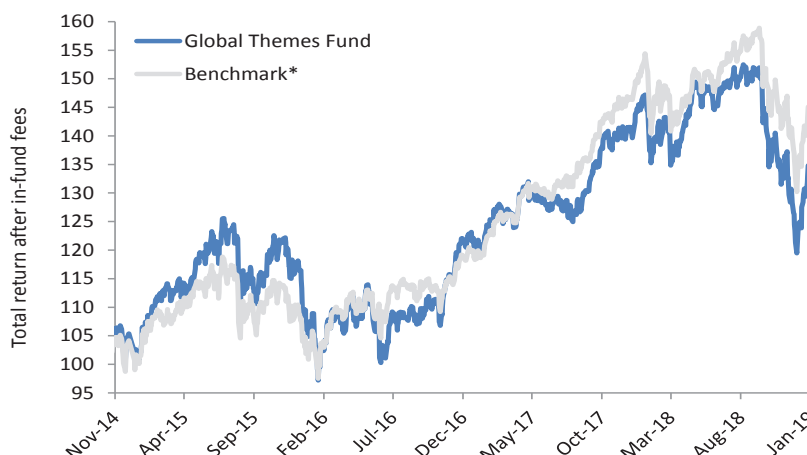


CURRENCY EXPOSURE



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](#)