

MONTHLY REPORT: APRIL 2019

Celebrating New Zealand Shares!

On the 23rd of April, the NZ share market index (S&P/NZX50) broke through the 10,000 level for the first time in its history. But a quick look back through the major headlines around that day suggest we were more focussed on weather forecasts for the upcoming holiday period. To us it's simply puzzling that this major milestone wasn't more widely recognised, acknowledged and even celebrated. One possible answer is that Kiwis and the media simply aren't aware of, or focussed on, the continued strong performance of our local share market. Our concern here arises from the missed opportunities for New Zealanders to grow their wealth that this lack of awareness implies. We readily celebrate sporting success but seem reluctant to acknowledge business or financial success even though it is critical to our long term wellbeing as a country.

To put some context around the 10,000 level, it's worth looking at the performance of our local market relative to its international peers. Since early 2009, essentially the end of the GFC, the S&P/NZX50 Index has rallied 255% (122% from capital growth and 133% from dividends). This is an impressive number in isolation but when we compare this performance to other markets, it warrants particular attention. Over the same time period, for example, Australia's S&P/ASX200 has delivered a more modest return of 176%... [Read More](#)

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MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	1.7%	18.6%
S&P/ASX200G	AUSTRALIA	2.4%	10.4%
MSCI World Index	GLOBAL	3.4%	6.9%
S&P500	USA	3.9%	13.4%
FTSE100	UK	2.3%	3.1%
NIKKEI 225	JP	5.0%	1.1%
NZ 90 Day Bank Bill NZ		0.1%	1.9%

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AT A GLANCE

Prices as at 30 April 2019

DEVON ALPHA FUND	\$1.715
DEVON AUSTRALIAN FUND	\$1.410
DEVON DIVERSIFIED INCOME FUND	\$1.562
DEVON DIVIDEND YIELD FUND	\$1.909
DEVON TRANS-TASMAN FUND	\$3.977
GLOBAL THEMES FUND	\$2.925

IN THIS REPORT

Market Commentary	Page 1
At a Glance	Page 1
Devon Fund Summaries	
Alpha Fund	Page 2
Australian Fund	Page 3
Diversified Income Fund	Page 4
Dividend Yield Fund	Page 5
Trans-Tasman Fund	Page 6
Global Themes Fund	Page 7



DEVON ALPHA FUND

FUND OUTLINE

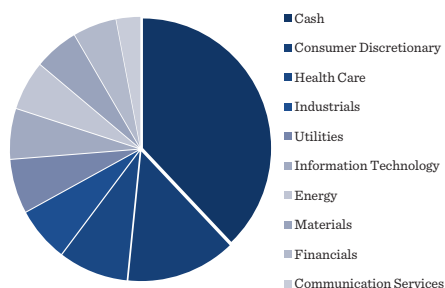
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	28.2%
Australian Equities	33.9%
Currency Hedge	29.3%

Cash	37.9%
Total	100.0%

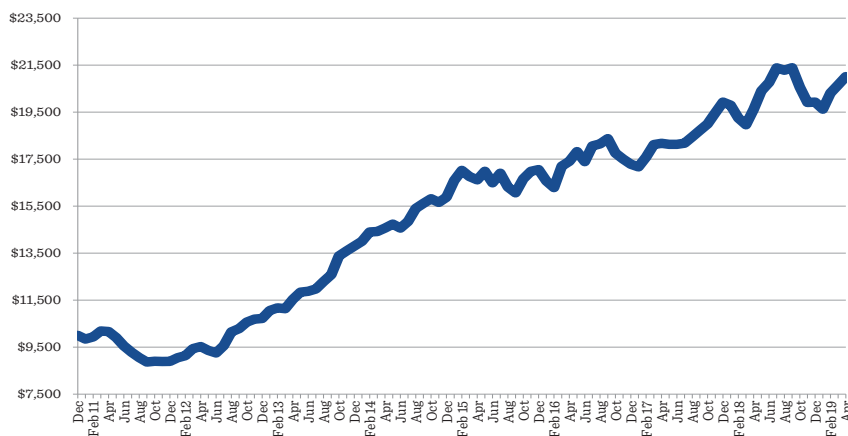
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	1.7%	7.1%	7.1%	6.1%	7.4%
OCR	0.1%	0.4%	1.7%	1.8%	2.3%

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



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](#)

COMMENTARY

We were pleased with the performance of this strategy during the month. Despite continuing to hold a large proportion of the portfolio as cash, performance was solid as a number of our stocks rallied strongly. Amongst these was James Hardie which closed the month up just over 6%. This business is principally a manufacturer of fibre cement sidings which are used in residential construction. The US market is particularly significant for James Hardie and with the economic growth in that country continuing to exceed expectations, the demand for building materials across America remains robust. Other positive contributors of note included Aristocrat Leisure and Brambles, whilst our only notable detractor was Contact Energy which closed down 3%. We finished the month with a 37% cash holding but we are excited by a number of investment opportunities that we have recently identified in Australia after members of our team completed research trips during April.

PORTFOLIO MANAGER

Mark Brown



Mark has primary responsibility for stock selection and portfolio construction for the New Zealand Equity and Alpha funds. Mark is also responsible for overseeing the overall research and investment process at Devon.

Prior to joining Devon, Mark was the Australasian Head of Equities at ANZ New Zealand Investments.

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DEVON AUSTRALIAN FUND

FUND OUTLINE

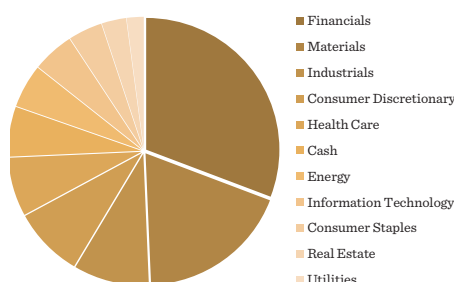
The **Australian Fund** is actively managed and invests in a select portfolio of approximately 25 to 35 companies which are primarily Australian listed companies

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.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	5.0%	Cash	6.0%
Australian Equities	89.0%	Total	100.0%

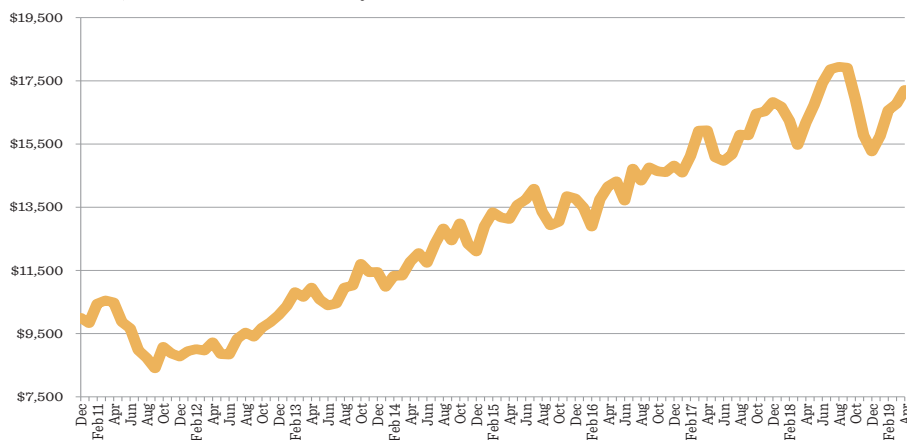
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	2.6%	9.3%	6.4%	6.7%	7.9%
ASX200 Index Gross (NZD)	3.7%	9.7%	8.8%	9.9%	7.1%

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



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](#)

COMMENTARY

This portfolio generated good absolute returns over the month as the Australian market rallied strongly. Despite facing a range of operational challenges, the listed Banks were amongst the best performing stocks as investors were attracted by the high yields on offer across this sector. A number of these companies are due to report their annual results in early May which will provide a fascinating insight into how they are navigating their environment of tightening regulation. We remain slightly underweight this sector.

Other portfolio holdings that performed well included Star Entertainment and PWR Holdings whose shares closed up 8.6% and 12.3% respectively. Shares in Star rallied after news emerged that a major US casino operator, Wynn Resorts, had put a preliminary takeover proposal forward for competitor Crown Holdings at a ~26% premium to its pre-offer price (although discussions were later terminated). In terms of portfolio changes we removed Resmed and added to our preferred Healthcare name CSL.

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.

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DEVON DIVERSIFIED INCOME FUND

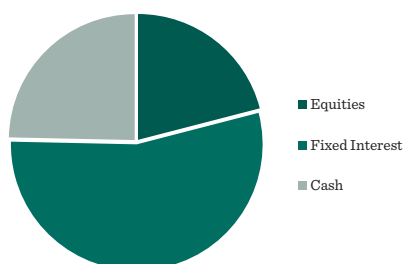
FUND OUTLINE

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.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	12.9%
Australian Equities	8.1%

Bonds	54.4%
Cash	24.6%

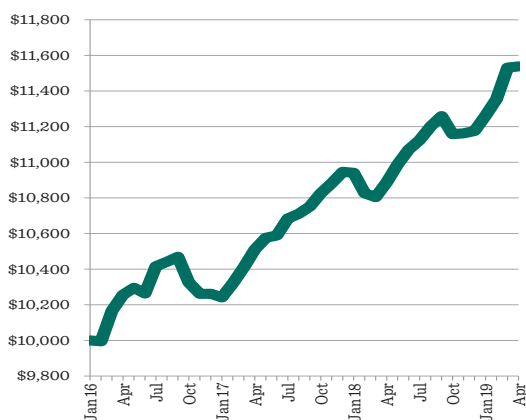
PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Diversified Income Fund	0.1%	2.4%	6.0%	4.8%	4.3%
OCR + 1.5%	0.3%	0.8%	3.3%	3.3%	7.4%

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



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](#)

COMMENTARY

Global bond markets were reasonably quiet during the month although interest rates rose slightly in the US after the release of strong economic data. US GDP growth for the first quarter of 2019 was reported at 3.2% (compared to a year ago) which was significantly higher than expectations. The most surprising feature of this was the very strong contribution from net exports. The US Federal Reserve met in early May and as the market expected, there was no change to interest rates.

The Reserve Bank of Australia released its monthly policy statement in early April and there was a more dovish tone to this commentary. Investors are now expecting a rate cut in Australia, possibly as early as May. In New Zealand, the most significant economic news included the government's decision to abandon their plans to impose a capital gains tax and ongoing evidence of weak domestic business confidence.

PORTFOLIO MANAGER

Nick Dravitzki



Over the last decade Nick has specialised in investing in high yield equities and is Portfolio manager for the Devon 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.

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DEVON DIVIDEND YIELD FUND

FUND OUTLINE

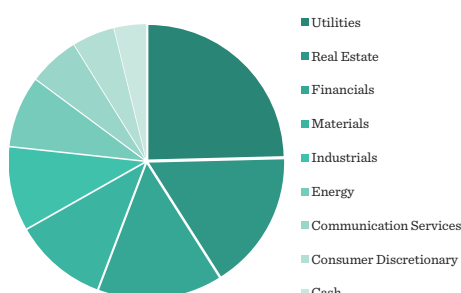
The **Devon Dividend Yield Fund** consists of a select group of up to 25-35 New Zealand and Australian listed companies.

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.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	59.1%
Australian Equities	37.1%
Currency Hedge	98.7%

Cash	3.8%
Total	100.0%
Yield	7.1%

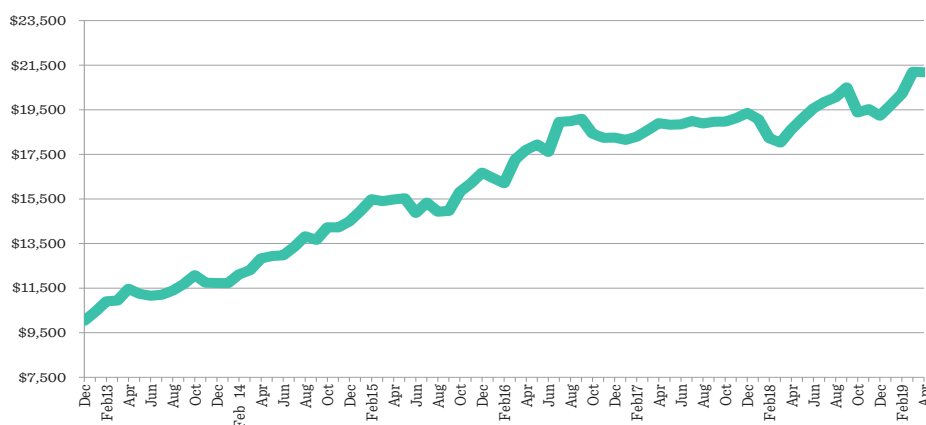
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	-0.1%	7.4%	13.7%	6.1%	10.8%
TT Index (Hedged)	2.0%	10.4%	14.5%	12.4%	10.7%

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 1 January 2011



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](#)

COMMENTARY

One of the highlights in the portfolio over the month was Air New Zealand. This stock was added to the portfolio during March after the company issued a disappointing profit outlook. This resulted in the share price falling to \$2.23, from its pre-profit warning price of \$3.27. This provided an exciting opportunity for us to acquire shares because at this level it was forecast to pay a 10% cash dividend yield. The stock price subsequently rallied off its lows as monthly operating data suggested reasonable levels of customer demand continue and management also announced their intention to reduce medium-term capital expenditure.

A disappointing performer over the month was Spark which fell modestly after CEO Simon Moutter announced his resignation. A key issue from the market's point of view is whether or not the company will continue to pay a supplementary "special" dividend under a new CEO.

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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.

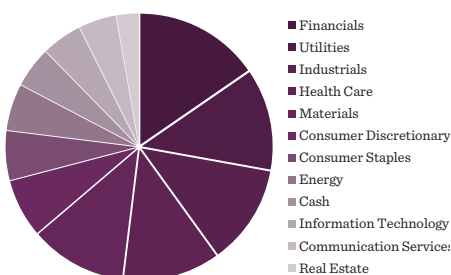
This Fund typically holds 25 to 35 shares listed on the NZ and Australian stock exchanges which have been carefully selected as offering good value and attractive medium term growth prospects. The Australian dollar currency exposure is typically unhedged.

KEY HOLDINGS



Commonwealth Bank

ASSET ALLOCATION



ALLOCATION

New Zealand Equities	50.6%
Australian Equities	44.4%

Cash	5.0%
Total	100.0%

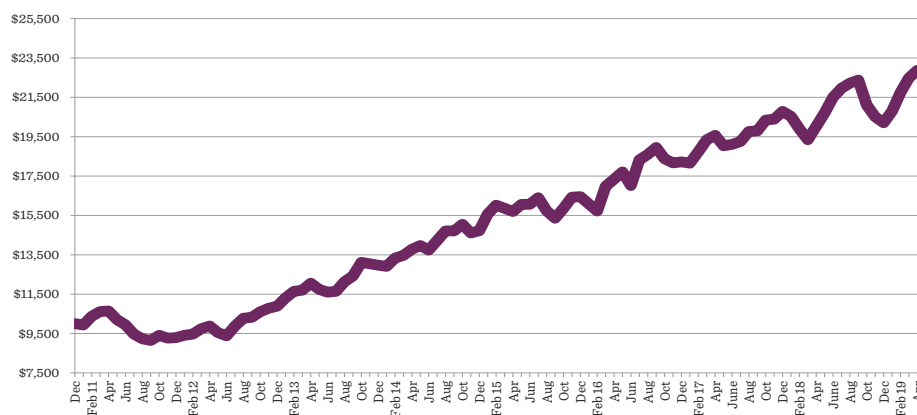
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	1.7%	9.9%	14.1%	8.5%	10.0%
Trans-Tasman Index Gross	2.7%	10.6%	13.7%	11.8%	10.5%

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



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](#)

COMMENTARY

Amongst our best performing stocks during April were Aristocrat Leisure and Macquarie which closed higher by 6.4% and 5.1% respectively. Aristocrat Leisure continued its recent share price recovery as industry data suggested that their competitive positioning remains strong. For example, the latest Eilers-Fantini slot survey for the March 2019 quarter highlighted another solid outcome for Aristocrat in terms of their market share in gaming slot machines. Recent data on Digital game performance also looks supportive of market forecasts. Detractors to relative performance over the month included Metlifecare, Meridian and Contact Energy.

In terms of portfolio changes we recently added Air New Zealand to the portfolio after a period of share price weakness. At a recent strategy day the company announced a series of cost and capex initiatives to improve financial performance over the next few years while also reaffirming their guidance for 2019 profit being between \$340m and \$400m.

PORTFOLIO MANAGER

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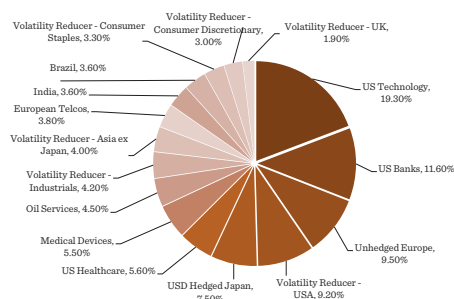


DEVON GLOBAL THEMES FUND

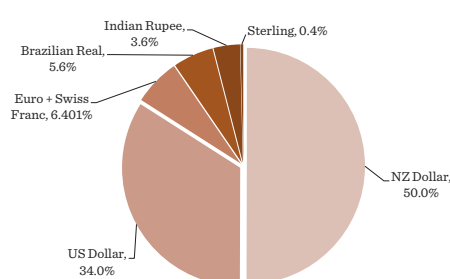
FUND OUTLINE

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.

SECTOR ALLOCATION



CURRENCY EXPOSURE



PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Global Themes Fund	4.3%	9.0%	2.4%	10.8%	-
I-Shares All Country WI	4.4%	9.5%	8.6%	13.1%	-

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

*Benchmark is 50% hedged to NZD

NET PERFORMANCE

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



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

PORTFOLIO MANAGERS Andrew Thompson, Philip Borkin & Hayden Griffiths.

Andrew joined JBWere's Investment Strategy Group at the start of 2016, with a focus on global strategy and global equity portfolio management.

Philip brings more than a decade worth of experience working alongside respected industry participants in roles which encompass economics and strategy.

Hayden joined JBWere in 1996 and has over 20 years experience working in financial markets as a quantitative analyst in investment research.

COMMENTARY

What we own and why we own it

Global equities continued to defy gravity in April, with the market rocketing further ahead on the back of a better-than-expected start to US earnings season, and little bad news on the trade and Brexit front. As at the time of writing, around half of US corporates have reported their March quarter earnings, and we're pleased with what we're seeing. While we acknowledge expectations were depressed going in, by and large earnings have surprised meaningfully on the upside, and corporates are still growing their top and bottom lines. Around three-quarters of names have beaten consensus expectations on earnings so far, with a little over half beating by a least one standard deviation. Communication Services and Technology are leading the pack at half time.

US Banks and Technology were our top performing themes during April. US Banks bounced back from a tough March. The banks have broadly reported well, with modest loan growth and net interest margin expansion, as well as good expense control. Credit quality remains sound, however we are keeping an eye on increased loan provisions. US Banks and Technology were our top performing themes during April. US Banks bounced back from a tough March. The banks have broadly reported well, with modest loan growth and net interest margin expansion, as well as good expense control.

Our 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 within our fair value range. 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.

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