

MONTHLY REPORT: OCTOBER 2019

How the Marine Sector Can Help in the Fight against Climate Change

At Devon Funds we have a long history of engaging with companies on issues associated with the environment, social best practice and corporate governance (ESG). This approach is employed across all our investment strategies but in early 2020 we will also offer an investment fund which explicitly recognizes Sustainability as a key foundation in the construct of a Trans-Tasman share portfolio. We believe that the benefits of this approach will be evident in both improving the return potential of the Fund but also in further representing the values of our clients. In representation of our position on ESG and because our investment process is one which involves deep fundamental analysis, we have written today on our views around the state of the Aquaculture industry in New Zealand and its implications for several of our listed stocks

The New Zealand Government recently announced its Aquaculture Strategy, articulating a vision to make New Zealand globally recognized as a world-leader in sustainable and innovative aquaculture management across the value chain. ...[READ MORE](#)

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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	-1.3%	23.3%
S&P/ASX200G	AUSTRALIA	-0.4%	19.3%
MSCI World Index	GLOBAL	2.6%	13.4%
S&P500	USA	2.2%	14.3%
FTSE100	UK	-1.9%	6.5%
NIKKEI 225	JP	5.4%	6.9%
NZ 90 Day Bank Bill NZ		0.1%	1.6%

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AT A GLANCE

Prices as at 31 October 2019

DEVON ALPHA FUND	\$1.8274
DEVON AUSTRALIAN FUND	\$1.5273
DEVON DIVERSIFIED INCOME FUND	\$1.5858
DEVON DIVIDEND YIELD FUND	\$2.0239
DEVON TRANS-TASMAN FUND	\$4.2477
GLOBAL THEMES FUND	\$2.9942

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DEVON ALPHA FUND

FUND OUTLINE

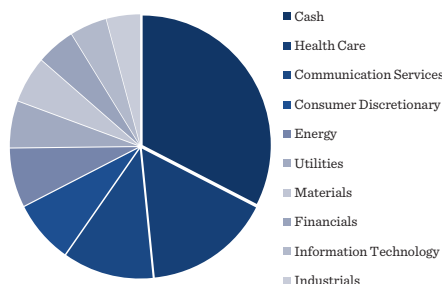
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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.

KEY HOLDINGS



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	29.7%
Australian Equities	37.8%
Currency Hedge	30.5%

Cash	32.5%
Total	100.0%

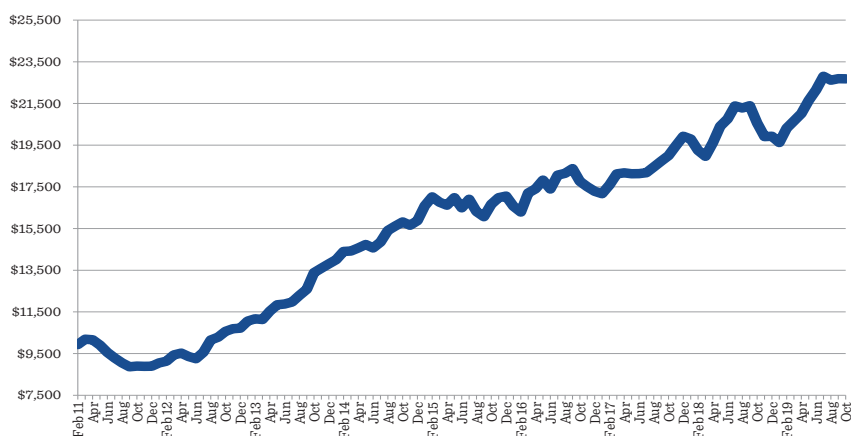
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	0.0%	-0.5%	10.3%	8.5%	7.3%
OCR	0.1%	0.3%	1.5%	1.7%	2.1%

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 October as it protected investor capital during a period of market volatility and notably outperformed local stock indexes. There were a number of investments which are worth highlighting, including Resmed which rallied 7.2% and CSL which closed higher by 9.6%. Resmed, whose business is primarily targeted at addressing sleep apnoea, attracted strong investor support after they reported a stronger-than-expected first quarter earnings result. The key to this success was 19% growth in their global mask business, which was achieved through the recent launch of new masks, an improvement in the level of client replenishments and a lift in their market share. Also making a positive contribution to the portfolio was our exposure to Serko. During the month we participated in a capital raising by this company as they raised funds to fast-track their growth strategy. This also included bringing Booking.com on as a shareholder and the Serko stock price bounced 16% from the deal price.

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

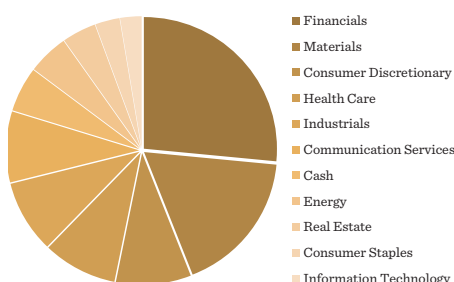
The **Australian Fund** is actively managed and invests in a select portfolio of approximately 25 to 35 companies which are primarily Australian listed companies

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	2.6%	Cash	5.5%
Australian Equities	91.9%	Total	100.0%

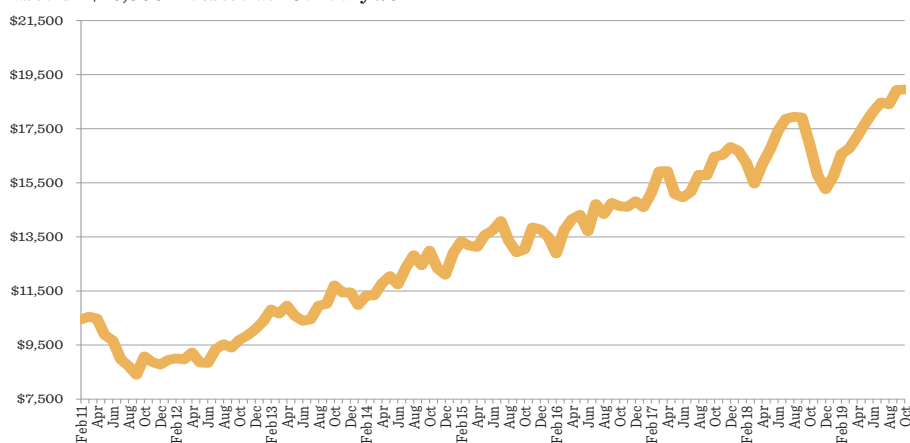
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	0.1%	2.6%	12.0%	9.0%	7.8%
ASX200 Index Gross (NZD)	-0.5%	1.9%	18.1%	12.9%	7.4%

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

We were pleased with the returns that this portfolio generated during October. Key contributors included Sydney Airport (+9.3%), CSL (+9.6%), Star Entertainment (+7.8%) and Oz Minerals (+5.6%). The Healthcare sector was a key focus for investors with holdings CSL and Ramsay Healthcare both rallying strongly. CSL benefited from comments at their Annual General Meeting, where management reiterated their earnings guidance for 2020 while also identifying numerous growth opportunities that exist for this high-quality business. The most significant change to the portfolio was the purchase of shares in Ramsay Healthcare. Ramsay is a global hospital group that operates 221 hospitals across Australia (their major market), the United Kingdom and France. In Australia the company has 27% of all private hospital beds and continues to expand the number of their operating theatres to meet demand from the aging population. We expect this strategy to drive earnings growth in the periods ahead.

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

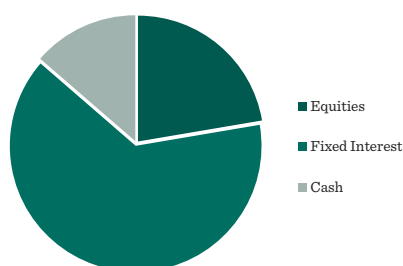
FUND OUTLINE

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	9.4%

Bonds	64.0%
Cash	13.7%

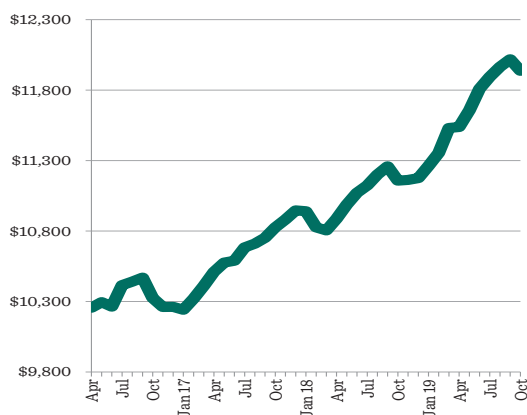
PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Diversified Income Fund	-0.7%	0.4%	7.0%	5.0%	5.0%
OCR + 1.5%	0.2%	0.6%	3.0%	3.2%	3.2%

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 yields rose modestly during the month with the yield on US 10-year Treasuries finishing the month at 1.69% (they began October at 1.67%). Of particular influence to the fixed interest markets was a meeting by the Federal Reserve in which the Fed funds rate was reduced by 0.25% to 1.5% - 1.75%. This was largely expected by investors, but of more interest was the accompanying statement in which Fed officials moved away from a blanket commitment of support for the economy to one which is more data dependent. This was perceived as being a positional change due to the fact that recent reports have suggested that the probability of the US economy imminently heading for a recession has reduced. Closer to home, the New Zealand economy continues to struggle with business and consumer confidence levels remaining under pressure. Third-quarter inflation data was reported during October which resulted in a decline in the annual rate from 1.7% to 1.5%.

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

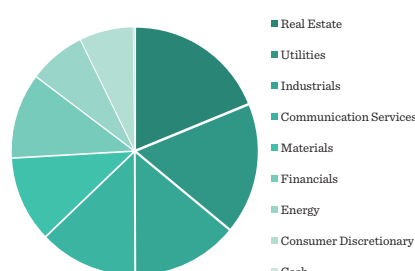
The **Devon Dividend Yield Fund** consists of a select group of up to 25-35 New Zealand and Australian listed companies.

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	58.0%
Australian Equities	42.2%
Currency Hedge	99.3%

Cash	-0.2%
Total	100.0%
Yield	6.5%

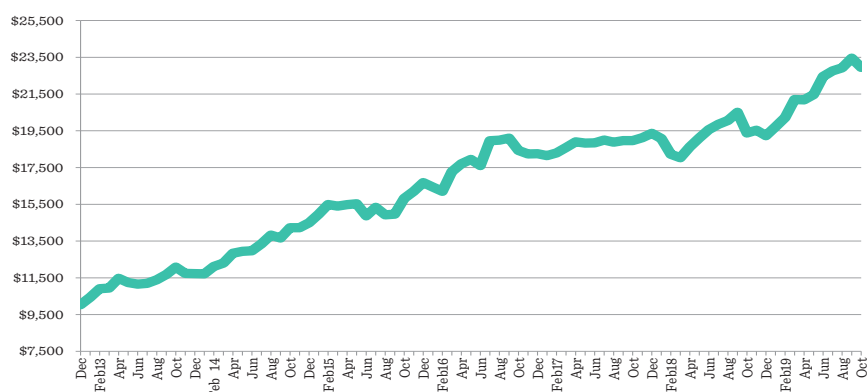
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	-2.1%	0.8%	18.4%	7.5%	10.2%
TT Index (Hedged)	-0.8%	-0.8%	21.3%	14.1%	11.7%

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

The most significant impact on the performance of this strategy over the month came from the sharp sell-off in the listed electricity companies (often referred to as the “gentailers”). The cause of this sector weakness was an announcement by Rio Tinto, the majority owner of the Tiwai Point aluminium smelter, that they are initiating a strategic review of the smelter’s future “including the option of closure”. This smelter currently accounts for approximately 13% of New Zealand’s electricity demand and its sudden loss would see wholesale electricity prices (the most important driver of gentailer returns) fall to lower levels. We view an imminent closure of the smelter as unlikely and our base case is that a new, lower priced, electricity contract will be negotiated in early 2020. Last month we reduced our position in Meridian on valuation grounds however the stock remains a holding in the Fund and we will closely follow any progress in the decision making around Tiwai’s future.

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DEVON TRANS-TASMAN FUND

FUND OUTLINE

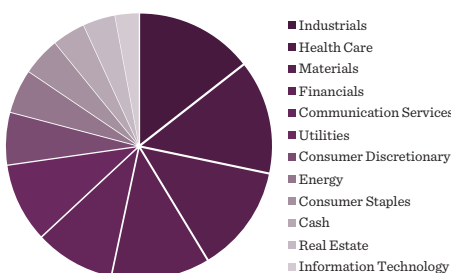
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the NZ and Australian equity markets.

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



ASSET ALLOCATION



ALLOCATION

New Zealand Equities	48.5%	Cash	4.0%
Australian Equities	47.5%	Total	100.0%

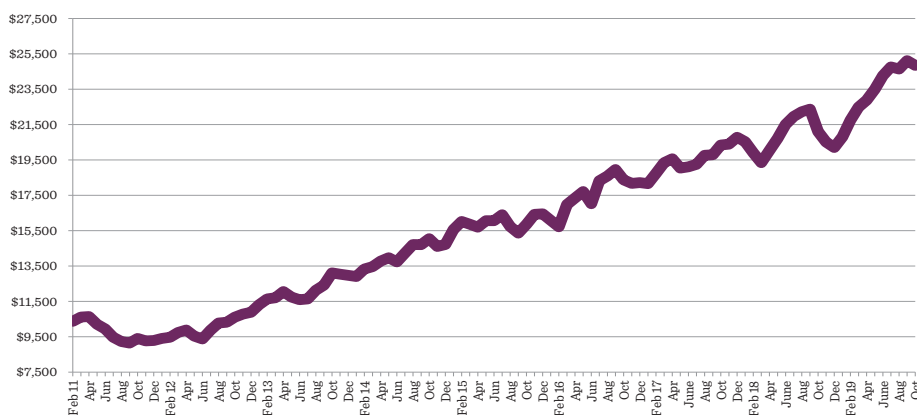
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	-1.1%	0.4%	17.6%	10.5%	9.9%
Trans-Tasman Index Gross	-0.9%	0.6%	20.7%	14.3%	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



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

This Fund performed broadly in line with its benchmark over the month with positive contributions coming from our investments in Metlifecare (+8.1%), Sydney Airport (+9.3%) and CSL (+9.6%). Metlifecare rallied after the company announced a \$30m buy-back, highlighting the Board's view that the company's share price is currently trading at a large discount to their assessment of fair value. We support this initiative and believe that the successful delivery of Metlifecare's development programme, and a return to modest Auckland house price inflation, are key to their medium-term prospects. Key detractors included Contact Energy and Meridian which fell after reports that Rio Tinto has initiated a strategic review of the Tiwai aluminium smelter. A closure would be negative for the sector but on balance we expected all parties to negotiate an acceptable outcome to enable the smelter to continue to operate. We recently reduced our exposure to this sector.

PORTFOLIO MANAGER

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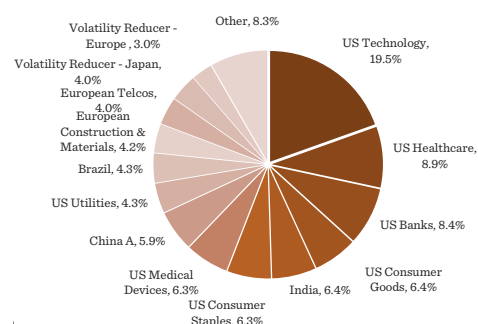


DEVON GLOBAL THEMES FUND

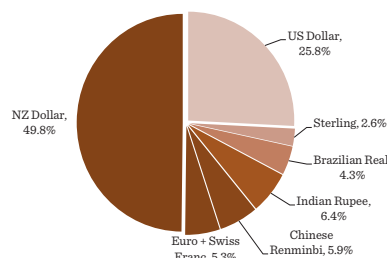
FUND OUTLINE

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

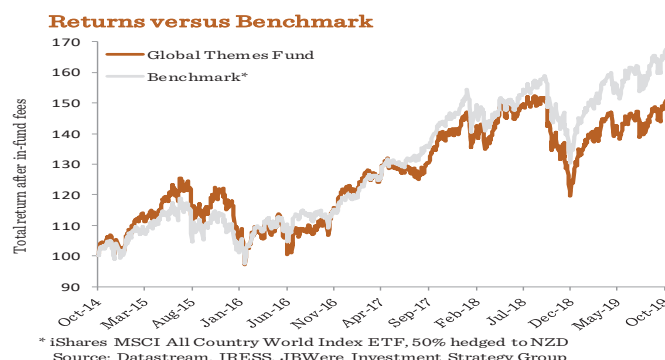
	1 Mth	3 Mth	1 Yr	3 Yr p.a
Global Themes Fund	1.3%	3.1%	8.2%	10.8%
I-Shares All Country WI	1.5%	3.8%	13.3%	13.9%

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 October 2014



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

Despite ongoing challenges facing global investors (slowing economic growth, trade tensions between the US and China, Brexit...), global equity markets had a solid month in October. Outside of an apparent easing in trade tensions (the US and China still appear to be on track to sign a "phase one" agreement at some point in the near future, though we can't rule out derailment given past experience), October has been all about earnings. While investors went into the US' September quarter earnings season relatively cautious, now over half way through corporates are tracking better than feared, with over 70% of companies reporting so far beating analyst expectations on earnings. We have seen particularly strong results from Healthcare, Consumer Staples, Technology and Financial names, which are major holdings in our fund. Energy and Real Estate names, on the other hand, have been weaker.

Outside of the quarterly results, companies tend to use the September and December quarters to provide guidance for the following year. We have been broadly pleased with what we've seen so far, with a number of companies maintaining or upgrading their 2020 guidance. That said, the potential for downgrades still concerns us, given the market's relatively optimistic expectation for ~10% earnings growth next year. We will continue to monitor this closely. It's a similar story in Europe – though it's early days, and not all European companies report quarterly, the numbers so far are a little better than we had expected.

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 still broadly trading within its fair value range. We will 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 appropriate.

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