

## MONTHLY REPORT: AUGUST 2019

### Insights into our corporate health

Equity markets traded with an unfamiliar level of volatility during August as investors contended with a deluge of information, both international and domestic. Global growth concerns have heightened in tandem with an escalation in the US-China trade dispute. This has resulted in the US yield curve inverting between the 2-year and 10-year durations (usually a sign of an impending recession), and we now have over US\$14tn in global bonds trading with negative yields. In fact, in an historical first, a Danish bank recently launched a negative interest rate mortgage where loans to homeowners are being charged at minus 0.5% per annum! Against this uncertain backdrop, many of our local listed companies were also active, releasing their earnings results. This is an important time for investors as we get greater insight into the financial performance being achieved by our companies and, of equal relevance, their views on the outlook for the economy and their business in particular.

In general, this past month's earnings season across New Zealand and Australia has been, at best, mixed. The results reported by those companies on the ASX200 Index for example have, in aggregate, been amongst the weakest seen in recent years in terms of profit growth. This has resulted in analysts having to downgrade their profit outlook for the coming year by 2.1% (or AUD\$2.5bn)... [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	-0.9%	15.5%
S&P/ASX200G	AUSTRALIA	-2.4%	9.0%
MSCI World Index	GLOBAL	-2.0%	0.8%
S&P500	USA	-1.6%	2.9%
FTSE100	UK	-4.1%	1.4%
NIKKEI 225	JP	-3.7%	-7.5%
NZ 90 Day Bank Bill NZ		0.1%	1.8%

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### AT A GLANCE

Prices as at 31 August 2019

DEVON ALPHA FUND	\$1.8458
DEVON AUSTRALIAN FUND	\$1.5075
DEVON DIVERSIFIED INCOME FUND	\$1.6044
DEVON DIVIDEND YIELD FUND	\$2.0434
DEVON TRANS-TASMAN FUND	\$4.2829
GLOBAL THEMES FUND	\$2.8844

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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.

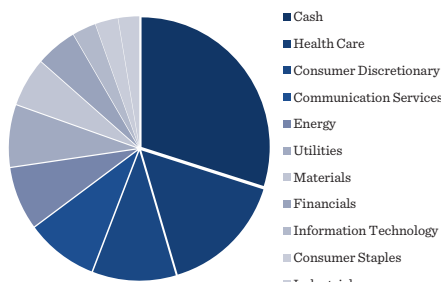
The Fund does not follow any index, is actively managed and aims to generate capital growth over the long term. Currency exposure is actively managed.

### KEY HOLDINGS


**JamesHardie**

**ResMed**
*News Corp*
**CSL™**

### ASSET ALLOCATION



### ALLOCATION

New Zealand Equities	36.5%
Australian Equities	33.7%
Currency Hedge	29.6%

Cash	29.8%
<b>Total</b>	<b>100.0%</b>

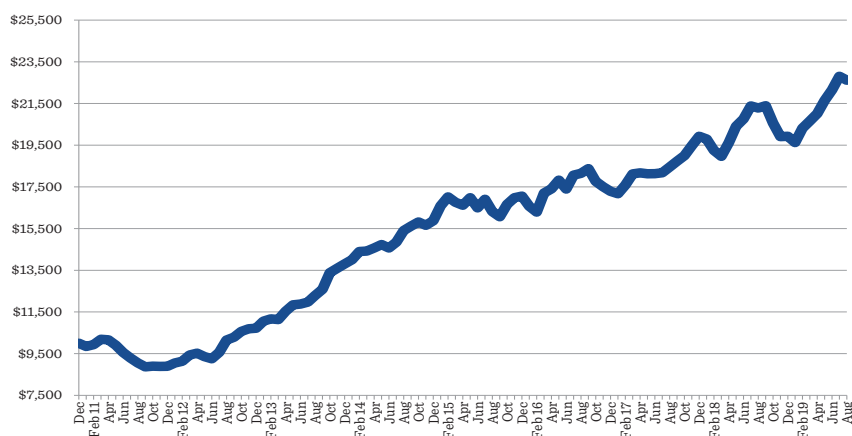
### PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	-0.8%	4.5%	6.3%	7.6%	7.8%
OCR	0.1%	0.3%	1.6%	1.7%	2.2%

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

The Alpha strategy performed broadly in line with local stock markets during the month, benefitting from our high cash weighting and some good stock selection. The reporting season produced some exceptionally volatile share price performances across New Zealand and Australia and whilst some of our smaller exposures to companies such as a2Milk and Vista Group were under pressure, our investments in Contact Energy (+11%), James Hardie (+13%) and Newscorp (+7%) performed well. James Hardie delivered a stronger than expected first quarter result which exceeded consensus estimates through solid revenue growth and 25% profit margins from their US division. CEO Jack Truong highlighted that despite North American housing demand being soft across most geographies, demand for fibre cement exteriors is robust and recent implementation of lean manufacturing processes across their plants is enabling improved cost control. We believe this business has strong operating momentum heading into 2020. The results announcement from Vista Group clearly disappointed the market however we were encouraged that their two core divisions, Cinema Software and Movio, continue to grow as expected.

## 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

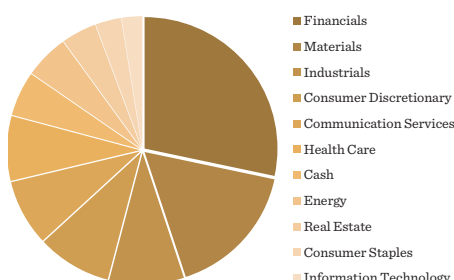
The **Australian Fund** is actively managed and invests in a select portfolio of approximately 25 to 35 companies which are primarily Australian listed companies

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	5.4%
Australian Equities	92.0%	Total	100.0%

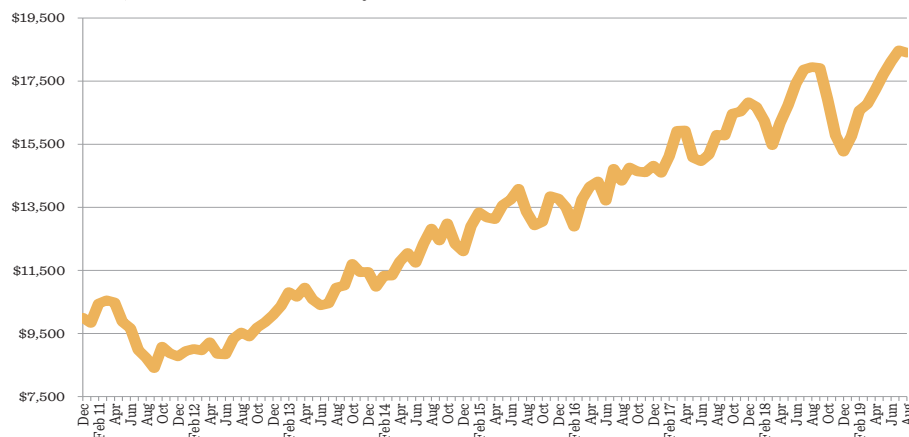
### PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	-0.4%	4.0%	2.5%	8.7%	7.5%
ASX200 Index Gross (NZD)	-0.1%	4.8%	6.9%	12.5%	6.9%

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

The best performing stocks within this strategy during August included Kathmandu (+23%), James Hardie (+13%), NewsCorp (+7%) and Suncorp (+5%) while the detractors included Brambles (-14%) and Rio Tinto (-9%). We increased our exposure to Macquarie Group after they announced a \$1bn capital raising via the issue of new shares to institutional investors. This additional funding is expected to support Macquarie's balance sheet and improve their ability to execute on potential growth opportunities. Whilst markets have recently been volatile, Macquarie's unique business mix which includes its Infrastructure and Real Asset (MIRA businesses), offers significant growth opportunities. Around \$900m of the raising will be deployed into strategies focussed on renewable energy, infrastructure and technology. Macquarie also stated that it expects its first-half 2020 to be approximately 10% above the comparable period in 2019. This was well received by investors as it was ahead of market expectations.

### 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

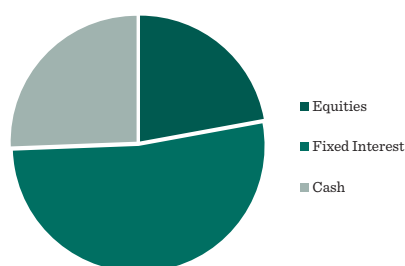
## FUND OUTLINE

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	13.1%
Australian Equities	8.4%

Bonds	52.3%
Cash	26.2%

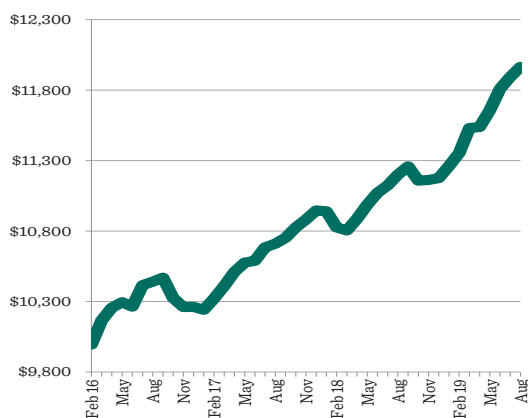
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Diversified Income Fund	0.6%	2.6%	6.8%	5.7%	4.6%
OCR + 1.5%	0.2%	0.7%	3.2%	3.2%	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



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

International bonds rallied strongly during August with US 10-year Treasury yields finishing the month at 1.50%, after closing in July at 2.01%. This is a fresh three-year low for long-dated US rates and represents investor concern over the American-Chinese trade dispute and its possible implications for global economic growth. An inverted US yield curve, with the rate on the US 10-year Treasury bill falling below that of the 2-year rate, also offered evidence of potential economic risk. The Reserve Bank of New Zealand shocked investors with a 0.50% cut to the Official Cash Rate with Governor Adrian Orr highlighting a lack of inflation and global political issues as key contributors to the decision. On a more positive note, now that the profit reporting season has concluded in New Zealand and Australia, we anticipate that the level of corporate debt issuance will increase as companies look to improve their balance sheets at attractive costs of funding.

## 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

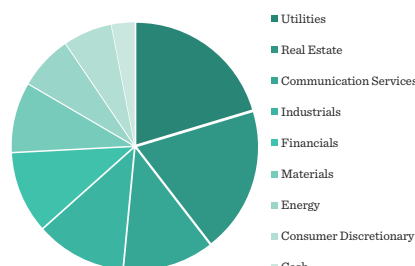
The **Devon Dividend Yield Fund** consists of a select group of up to 25-35 New Zealand and Australian listed companies.

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	38.1%
Currency Hedge	94.9%

Cash	2.8%
Total	100.0%
Yield	6.5%

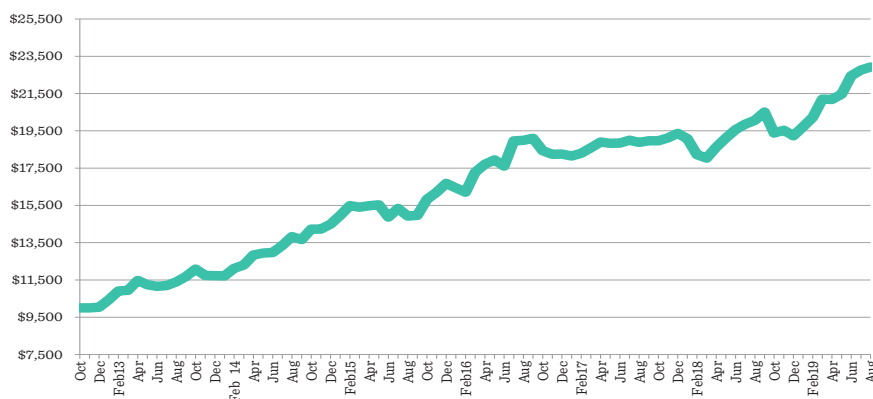
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	0.7%	6.8%	14.3%	6.4%	10.9%
TT Index (Hedged)	-1.6%	5.3%	12.3%	12.3%	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 Dividend Yield Fund had another solidly positive month of returns in August and was materially stronger than underlying markets as it escaped the worst of the reporting season volatility. Notable performers over the month included Kathmandu and Spark. Kathmandu is a small holding in the fund but was a good contributor to performance as the stock price rose over 22% after the company announced a better than expected trading update. Kathmandu has an excellent brand and is very well managed but is prone to earnings volatility due to its promotional sales strategy. The market's concerns around this volatility were such that prior to the recent bounce the stock offered a cash dividend yield of over 8%. Spark also offered an attractive dividend yield at the start of August, above 6.1%. At their result, the company committed to retaining their dividend and highlighted an expectation that future dividends will be covered by earnings. Following this announcement, their stock price rose nearly 10% and returned 11% over the whole month.

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## DEVON TRANS-TASMAN FUND

## FUND OUTLINE

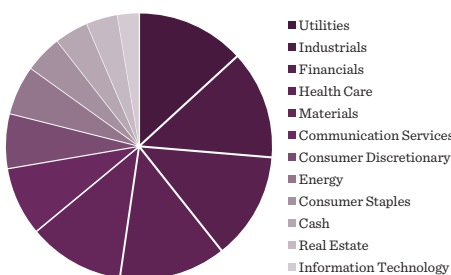
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the NZ and Australian equity markets.

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	49.9%
Australian Equities	46.0%

Cash	4.1%
Total	100.0%

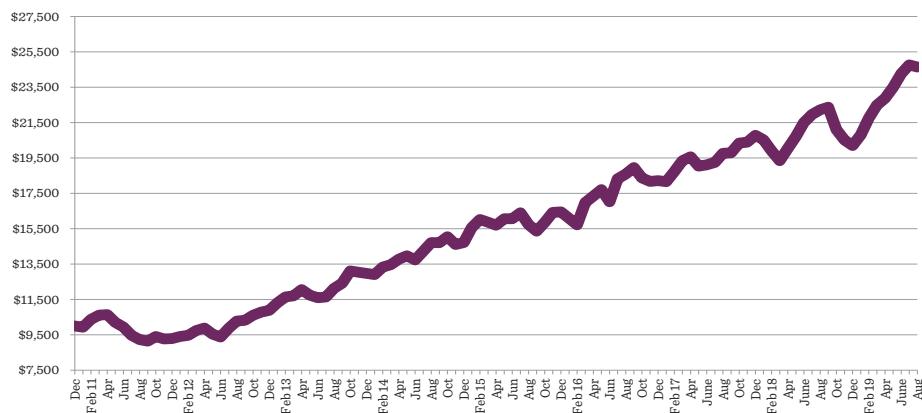
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	-0.5%	4.9%	10.8%	9.8%	10.2%
Trans-Tasman Index Gross	-0.5%	5.5%	11.2%	12.9%	11.2%

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 strategy performed in line with its benchmark during the month with a number of our investments making a positive contribution. Included amongst these were Kathmandu (+23%), James Hardie (+13%) and Contact Energy (+11%). Another positive contributor was Napier Port which gained 19% after listing on the NZX on August the 20th at \$2.60/share. As a listed company, shareholders will get access to the Hawkes Bay's agriculture sector (which represents approximately 61% of New Zealand's total planted area of pip fruit) and a large part of our forestry industry which continues to leverage off growing volumes. The key detractor to performance over the month was the decline in Vista Group's share price after the company downgraded their full-year earnings expectations with revenues in their core Cinema and Movio divisions forecast to slow from 20% to 15% in CY19. We remain positive on the long-term outlook for Vista.

## PORTFOLIO MANAGER

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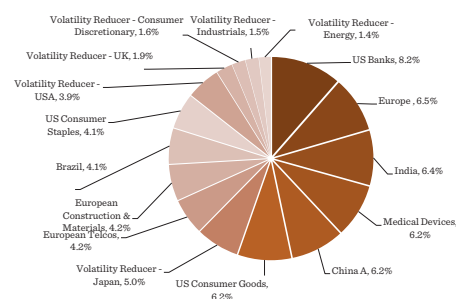


## DEVON GLOBAL THEMES FUND

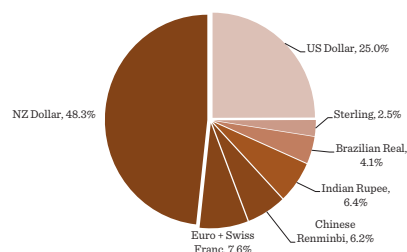
## FUND OUTLINE

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

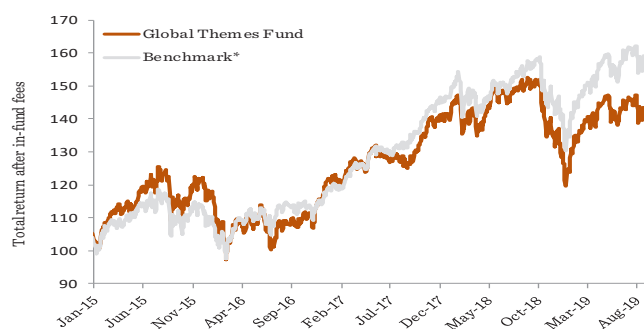
	1 Mth	3 Mth	1 Yr	3 Yr p.a
Global Themes Fund	-0.7%	4.7%	-4.9%	9.7%
I-Shares All Country WI	-0.3%	6.0%	2.2%	12.3%

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



\*iShares MSCI All Country World Index ETF, 50% hedged to NZD  
Source: Datastream, IRESS, JBWere Investment Strategy Group

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 &amp; 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

August saw further escalation in trade tensions between the US and China to the extent that we now see the probability of a deal before the 2020 US presidential election as low. Against a backdrop of slowing global growth, other geopolitical tensions and a surprisingly strong return from equities year-to-date, this leaves us somewhat cautious over the coming months.

In light of this, we made some changes to the fund during August. At the beginning of the month, we further reduced our exposure to US Banks. While US Banks screen as attractively valued and stand to benefit if interest rates rise from their current lows, against a backdrop of weakening growth and our expectation for continued low rates, this theme remains challenged. This reduction funded the addition of US Consumer Staples, which sits alongside our existing US Consumer Goods theme, however increases our exposure to the more defensive Consumer Staples sector. The US consumer remains healthy and we expect this sector to deliver above-market earnings growth, while helping protect the portfolio in times of higher volatility and potential downside.

During a volatile August, our best performing theme was US Medical Devices, alongside (unsurprisingly) our more defensive themes (European Telcos, US Healthcare and US Consumer Goods/Services). More cyclical Brazil and US Banks were the largest detractors during the month.

## 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 trading within its 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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