

## MONTHLY REPORT: JULY 2019

### The Mixed Ownership Model Has Been a Win – Win

In May 2013 the New Zealand government engaged in a strong push towards partially privatising a number of our major infrastructure businesses, by listing them on the New Zealand Stock Exchange. The Government sold down 49% of the ownership in three electricity companies to a range of investors including Kiwisaver funds, iwi, mum-and-dad investors and institutions. The program began with the initial public offering (IPO) of Mercury New Zealand and was soon followed by the sell-down of equity in Meridian Energy. Lastly, in April 2014, Genesis Energy began trading. It was a process that generated a substantial amount of debate, with those in opposition arguing on the grounds of a loss of control and that dividends would now be going into private hands. Those in favor of the program countered that once out of state ownership the assets would be better managed, have far more capital discipline and that a stronger platform for dividend growth and collateral benefit to all New Zealanders would be achieved. This has unequivocally proved to be the case.

The total amount realized by the Government through selling shares in these three state-owned enterprises was \$4.2bn. The current value for their remaining shareholdings today sits at a massive \$11.4bn. The residual 51% stake that the Government has in Meridian Energy alone is worth \$6.3bn (50% more than was received for the total sum received through the partial IPO process!)... [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	3.4%	21.7%
S&P/ASX200G	AUSTRALIA	2.9%	13.3%
MSCI World Index	GLOBAL	0.5%	4.2%
S&P500	USA	1.4%	8.0%
FTSE100	UK	2.2%	2.3%
NIKKEI 225	JP	1.2%	-2.5%
NZ 90 Day Bank Bill NZ		0.1%	1.8%

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### AT A GLANCE

Prices as at 31 July 2019

DEVON  
ALPHA  
FUND

**\$1.8613**

DEVON  
AUSTRALIAN  
FUND

**\$1.5136**

DEVON  
DIVERSIFIED  
INCOME  
FUND

**\$1.5948**

DEVON  
DIVIDEND  
YIELD  
FUND

**\$2.029**

DEVON  
TRANS-  
TASMAN  
FUND

**\$4.3042**

GLOBAL  
THEMES  
FUND

**\$2.9049**

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## DEVON ALPHA FUND

## FUND OUTLINE

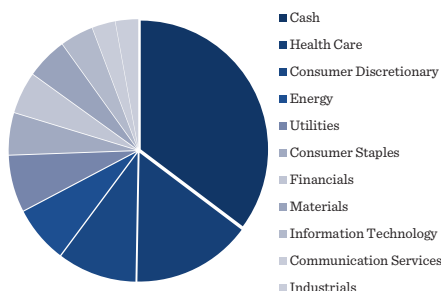
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	34.1%
Australian Equities	30.7%
Currency Hedge	29.8%

Cash	35.2%
<b>Total</b>	<b>100.0%</b>

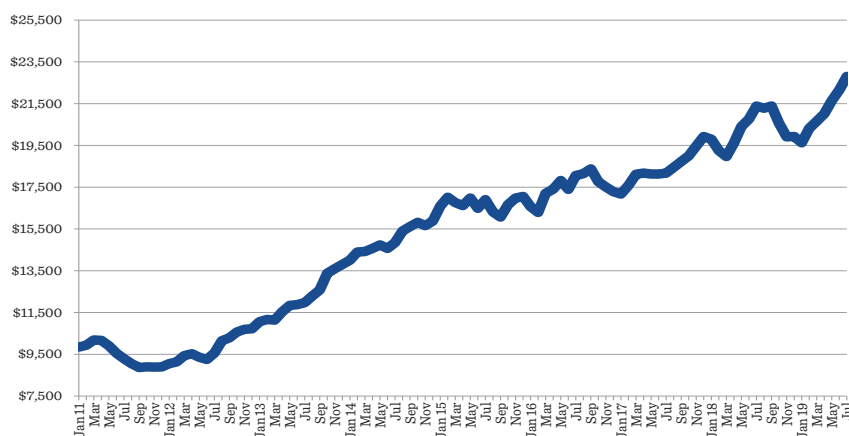
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	2.9%	8.5%	6.7%	7.7%	8.8%
OCR	0.1%	0.4%	1.7%	1.8%	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 generated a very strong return during July despite a large portion of the portfolio being held in cash. In Australia, our investments in CSL (+6.8%), National Australia Bank (+6.7%) and Resmed (+10.7%) were our strongest performers whilst in New Zealand impressive returns were generated by a2Milk (+22.8%) and Ebos (+7.7%). Resmed reported its fourth quarter results during the month which comfortably exceeded consensus estimates due to the company growing their sales by 15%. Gross margins also improved by a commendable 1.2%. This was achieved through a range of factors including manufacturing efficiencies, cost control and strong mask sales. Resmed launched three new masks in the US during the quarter which supported their growth in this high margin segment. We recently exited our position in Spark. This was due to our concerns that their current dividend policy is potentially unsustainable and will undoubtedly be an area of consideration for their new CEO.

## 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

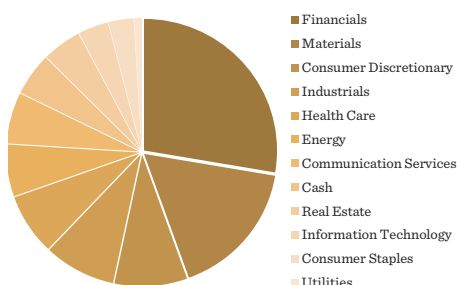
The **Australian Fund** is actively managed and invests in a select portfolio of approximately 25 to 35 companies which are primarily Australian listed companies

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	3.7%	Cash	5.2%
Australian Equities	91.1%	Total	100.0%

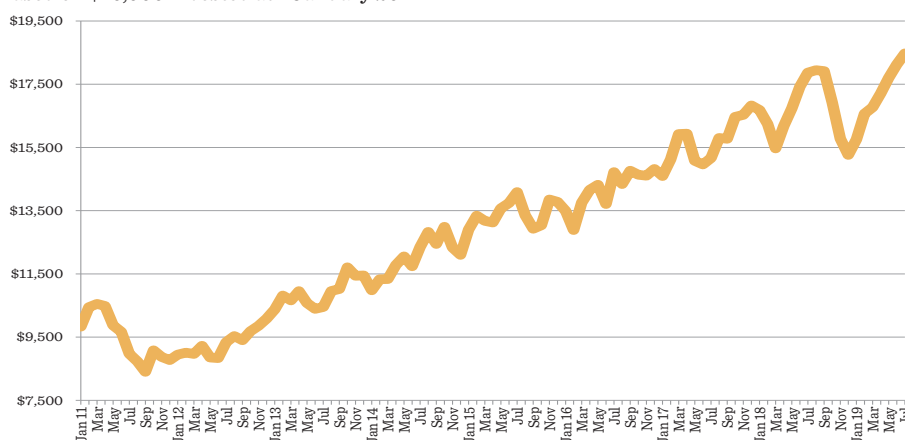
### PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	1.9%	7.3%	3.4%	7.9%	8.4%
ASX200 Index Gross (NZD)	2.9%	7.5%	8.3%	11.3%	7.5%

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



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

Investments which generated strong absolute returns for us included National Australia Bank, CSL and James Hardie. James Hardie rallied as investors became more confident in the medium-term outlook for US housing starts, on falling mortgage rates. This business is also benefiting from recent cost deflation in their key input charges of pulp and transport. Rio Tinto detracted from portfolio performance over the month as it reduced iron ore sales forecasts and the iron ore price retraced modestly. However, with the iron ore price remaining well above US\$100/t additional capital return is likely to be announced at the August interim result and we see potential for Rio Tinto to return 10% of their market capitalisation to investors during 2019. In terms of portfolio changes, the Fund added Nine Entertainment to the portfolio. We believe that Nine is an attractively priced and over the next few years is likely to demonstrate good earnings growth across their digital businesses.

### 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

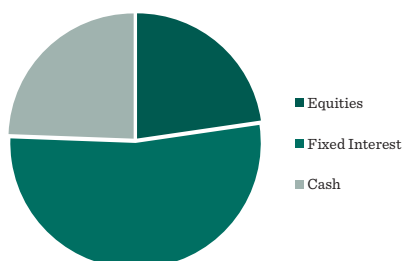
## FUND OUTLINE

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	12.8%
Australian Equities	8.5%

Bonds	52.9%
Cash	25.8%

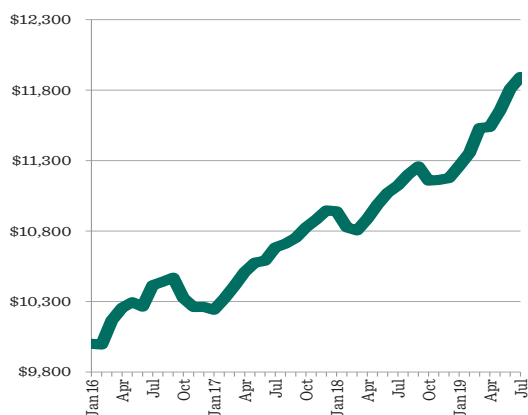
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Diversified Income Fund	0.7%	3.1%	6.9%	5.5%	4.5%
OCR + 1.5%	0.3%	0.8%	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 during the month with the yield on US 10-year Treasuries finishing at 2.01%. Investors are positioning themselves for a decline in global growth. This includes the US economy where activity is trending lower, although some of the data released recently has been better-than-expected. This included improving consumer confidence improving and GDP growth being recorded at an annualized rate of 2.1%.

The Federal Reserve cut their policy rate by 0.25% on 31 July. This was the first cut since 2008 and although it was widely expected, the commentary which followed the decision was not as accommodative as the market had hoped for. Federal Reserve Chair, Jerome Powell, described the move as an “insurance cut” and suggested that any further reductions in interest rates would depend on the economy slowing further. The RBA also cut their cash rate by 0.25%, which follows a similar move by them in June.

## 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

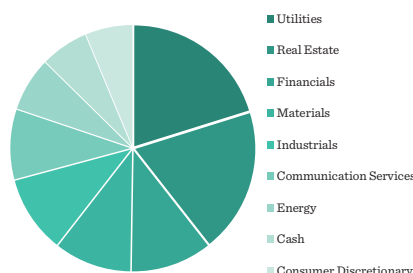
The **Devon Dividend Yield Fund** consists of a select group of up to 25-35 New Zealand and Australian listed companies.

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	56.3%
Australian Equities	37.3%
Currency Hedge	95.9%

Cash	6.4%
Total	100.0%
Yield	6.5%

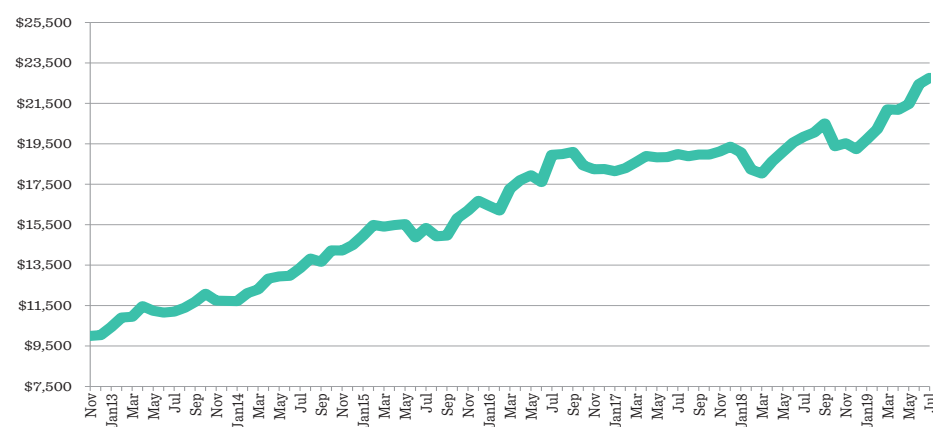
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	1.4%	7.5%	14.6%	6.2%	11.5%
TT Index (Hedged)	3.2%	8.5%	17.5%	12.8%	12.3%

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 a positive month in June although it was unable to match the very strong returns of the S&P/NZX50, which was boosted by sharp rises in key low-dividend yielding stocks like A2 Milk and Fisher & Paykel Healthcare. One of our best contributors was Nine Entertainment (NEC), a new addition to the Fund during June. NEC merged with Fairfax in 2018, and the combined entity now includes Australia's leading free to air TV network, the fast-growing entertainment aggregator Stan, Nine Now (a highly lucrative on-demand TV service), 3 major metro newspaper mastheads, and 60% of Domain (Australia's number 2 online real estate classifieds business). In the short-term cyclical earnings weakness from the slowing Australian economy presents some risk to earnings but NEC's excellent cash generation, good dividend and strong medium-term outlook make it an attractive addition to the Fund.

## PORTFOLIO MANAGER

Nick Dravitzki



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## DEVON TRANS-TASMAN FUND

## FUND OUTLINE

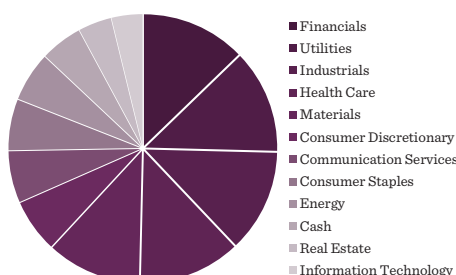
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the NZ and Australian equity markets.

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	49.8%
Australian Equities	45.1%

Cash	5.1%
Total	100.0%

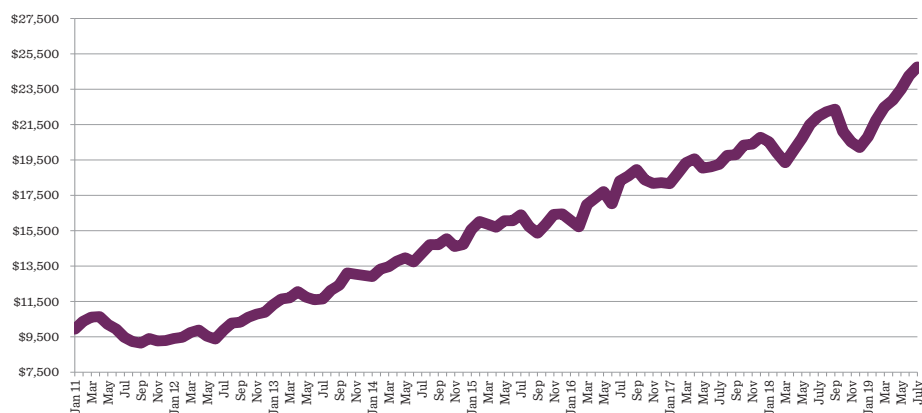
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	2.0%	8.2%	12.6%	9.4%	11.0%
Trans-Tasman Index Gross	3.2%	7.9%	15.0%	12.6%	11.8%

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



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

During the month there were a number of our investments that made strong positive contributions to this strategy. Included amongst these were CSL, National Australian Bank (NAB) and EBOS. a2 Milk also rallied strongly over the month as the market became more positive ahead of the upcoming result. The Fund recently increased its exposure to this business. Encouragingly our key bank holding, NAB, materially outperformed the Banks sector, rallying 7%. This followed the announcement that it had appointed Ross McEwan as Group Chief Executive Officer and Managing Director. Ross resigned from his position as CEO of RBS during April. The market viewed this announcement very positively given the high regard in which he is held and his extensive banking experience across Australia, New Zealand and the UK. Ryman Healthcare and Fisher and Paykel were detractors to our relative performance. Both stocks rallied over the month but we are underweight them due to our concerns over valuation.

## 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

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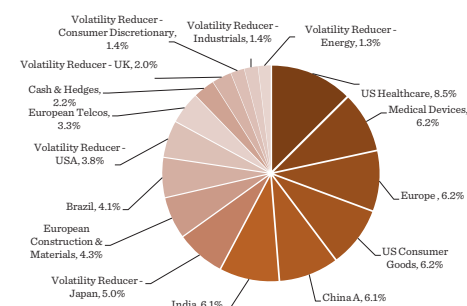


## DEVON GLOBAL THEMES FUND

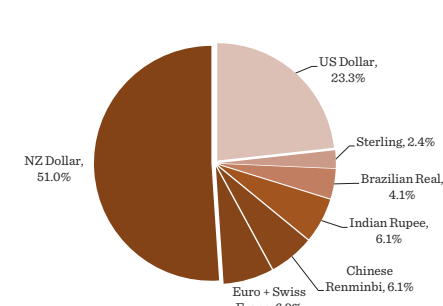
## FUND OUTLINE

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

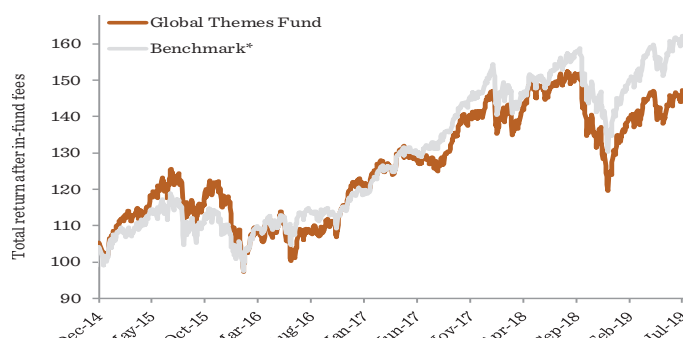
	1 Mth	3 Mth	1 Yr	3 Yr p.a
Global Themes Fund	1.2%	-0.7%	-2.2%	10.7%
I-Shares All Country WI	1.3%	0.9%	4.8%	12.5%

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

Global equities finished July broadly flat (in local currency terms), though it certainly felt like there was plenty going on under the hood. A relatively positive (though still mixed) start to US earnings season and fresh trade talks between the US and China helped support equities, however this was somewhat capped by fears of the Fed disappointing markets by not signaling the start of an aggressive easing cycle, particularly as US economic data has shown signs of stabilisation. These fears were ultimately realised on the last day of the month, with comments from Fed Chair Powell suggesting July's cut could be a one-off move, sending equities lower in the last few trading hours of the month. On US-China trade, we continue to expect a deal, however both sides appear to be digging their heels in and seem increasingly comfortable dragging negotiations out. It could take some time yet.

Our best performing themes during July were US Technology, US Banks, US Consumer Goods, US Medical Devices and Brazil. Despite some softer results (Netflix, Amazon), Technology companies broadly got off to a solid start to earnings season, as did Medical Device names and Consumer Staples, which has helped support our recently-added defensive US Consumer Goods theme. Despite bond yields remaining relatively stable over the month, US Banks have also performed well on the back of a good reporting season. Brazil has seen increased investor optimism around its pension reform, which passed a Lower House vote with a stronger-than-expected majority. We expect the reform bill to pass through the Senate in the coming months.

## 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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