

## MONTHLY REPORT: SEPTEMBER 2019

### Our Fundamental Process in Practice

At Devon our key focus when building investment portfolios for clients is fundamental research and a recent trip that we made to the US is an excellent example of how this works in practice. Over the course of two weeks, and across nine states, we met with a large number of different businesses, customers, competitors and market strategists. While we don't invest directly into the US, a number of our portfolio companies have large operations in that market or have US-based competitors. Each meeting gave us the ability to engage with management teams to understand how their businesses are performing, what the risks are and where the opportunities lie.

Interestingly, although there are very clear economic risks associated with Trump's position on trade tariffs, we were able to identify that the US consumer currently appears to be in reasonable shape. Given that personal consumption contributes almost 70% of US GDP, this observation is important and in not one of the meetings we attended were actual or impending economic weakness seen as a major concern...[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	1.6%	16.8%
S&P/ASX200G	AUSTRALIA	1.8%	12.5%
MSCI World Index	GLOBAL	2.2%	2.4%
S&P500	USA	1.9%	4.3%
FTSE100	UK	3.0%	3.2%
NIKKEI 225	JP	5.8%	-7.8%
NZ 90 Day Bank Bill NZ		0.1%	1.7%

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### AT A GLANCE

Prices as at 30 September 2019

DEVON  
ALPHA  
FUND

**\$1.8517**

DEVON  
AUSTRALIAN  
FUND

**\$1.5516**

DEVON  
DIVERSIFIED  
INCOME  
FUND

**\$1.6117**

DEVON  
DIVIDEND  
YIELD  
FUND

**\$2.0904**

DEVON  
TRANS-  
TASMAN  
FUND

**\$4.3657**

GLOBAL  
THEMES  
FUND

**\$2.9560**

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## DEVON ALPHA FUND

## FUND OUTLINE

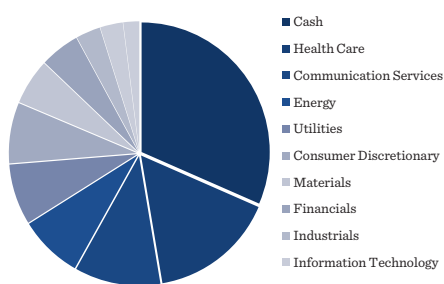
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	33.1%
Australian Equities	35.4%
Currency Hedge	29.6%

Cash	31.5%
Total	100.0%

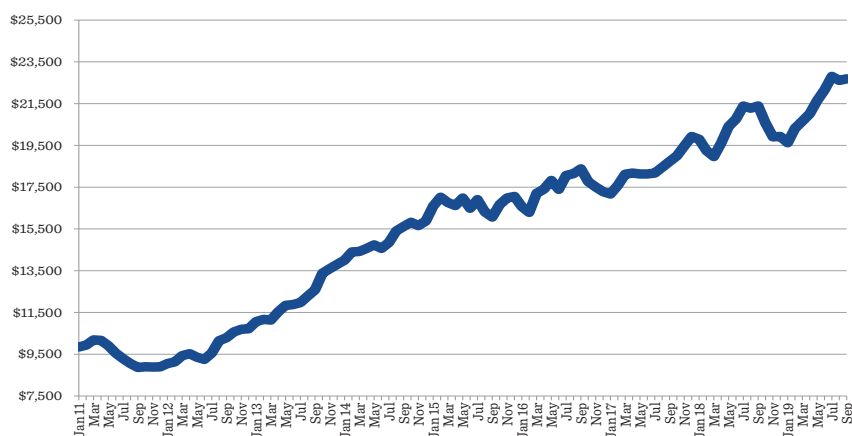
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	0.3%	2.4%	6.1%	7.3%	7.6%
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 generated a positive absolute performance during September, the eighth month this year that this has occurred. There were a number of positive contributors including National Australia Bank (+8.6%) and EBOS (+7.1%), but of particular note was our investment in James Hardie which finished the month up over 10%. Investor sentiment in this company was supported after management delivered some positive comments at their US Investor Day. The focus of this event was their North American business where fibre cement for housing construction is the key product. Devon Portfolio Manager, Nick Dravitzki, attended the event, and our takeaway from the presentations and our discussions with management was that the business is performing well and tracking towards its targets on both market share gains and cost management. Encouragingly recent US housing data highlights positive momentum with housing starts in August growing by 12.3% to an annualised level of 1.36m. This exceeded expectations and was the strongest monthly performance since July 2017.

## 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

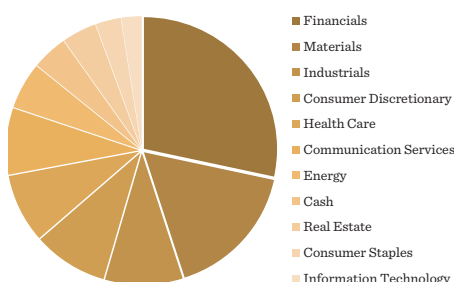
The **Australian Fund** is actively managed and invests in a select portfolio of approximately 25 to 35 companies which are primarily Australian listed companies

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	2.5%	Cash	4.3%
Australian Equities	93.2%	Total	100.0%

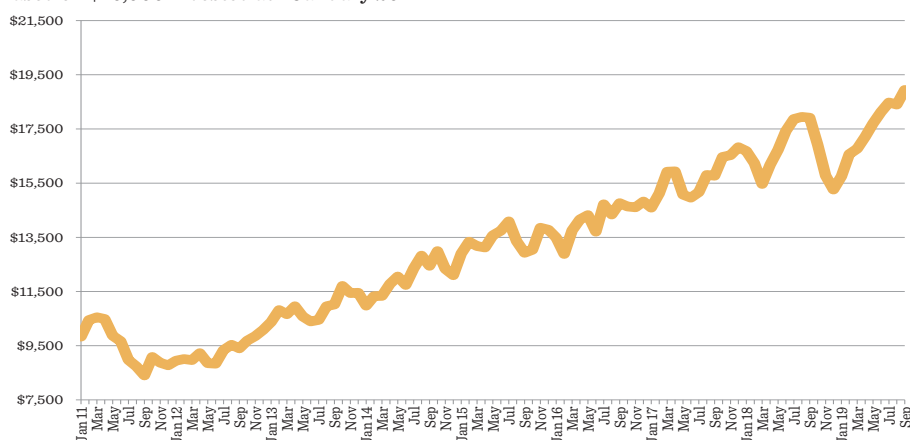
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	2.9%	4.5%	5.7%	8.6%	8.8%
ASX200 Index Gross (NZD)	2.5%	5.4%	10.8%	12.7%	8.6%

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 Australian Fund delivered strong absolute returns over the month and outperformed its underlying benchmark. A number of our investments made strong positive contributions to this strategy including Kathmandu (+19.4%), James Hardie (+10.2%) and National Australia Bank (+8.6%). Detractors included Atlas Arteria (-6.5%) and Sydney Airport (-4.7%). NAB outperformed bank peers in September, and also announced during the month that Ross McEwan will commence as Chief Executive Officer and Managing Director on Monday 2 December 2019. We don't expect any major change in strategy and see McEwan continuing with their transformation programme. In terms of portfolio changes, the Fund added Amcor during the month. Amcor is a global packaging business and following the acquisition of US competitor Bemis, we conservatively expect earnings growth of 6-8% per annum between FY20-FY22 and a dividend yield of 5%. From a sustainability perspective Amcor recently introduced a new 100% recyclable product called Amlite. This forms part of the company's pledge for all its packaging to be recyclable or reusable by 2025 (currently 77% of products are recyclable).

## 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

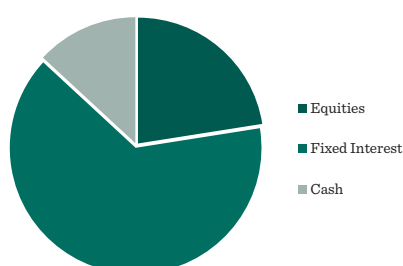
## FUND OUTLINE

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	9.1%

Bonds	64.4%
Cash	13.4%

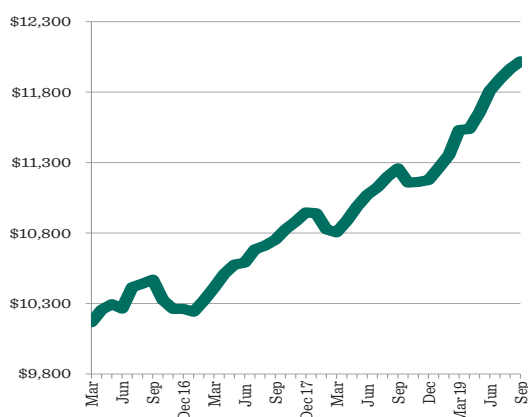
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Diversified Income Fund	0.5%	1.8%	6.8%	5.7%	4.7%
OCR + 1.5%	0.2%	0.7%	3.1%	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

The global bond market was volatile during the month with long-dated interest rates moving across a wide range. The yield on US 10-year Treasuries, for example, started September at 1.50%, rose to an intra-month high of 1.91% and then closed at 1.67%. There were a range of factors driving investor sentiment but of particular interest was a view that the prospects surrounding the trade war between the US and China were improving (although the state of this dispute is fluid). Also making headlines was the announcement of a significant stimulus package by the European Central Bank. The US Federal Reserve cut their interest rate by 0.25% and New Zealand GDP growth for the June quarter was reported at 0.5%. This was slightly ahead of expectations but confirmed that our economic growth rate is declining. The RBNZ met in late September but the cash rate was left unchanged at 1.0%.

## 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

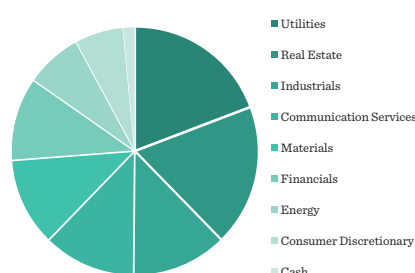
The **Devon Dividend Yield Fund** consists of a select group of up to 25-35 New Zealand and Australian listed companies.

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	58.2%
Australian Equities	40.3%
Currency Hedge	97.8%

Cash	1.5%
Total	100.0%
Yield	6.5%

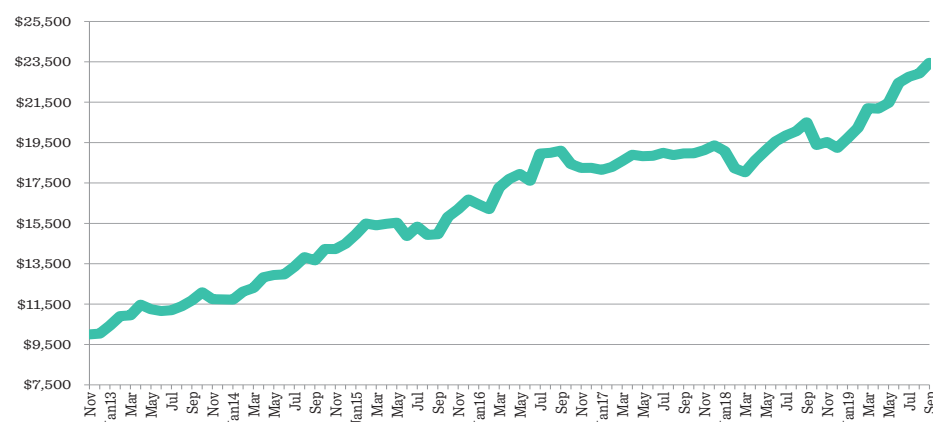
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	2.3%	4.4%	14.4%	7.0%	11.6%
TT Index (Hedged)	1.7%	3.2%	14.7%	13.0%	12.6%

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 good month in September, generating a solid absolute return and once again outperforming its underlying markets. One of the most significant contributors was the performance generated by Meridian Energy, nearly 8% including its dividend. Year-to-date, this company has been one of the stars of the NZX returning more than 60%! It has been a clear beneficiary of investors flight towards high yielding stocks, which has occurred as global central banks recommitted to accommodative monetary policy (by keeping interest rates low). At the start of November 2018 Meridian offered a cash dividend yield of 6.3%, but today after its strong share price, it offers just 4.2%. Meridian remains a key holding in the portfolio, but our exposure has been reduced after this dividend yield compression. The main detractor from performance was Z Energy which downgraded their earnings expectations due to increased competition in the retail fuel market.

## PORTFOLIO MANAGER

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## DEVON TRANS-TASMAN FUND

### FUND OUTLINE

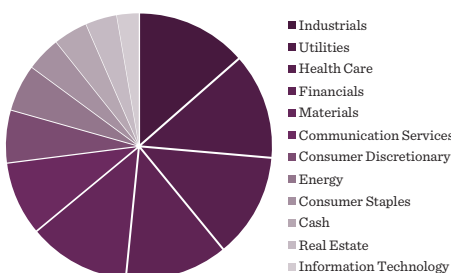
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the NZ and Australian equity markets.

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	49.5%	Cash	4.2%
Australian Equities	46.3%	Total	100.0%

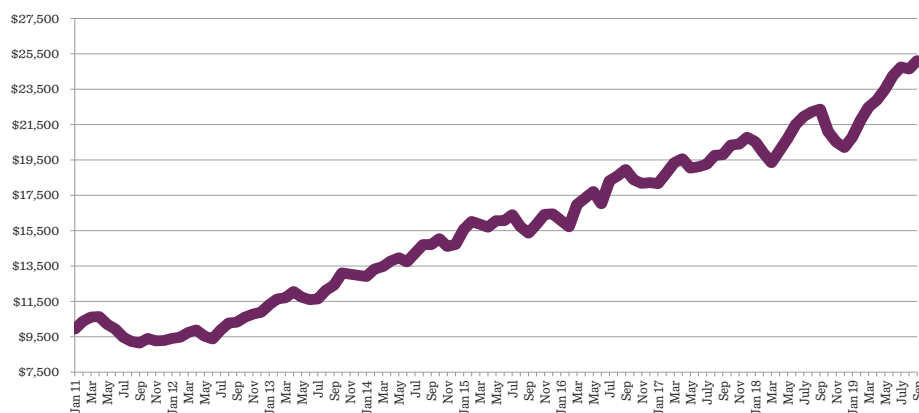
### PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	1.9%	3.5%	12.1%	9.8%	10.6%
Trans-Tasman Index Gross	2.1%	4.7%	13.8%	13.4%	12.2%

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

During September this portfolio benefited from strong contributions by our investments in Kathmandu (+23.2%), James Hardie (+10.2%) and National Australia Bank (+8.6%). Key detractors included Z Energy and Atlas Arteria. Kathmandu rallied after delivering a strong full-year result. Sales rose 9.7% to \$545.6m and their profit increased 13.6% to \$57m (this was at the top end of management's earlier guidance). Their recent acquisition of the outdoor retailing business Oboz was a stand-out feature with underlying sales and earnings up 30% and 39% respectively. Oboz continues to add new wholesale customers and invest in their brand awareness, supporting their future prospects. Encouragingly, Group same store sales momentum in the first 7-weeks of the new financial year was also strong (Group +6.1% / Australia +4.0% / NZ +11.7%). In terms of key portfolio changes, we removed CBA given its outperformance against peers over the past 12-months and due to valuation concerns.

## PORTFOLIO MANAGER

### Tama Willis



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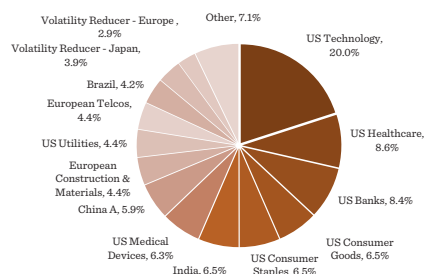


## DEVON GLOBAL THEMES FUND

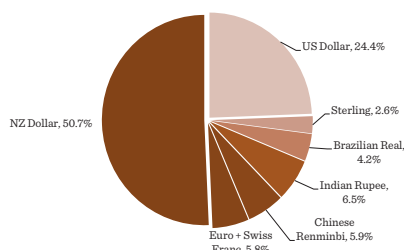
## FUND OUTLINE

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

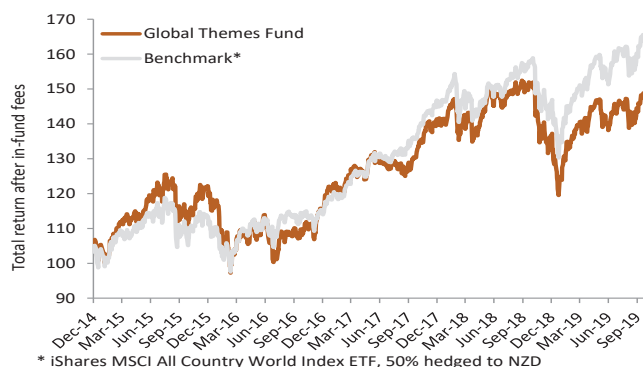
	1 Mth	3 Mth	1 Yr	3 Yr p.a
Global Themes Fund	2.5%	3.0%	-1.6%	10.6%
I-Shares All Country WI	2.6%	3.5%	4.2%	13.0%

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 &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 equity markets finished September in positive territory following a busy month of news flow. Investors cheered an apparent thawing in trade tensions between the US and China, with China placing exemptions on some US import tariffs and the US delaying their 1 October tariffs on Chinese imports to 15 October. However, a subsequent planning meeting between Chinese and US negotiators being unexpectedly cut short showed that both sides still stand wide apart on this issue, and we are yet to see meaningful de-escalation. Outside of trade, the European Central Bank's announcement of indefinite stimulus helped push equities higher. On the flipside, however, the Fed's rate cut wasn't accompanied by as dovish messaging as investors had hoped for. Combined with an intensification in the Brexit saga and significant volatility in oil prices on the back of the attack in Saudi Arabia, this suggests that jitteriness is likely to linger for some time yet.

During September we removed our broad Europe thematic, on the back of our loss of conviction in the European cyclical recovery story. In its place we have added US Utilities as a defensive way to gain exposure to the shift to renewable energy, which we see as a long-term thematic. As mentioned last month, we may, over time, change how we gain exposure to this thematic, however US Utilities provides the defensive exposure to this theme that we are seeking at this time.

## 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, though at under \$0.63 (at the time of writing), the prospect of increasing the hedge level is becoming more interesting. 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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