

## MONTHLY REPORT: DECEMBER 2019

### Investing for a Circular Economy

In July 2019, the New Zealand Government banned the use of single-use plastic shopping bags, with the intention of reducing the amount of plastic in our environment. The introduction of this policy puts New Zealand amongst the club of 120+ countries with some form of regulation on plastic bags. Globally, at least eight million tons of plastic end up in our oceans every year - this contributes almost 80% of all marine debris, with 3% of this plastic waste being made up of microplastics (pieces that are smaller than our fingernails). These plastic wastes can harm the marine life in our oceans and just as significantly, make its way up the food chain and end up on our dinner plates. Joining the coalition of countries globally to have regulation on single-use plastic bag appears to be the right thing to do.

But when it comes to climate change and overall environmental impact, plastic bag alternatives such as paper and cotton bags are actually much worse for the planet...[READ MORE](#)

## Devon Online Investor Portal

Visit [devonfunds.co.nz](http://devonfunds.co.nz)

Track your portfolio's value, download historical data & access documentation.

### MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	1.5%	30.4%
S&P/ASX200G	AUSTRALIA	-2.2%	23.4%
MSCI World Index	GLOBAL	3.0%	28.4%
S&P500	USA	3.0%	31.5%
FTSE100	UK	2.8%	17.3%
NIKKEI 225	JP	1.7%	20.7%
NZ 90 Day Bank Bill NZ		0.1%	1.5%

**Devon Funds Management Limited**  
 Level 10, 2 Commerce Street, Auckland 1010  
 PO Box 105 609, Auckland 1143  
 Telephone: 0800 944 049 (free call) or +649 925 3990  
[enquiries@devonfunds.co.nz](mailto:enquiries@devonfunds.co.nz)

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### AT A GLANCE

Prices as at 31 December 2019

DEVON ALPHA FUND	\$1.8448
DEVON AUSTRALIAN FUND	\$1.4992
DEVON DIVERSIFIED INCOME FUND	\$1.5847
DEVON DIVIDEND YIELD FUND	\$2.0518
DEVON TRANS-TASMAN FUND	\$ 4.3255
GLOBAL THEMES FUND	\$3.0713

### IN THIS REPORT

Market Commentary	Page 1
At a Glance	Page 1
<b>Devon Fund Summaries</b>	
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

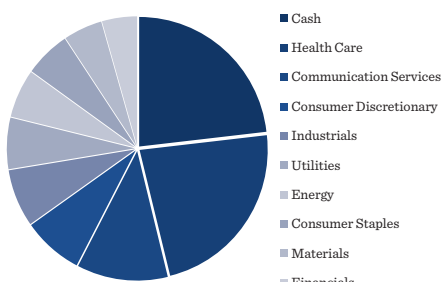
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	39.0%
Australian Equities	38.5%
Currency Hedge	30.1%

Cash	22.5%
<b>Total</b>	<b>100.0%</b>

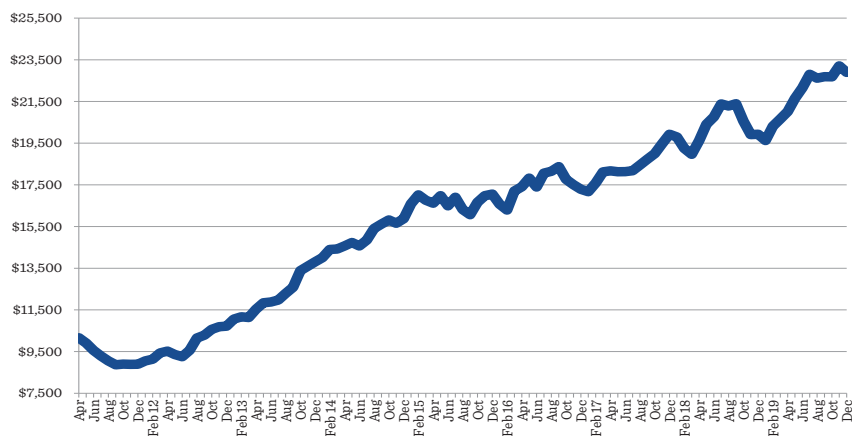
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	-1.3%	0.9%	19.7%	9.8%	7.4%
OCR	0.1%	0.3%	1.4%	1.6%	2.0%

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

December proved to be a mixed month for this portfolio, but we are pleased with the returns achieved by some of our relatively recently introduced stocks, a number of which were amongst the market's top performers. Included amongst these was Ebos, which rallied 6.4% after they recently completed a capital raising in order to pursue acquisitive growth strategies in the medical devices sector. Additionally, evidence suggests that their Chemist Warehouse contract is being executed according to plan and will significantly contribute to their growth in 2020. Our investment in Metlifecare was the portfolio's standout contributor with its share price up 17% following their boards full endorsement of a takeover bid by Asia Pacific Village Group Limited for the entire company at \$7.00 per share. Amongst the detractors during the month were Vista and Z Energy which suffered due to competition amongst fuel retailers and poor refining margins.

## 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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PO Box 105 609, Auckland 1143

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enquiries@devonfunds.co.nz

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## DEVON AUSTRALIAN FUND

## FUND OUTLINE

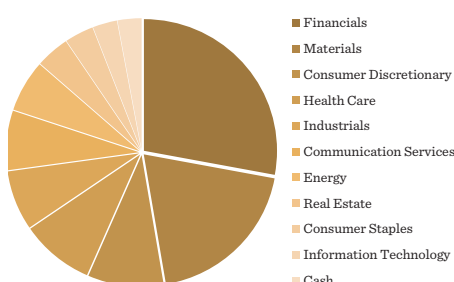
The **Australian Fund** is actively managed and invests in a select portfolio of approximately 25 to 35 companies which are primarily Australian listed companies

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	3.0%	Cash	2.9%
Australian Equities	94.1%	Total	100.0%

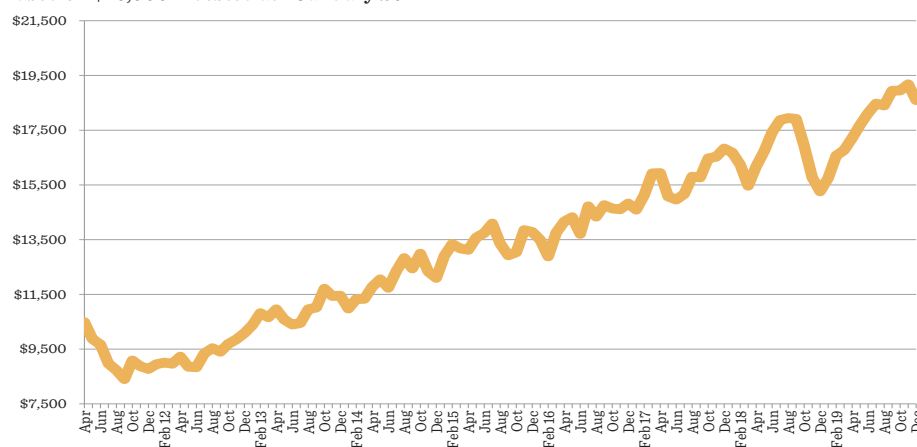
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	-3.0%	-1.8%	21.8%	7.9%	9.0%
ASX200 Index Gross (NZD)	-3.3%	-2.5%	22.5%	10.4%	8.9%

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 Australian market retraced during the month, but we were pleased to generate returns well in excess of this benchmark. Key contributors to performance included Kathmandu which rallied 9% and NewsCorp which finished up 6%. Key detractors included National Australia Bank as sentiment towards the banking sector remained fragile. In commodities, an improvement in economic data in China and news of a China /US trade deal buoyed sentiment towards this sector and iron ore, copper and oil rallied. In terms of portfolio changes we added asset manager Janus Henderson (JHG) to the portfolio as the majority of their funds are performing ahead of benchmark and recent trends in net flows have been encouraging. This business is trading at a depressed P/E multiple of 10x, a greater than 10% free-cashflow yield, a 6% dividend yield and their management continue to return excess capital via a share buyback.

## 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

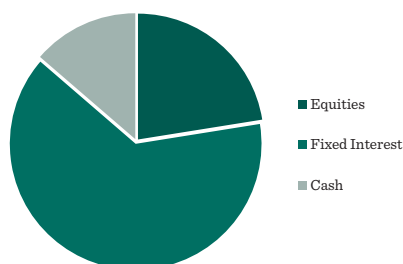
### FUND OUTLINE

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	12.1%
Australian Equities	8.5%

Bonds	63.9%
Cash	15.5%

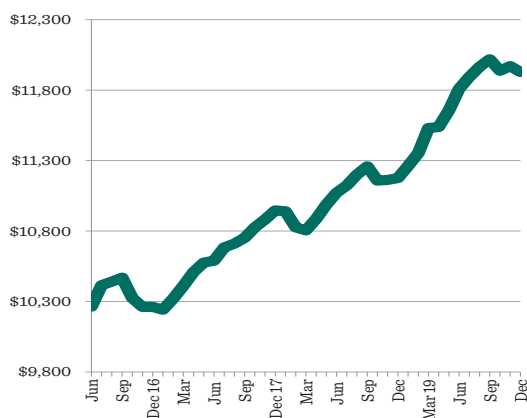
### PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Diversified Income Fund	-0.4%	-0.7%	6.7%	4.4%	5.1%
OCR + 1.5%	0.2%	0.6%	2.9%	3.1%	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

Bond yields pushed higher during the month with the US 10-year interest rate finishing at 1.92%. There were a number of significant geopolitical events which influenced investor sentiment including news of a “phase one” trade agreement between the US and China and a comprehensive success being achieved by Boris Johnson’s Conservative party in the UK’s general election. The US Federal Reserve left rates unchanged and signalled they would remain on hold during 2020, whilst economic growth continues to be underpinned by their labour market with the American unemployment rate reported at 3.5%, a 50-year low. In New Zealand, the government announced a range of significant fiscal initiatives including an additional \$12b to be invested in infrastructure with a particular focus on transport. The RBNZ also released their final decisions regarding the Bank Capital Review. Included amongst these is a requirement for our four largest banks to significantly increase their capital levels to withstand a one-in-200-year economic shock.

### 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.

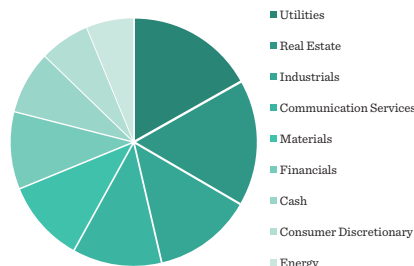
## KEY HOLDINGS



Chorus



## ASSET ALLOCATION



## ALLOCATION

New Zealand Equities	53.9%
Australian Equities	37.8%
Currency Hedge	98.3%

Cash	8.2%
Total	100.0%
Yield	6.1%

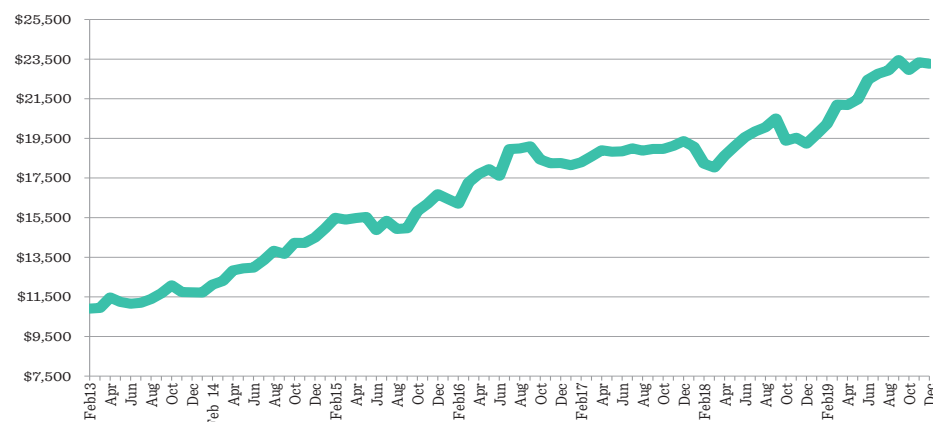
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	-0.3%	-0.8%	20.9%	8.3%	10.1%
TT Index (Hedged)	-0.3%	2.9%	26.9%	14.4%	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

Meridian Energy and Mercury Energy were significant positive contributors to the Dividend Yield Fund over December, rising respectively 6.2% and 5.2%. Both stocks continued to claw back the losses they suffered in the immediate aftermath of the announcement in October by Rio Tinto that it was reviewing the future of the Tiwai Point aluminium smelter. Sentiment around the sector has improved have views have broadly coalesced around the view that an immediate exit for the smelter is probably not the most likely outcome. Sentiment was further helped by the announcement during the month by Transpower that they would immediately begin work on the adding transmission capacity in the lower South Island (assisted by modest financial contributions from Meridian and Contact Energy, the most affected generators). The added capacity will enable the national electricity market to balance more efficiently in the event of a smelter closure as it will allow power previously consumed at Tiwai Point to be shifted to satisfy North Island demand. The largest negative contributor over the month was Z Energy which fell -14.2% after lowering FY20 earnings guidance.

## PORTFOLIO MANAGER

Nick Dravitzki



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## DEVON TRANS-TASMAN FUND

## FUND OUTLINE

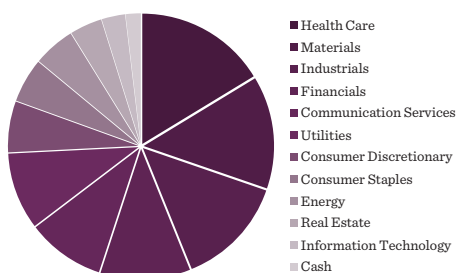
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the NZ and Australian equity markets.

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	53.1%
Australian Equities	45.0%

Cash	1.9%
Total	100.0%

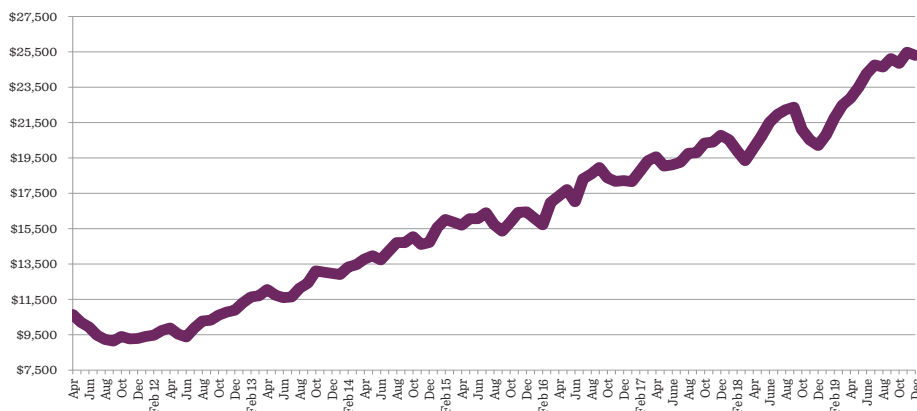
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	-0.7%	0.7%	25.1%	11.5%	10.8%
Trans-Tasman Index Gross	-0.9%	1.4%	26.4%	14.5%	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

This Fund performed ahead of its benchmark over the month. Positive contributions came from our investments in Metlifecare (+17%), Port of Tauranga (+16%) and Kathmandu (+11%). The key detractor was Z Energy (-14%) which reduced earnings guidance for FY20. Metlifecare (MET) proved to be the highlight as the company entered into a Scheme Implementation Agreement under which Asia Pacific Village Group Limited, an entity owned by EQT Infrastructure IV fund, agreed to acquire all outstanding MET shares at \$7. Somewhat surprisingly key competitors Ryman (+9%) and Summerset (+16%) rallied in sympathy although both now trade at significant premiums to their net-tangible-asset values which suggests limited potential for corporate takeover activity. In terms of portfolio changes the Fund exited its investment in Coles. This stock has performed strongly since its demerger from the Wesfarmers Group and we see the recent improvement in their operational performance as already being fully reflected in their share price.

## PORTFOLIO MANAGER

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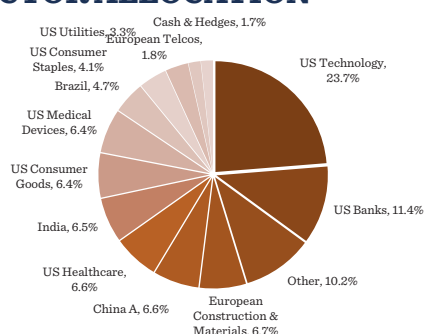


## DEVON GLOBAL THEMES FUND

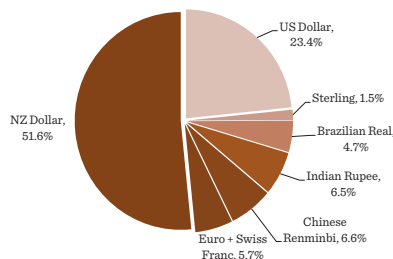
## FUND OUTLINE

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

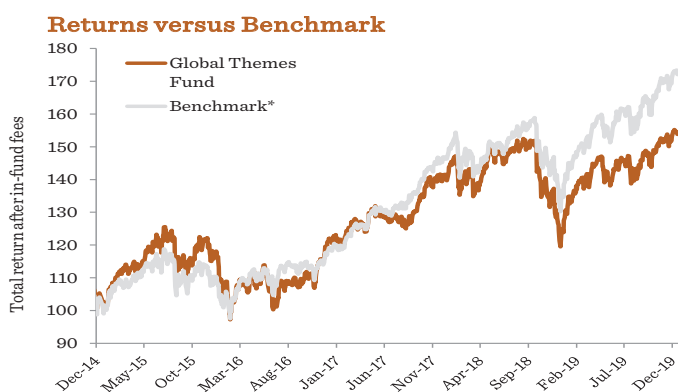
	1 Mth	3 Mth	1 Yr	3 Yr p.a
Global Themes Fund	0.7%	3.9%	23.1%	8.5%
I-Shares All Country WI	1.0%	4.8%	26.0%	13.4%

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

## 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.

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](#)

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## COMMENTARY

## What we own and why we own it

The year ended with another solid month in December (in local currency terms), with a number of these uncertainties abating somewhat. A "phase one" trade deal was finally agreed between the US and China, meaning the feared December 15 tariffs on consumer goods imports from China were avoided; the Tories won a convincing majority in the UK election leading to Boris Johnson's Brexit deal being agreed in Parliament; and the US-Mexico-Canada trade deal (USMCA) was passed by the US House, setting up for ratification in the Senate in 2020. All of this set equities up to rally nicely into Christmas and the new year. Alongside our expectation for a modest reacceleration in growth in 2020 and positive earnings growth, we see the backdrop for the coming year as reasonably supportive of continued positive returns from equities. That said, investors should not lose sight of the fact that we are later cycle, that all of the US' and China's grievances will not be put to bed in the "phase one" deal, that details around the Brexit "transition period" and subsequent trade deals remain unclear, and that 2020 is election year in the US.

Brazil and China proved to be our top performing themes during December as the US-China trade deal announcement boosted market sentiment. Brazil's central bank also raised its 2020 GDP growth forecast, helping its equity market push to record highs. European Construction & Materials also performed well on hopes for further fiscal stimulus globally over the coming year. On the other hand, the more defensive European Telecoms theme detracted from performance as equity investors maintained their risk-on sentiment.

## 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 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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