

## MONTHLY REPORT: JANUARY 2020

### The Outlook for China and Commodities

In managing our clients' New Zealand and Australian investments it is critical for us to have a view on what is happening in China. China is not only the world's second largest economy, it is also Australia's and New Zealand's largest trading partner (c. 20-30% of both countries' exports) and its economic performance directly influences investor sentiment across local stock exchanges.

As we entered 2020 there were signs that the Chinese economy was showing signs of stabilising its growth rate. This followed a five-year period where their real GDP growth rate had slowed from 8% to 6% per annum. If this growth had stabilised it would have brought with it important investment implications, particularly for the Australian commodities sector. Broader global indicators also suggested we were nearing an inflexion point for growth, following a soft patch in mid-2019. The key risk to this thesis though is the recent outbreak of the Coronavirus. This is now likely to weigh on any short-term growth recovery with longer-term economic disruption contingent on the severity and duration of the outbreak...[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	2.0%	30.4%
S&P/ASX200G	AUSTRALIA	5.0%	24.7%
MSCI World Index	GLOBAL	-0.6%	18.4%
S&P500	USA	-0.0%	21.7%
FTSE100	UK	-3.4%	9.4%
NIKKEI 225	JP	-1.9%	14.1%
NZ 90 Day Bank Bill NZ		0.1%	1.5%

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### AT A GLANCE

Prices as at 31 January 2020

DEVON ALPHA FUND	\$1.9072
DEVON AUSTRALIAN FUND	\$1.5449
DEVON DIVERSIFIED INCOME FUND	\$1.5843
DEVON DIVIDEND YIELD FUND	\$2.0535
DEVON TRANS-TASMAN FUND	\$ 4.4241
GLOBAL THEMES FUND	\$3.0782

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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.

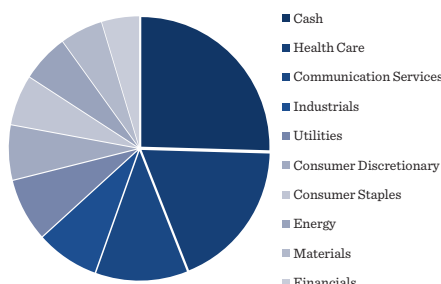
## KEY HOLDINGS



Brambles



## ASSET ALLOCATION



## ALLOCATION

New Zealand Equities	35.3%
Australian Equities	40.1%
Currency Hedge	29.3%

Cash	24.6%
<b>Total</b>	<b>100.0%</b>

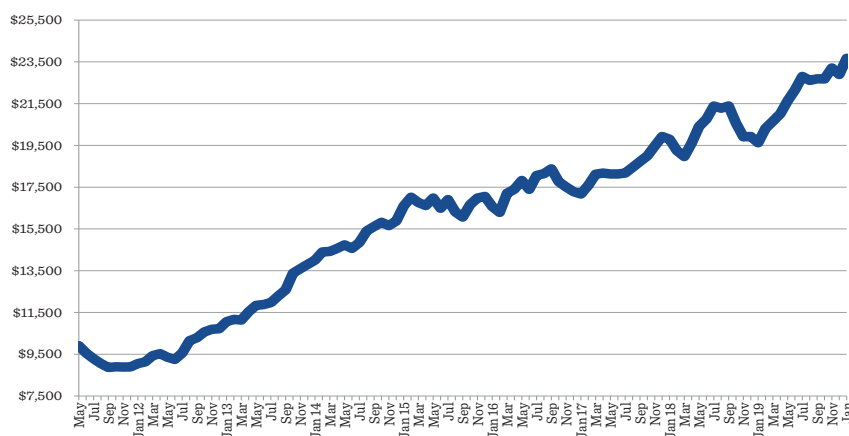
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	3.4%	4.4%	20.6%	11.3%	7.2%
OCR	0.1%	0.3%	1.3%	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

The Alpha strategy performed well in January, against a backdrop of market volatility. Resmed (+14%) was our best performing investment for the month, outperforming a buoyant healthcare sector after exceeding expectations with their 2<sup>nd</sup> quarter financial results. Whilst the 22% increase in comparable profit was partially supported by a tax benefit, their normalised operating result was still excellent. Masks and accessories were the highlight with US sales increasing by 19%. The launch of four new masks over the last 15-months has clearly assisted this growth, in addition to improving overall gross margin. Our investment in James Hardie (+14%) continued its significant out-performance as relevant data points, including housing starts and primary demand growth, continue to improve. Key input costs including pulp, freight and power are also moving favourably for the company, helping to underpin margins. Ebos (-1.6%) was our weakest performing investment, pausing for breath after a strong December.

## 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

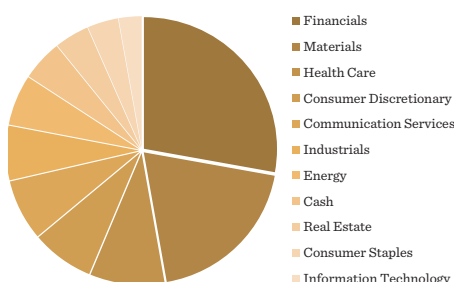
The **Australian Fund** is actively managed and invests in a select portfolio of approximately 25 to 35 companies which are primarily Australian listed companies

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	2.8%	Cash	5.0%
Australian Equities	92.2%	Total	100.0%

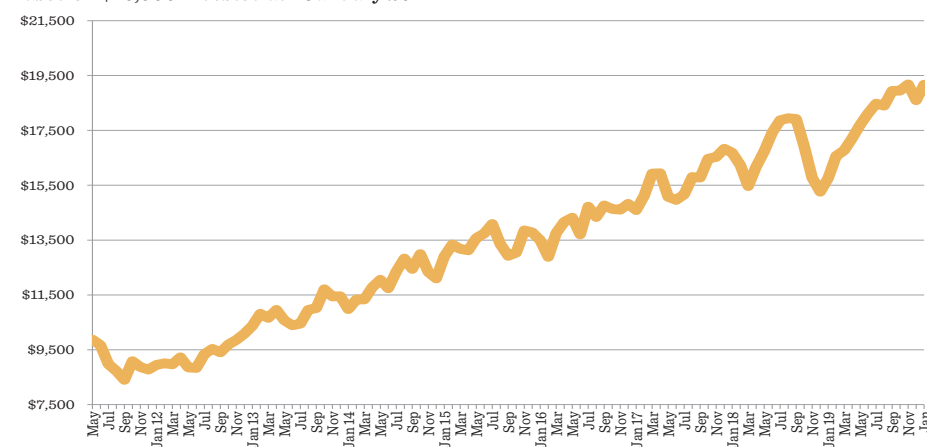
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	3.0%	1.2%	21.7%	9.5%	8.2%
ASX200 Index Gross (NZD)	4.2%	2.1%	22.7%	12.3%	8.5%

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

The Australian Fund rose 3% over the month but underperformed the S&P / ASX200G index in NZ Dollar terms. Key positive contributors to the portfolio included James Hardie, CSL, Coles and Ramsay Healthcare while detractors were Star Group and OZ Minerals. A key focus for us over the upcoming Australian reporting season will be the impact of the recent bush fires. For the Insurance sector, announced losses to-date have been material. Almost 2,500 homes have been destroyed and more than 11.7 million hectares of bushland has been razed. Key holding, Suncorp, recently announced natural hazard costs for the first-half of 2020 at \$519m. This was principally due to the bushfires, hailstorms and heavy rain in NSW. Importantly the company expects to remain within its full year hazard allowance of \$820m given the company acquired an additional \$200m of coverage in excess of its allowance during 2019. Going forward the frequent incidence of natural hazards events suggests premiums will continue to rise which should support earnings over the medium-term despite near-term challenges.

## 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

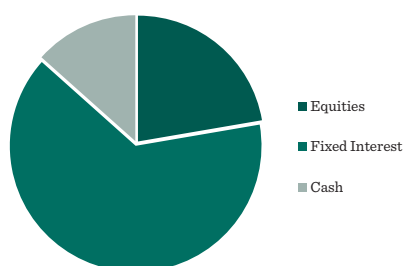
## FUND OUTLINE

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	12.6%
Australian Equities	9.2%

Bonds	64.3%
Cash	13.9%

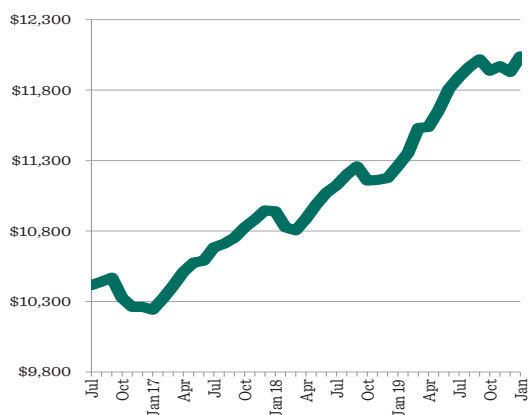
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Diversified Income Fund	0.9%	0.9%	6.9%	4.9%	5.5%
OCR + 1.5%	0.2%	0.6%	2.8%	3.1%	3.1%

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

Financial markets were volatile during the month, but global bonds broadly rallied as investors responded to the uncertainty surrounding the Coronavirus and its impact on economic activity. The interest rate on US 10-year Treasuries fell from 1.92%, in late 2019, to finish January at 1.50%. This lift in demand for fixed interest was also evident in markets such as the UK, Australia and New Zealand. The Federal Reserve left rates unchanged at their first meeting of 2020 but market expectations for an easing by the Fed have increased, in-line with the growing concerns for demand levels in China and further abroad. Central banks do tend to look through events such as natural disasters, and the spread of diseases, but policy makers have acknowledged their focus on monitoring the progress of this situation. The RBNZ is due to meet in mid-February but expectations are that rates will remain on hold.

## 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

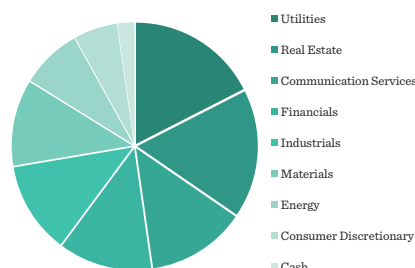
The **Devon Dividend Yield Fund** consists of a select group of up to 25-35 New Zealand and Australian listed companies.

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	56.6%
Australian Equities	41.1%
Currency Hedge	100.1%

Cash	2.3%
Total	100.0%
Yield	6.3%

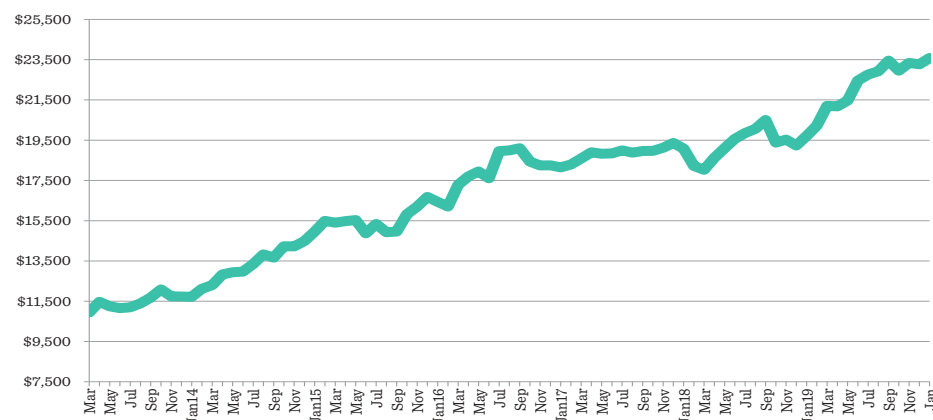
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	1.4%	2.8%	19.6%	9.0%	9.5%
TT Index (Hedged)	3.5%	7.3%	27.6%	15.4%	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

The strong local markets over January provided a good platform for a number of our investments including Fletcher Building (up 9%) and Janus Henderson (also up 9%). Fletcher Building has had its travails over recent years but finished the month very close to its highest level since late 2018, as an improving Australian residential environment and the resilient New Zealand backdrop helped investor sentiment. Janus Henderson has seen outflows from its core funds slow and has had notably improved investment performance in its flagship products over recent months. Elsewhere the Fund benefitted from the continued rebound of Meridian Energy (up 6.9%), as concerns around the future of the Tiwai Point aluminium smelter seemed to further abate, despite an absence of any new news. We expect to hear a decision on the smelter's near-term future before the end of February and note that a closure does remain a possibility. Kathmandu was our weakest performer (down -10.5%) as the market became concerned about the impact of the Australian bush fires on sales.

## PORTFOLIO MANAGER

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## DEVON TRANS-TASMAN FUND

## FUND OUTLINE

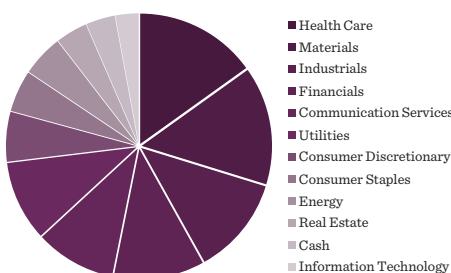
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the NZ and Australian equity markets.

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	51.1%
Australian Equities	45.2%

Cash	3.6%
Total	100.0%

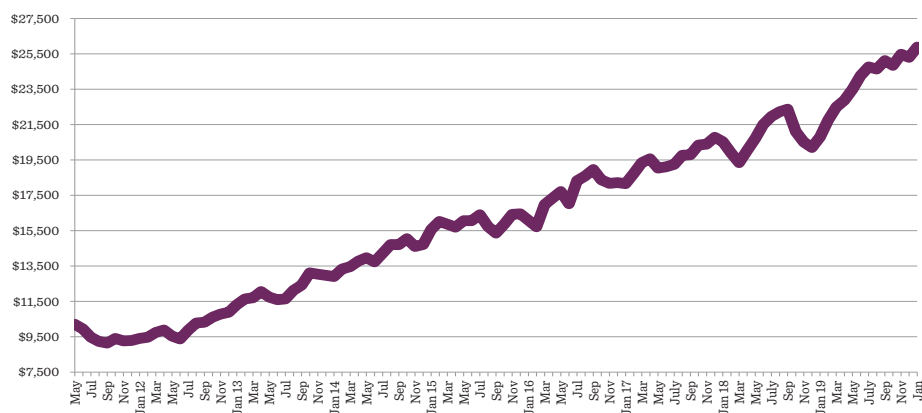
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	2.3%	4.2%	24.3%	12.5%	10.0%
Trans-Tasman Index Gross	3.1%	5.4%	26.6%	15.4%	11.9%

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

The Trans-Tasman Fund rose 2.3% over the month. Key contributors included James Hardie, CSL, Spark and Aristocrat Leisure while Kathmandu and Sky City detracted. CSL rallied 13.2% to close at an almost all-time-high for the stock. After its recent rally, this very high-quality global biotechnology company has a market capitalization of \$140bn, the second largest equity value of any company on the ASX. CSL's flu-vaccine manufacturing business, Seqirus, can expect strong demand for its products after an early start to the US flu-season and, of course, the spread of the Coronavirus. The market is also anticipating CSL will upgrade their full-year earnings guidance. James Hardie (+14.1%) continued its recent run and its share price has now almost doubled since we added it to the portfolio in mid-2019. In terms of portfolio changes, we reduced exposure to Kathmandu after a period of strong performance.

## PORTFOLIO MANAGER

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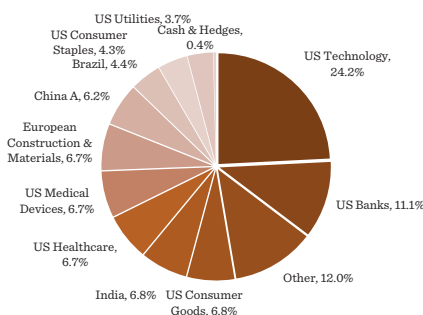


## DEVON GLOBAL THEMES FUND

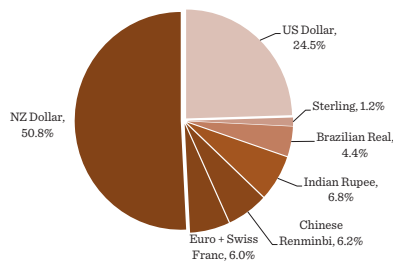
## FUND OUTLINE

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

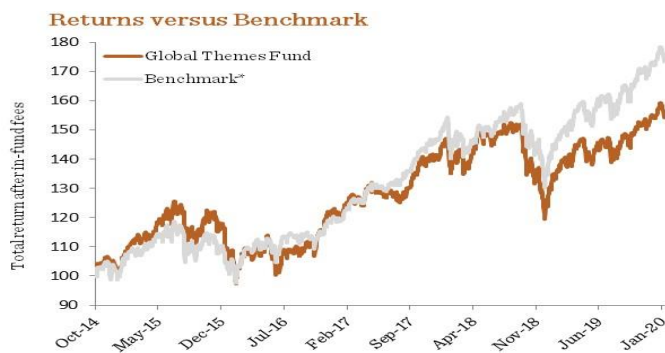
	1 Mth	3 Mth	1 Yr	3 Yr p.a
Global Themes Fund	0.2%	2.8%	14.7%	8.8%
I-Shares All Country WI	0.6%	3.9%	19.1%	13.5%

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

## 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

A busy, volatile month to start the year. Despite tensions with Iran rising at the start of the month, the S&P 500 finished January only a touch negative (in local currency terms) thanks to a reasonably solid start to earnings season (at the time of writing, we are nearly half way through and around two-thirds of companies have beat analyst expectations, with Communication Services, Technology, Consumer Discretionary and Health Care leading the pack so far). On top of this, the "phase one" trade deal between the US and China has been signed, the "new NAFTA" agreement (USMCA) has been ratified by the US Senate, the Fed has remained on hold, and the UK has finally left the EU with a deal. However, it has been the emergence of the Coronavirus in China, which has begun spreading around the world, that has kept investors on their toes, and has left Chinese equities down around 10% for the month and risk-sensitive European equities down around 2%. While we expect this to ultimately be a buying opportunity as we continue to forecast an uptick in economic data and positive earnings this year, the floor in equities may still be to come. With plenty for investors to watch this year, 2020 has started the way we expect it to continue, in a volatile fashion. However, our base case remains intact, and we urge investors to sit tight for now.

Our most defensive theme, US Utilities, has done its job this month, performing well on the back of fears around the Coronavirus and the associated pullback in bond yields. US Technology has also performed well on the back of generally solid earnings.

## 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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