

Will Interest Rates Support Share Markets, Again?

Since November 2017 global interest rates have fallen sharply. While the trend towards declining interest rates over the last 30 years has been clear, the rate of decline has increased significantly and become more fascinating as interest rates approach zero. The most important benchmark for this has been the pricing of US 10-year Treasuries where the interest rate since November 2017 has fallen from 3.2% to 2.0%, whilst yields on Australian and New Zealand government 10-year debt have also collapsed, to 1.35% and 1.6% respectively. Few young investors will remember the close to 20% interest rates on offer from government bonds in the 1980s. The degree to which these financial assets have been repriced are in themselves very important as these are the key interest rates off which the prices of all assets are fundamentally set. Investors will compare the value of any cashflow generating asset to the yield offered by government bonds (also known as the risk-free rate). This rate helps set the price of all assets from shares, to property, farms, forestry, commodities and even things as obscure as cryptocurrencies.

Interest rates are now into historically uncharted territory as illustrated by the fact that over one third of global government bonds, or more than \$13 trillion in global debt, is now trading with a negative yield. In simple terms this means that if someone was to purchase ... [READ MORE](#)

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MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	3.8%	17.4%
S&P/ASX200G	AUSTRALIA	3.7%	11.5%
MSCI World Index	GLOBAL	6.6%	6.9%
S&P500	USA	7.0%	10.4%
FTSE100	UK	4.0%	1.6%
NIKKEI 225	JP	3.5%	-2.6%
NZ 90 Day Bank Bill NZ		0.1%	1.9%

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AT A GLANCE

Prices as at 30 June 2019

DEVON ALPHA FUND	\$1.8084
DEVON AUSTRALIAN FUND	\$1.4848
DEVON DIVERSIFIED INCOME FUND	\$1.5985
DEVON DIVIDEND YIELD FUND	\$2.0237
DEVON TRANS-TASMAN FUND	\$4.2182
GLOBAL THEMES FUND	\$2.8701

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DEVON ALPHA FUND

FUND OUTLINE

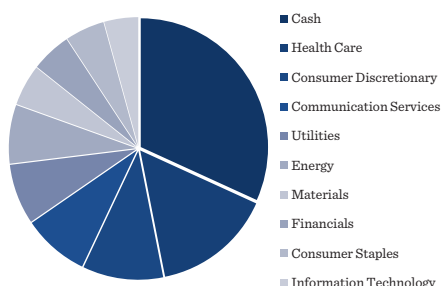
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	39.2%
Australian Equities	30.2%
Currency Hedge	29.9%

Cash	30.6%
Total	100.0%

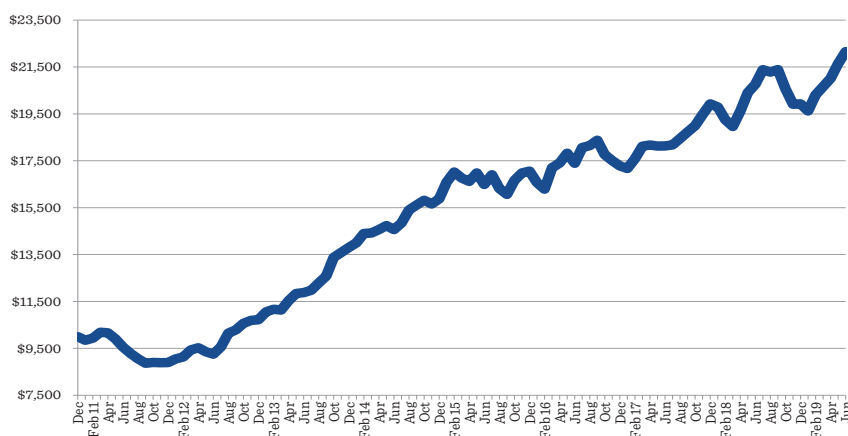
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	2.4%	7.2%	6.7%	8.1%	8.5%
OCR	0.1%	0.4%	1.7%	1.8%	2.3%

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

This strategy generated strong absolute returns during the month with our investment in Brambles rallying 6.4% whilst Contact Energy finished up 8.6%. Biotechnology company, CSL, was also a notable contributor closing 4.6% higher. This performance was achieved despite CSL announcing that their short-term earnings will be negatively impacted by a decision to shift to an own distributor model for albumin sales in China. Notwithstanding lower forecast albumin sales in FY20, investors are optimistic that this strategic change will mean that CSL will now have increased control of their destiny in China through direct contact with their clinical customers. This initiative will also contribute to the potential for CSL to offer a broader range of products into this market.

There were no major changes made to the portfolio during June, but we have reduced our exposure to Brambles and Aristocrat Leisure after recent strong performances from these stocks.

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

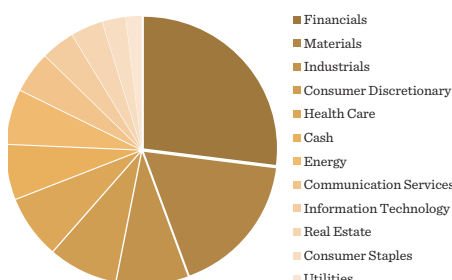
The **Australian Fund** is actively managed and invests in a select portfolio of approximately 25 to 35 companies which are primarily Australian listed companies

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	4.1%	Cash	6.7%
Australian Equities	89.2%	Total	100.0%

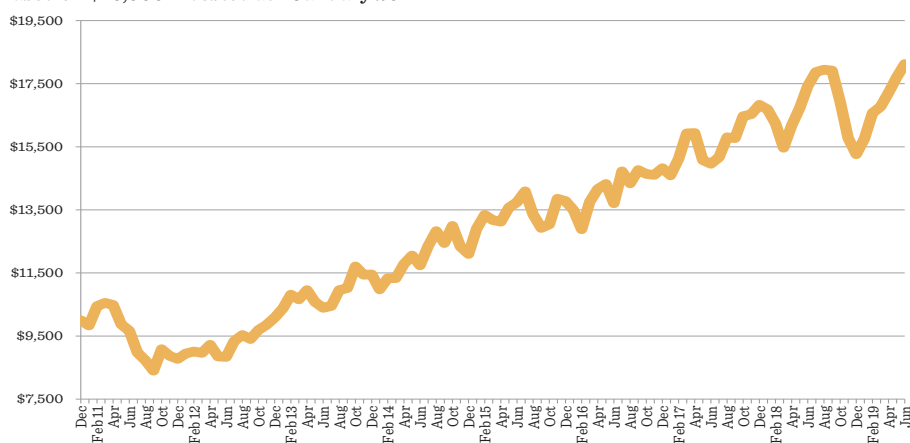
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	2.4%	8.1%	4.0%	9.7%	9.1%
ASX200 Index Gross (NZD)	1.9%	8.3%	6.8%	12.9%	8.2%

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

We were pleased with the returns being delivered by many of our key holdings during the month. Specifically, this included great contributions from companies such as Atlas Arteria whose shares closed 11% higher. PWR Holdings also rallied as demand continues to be strong for their customised automotive cooling systems. PWR Holdings is a key supplier into Formula 1 but is also increasingly seeing demand from new areas such as the cooling systems for electric vehicles. This positive backdrop has seen its shares rally 55% over the past 12 months.

The key detractor from performance over the month was a profit downgrade from Star Entertainment Group (SGR). SGR guided to an FY19 profit range of A\$550-560m. This equated to a 9% downgrade relative to expectations due to headwinds from increased petrol prices, falling housing prices and low wage growth.

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

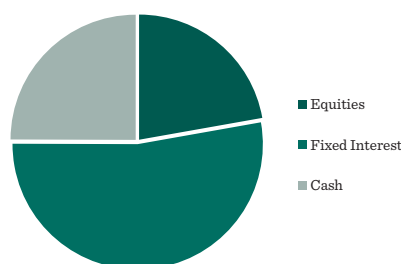
FUND OUTLINE

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	13.0%
Australian Equities	8.3%

Bonds	52.8%
Cash	25.9%

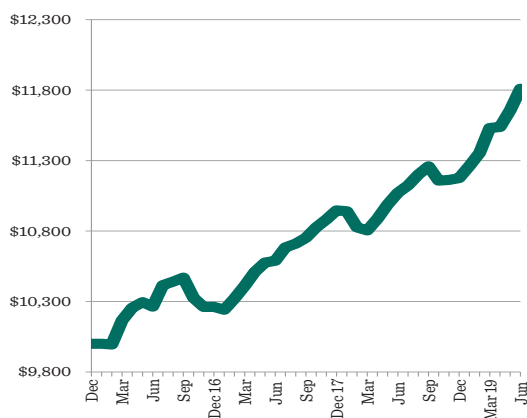
PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Diversified Income Fund	1.3%	2.4%	6.7%	5.6%	5.1%
OCR + 1.5%	0.2%	0.8%	3.2%	3.3%	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

Global bonds rallied during the month with the yield on the benchmark US 10-year Treasury note falling below 2% for the first time since November 2016. This followed dovish comments by the Federal Reserve where they signaled an easing bias and much of the US economic data that was also released was weaker-than-expected. The RBA announced a 0.25% cut to its cash rate, which is their first move since August 2016. This change, to a 1.25% level, was justified on the grounds of it supporting jobs growth in Australia and reducing mortgage interest costs. The RBNZ also met but decided on not changing rates this time. The market consensus view is that we will see at least one further cut by them over the next six months. Current pricing of fixed interest around the world is increasingly reflective of concerns over growth prospects and geopolitical tensions. During June, the interest rate on German Bunds for example, fell to a new record low of -.027%.

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

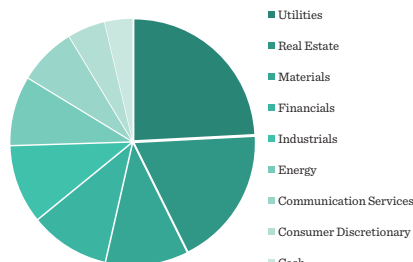
The **Devon Dividend Yield Fund** consists of a select group of up to 25-35 New Zealand and Australian listed companies.

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	58.7%
Australian Equities	37.5%
Currency Hedge	96.9%

Cash	3.9%
Total	100.0%
Yield	6.7%

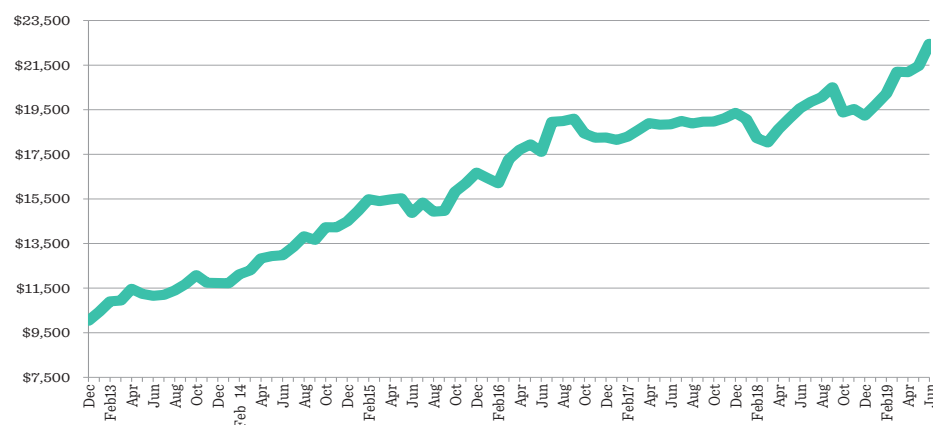
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	4.6%	5.9%	14.8%	8.4%	11.8%
TT Index (Hedged)	3.7%	7.3%	14.5%	14.0%	12.1%

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 very strong June on strong investor demand for the higher yielding parts of the market. A key holding that contributed materially over the month was Sydney Airport. The largest airport in Australia is incredibly well positioned in the heart of the city and is the main gateway into the country for international visitors – it is essentially a monopoly provider to a local catchment of 7.5m people and a major tourism and business hub. The intrinsic attractions of Sydney Airport are large, but the stock price has been under some pressure recently due to a period of slightly weaker international and domestic passenger growth. The company's regular monthly traffic update for May was released in the middle of June and surprised the market with a strong rebound in international traffic, up 6.3%. Although we remain of the view that near term traffic growth will be quite modest, the market's reaction (the stock price rose immediately on the announcement and returned 11.1% for the month) indicates the current appetite to own quality infrastructure assets that pay good dividend yields.

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DEVON TRANS-TASMAN FUND

FUND OUTLINE

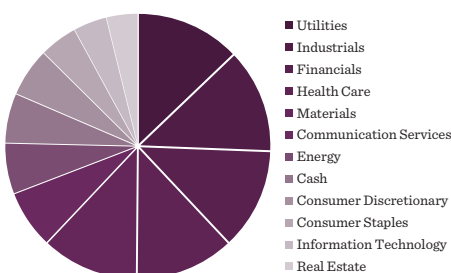
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the NZ and Australian equity markets.

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%	Cash	5.9%
Australian Equities	44.3%	Total	100.0%

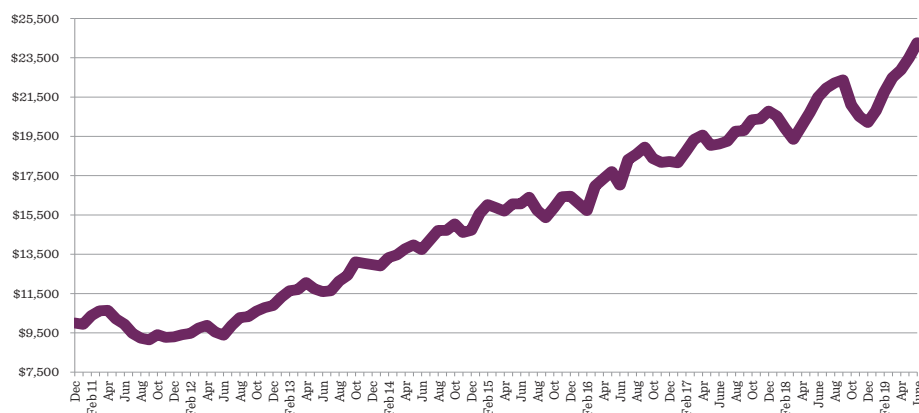
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	3.3%	7.9%	12.7%	11.4%	11.4%
Trans-Tasman Index Gross	2.9%	7.5%	12.1%	13.9%	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

June proved to be a positive month for our Trans-Tasman strategy, generating strong absolute and relative returns. Notable contributions to the portfolio came from Sydney Airport (+11%), Atlas Arteria (+11%) and Meridian (+12%). Meridian looks set to deliver a very strong full-year result after recently reporting that their margins continue to benefit from elevated wholesale prices coupled with strong hydro volumes. These factors are expected to drive profit growth of over 20% this year which helps explain why their share price is up 60% during the past 12-months. During June we reduced our holdings in the Australian banks. This sector has performed well since the federal election but a recent research trip to Australia confirmed that their earnings are at risk from further RBA rate cuts, regulation and remediation costs. Our underweight positions in a2Milk and Fisher & Paykel Healthcare also added to relative performance over the month.

PORTFOLIO MANAGER

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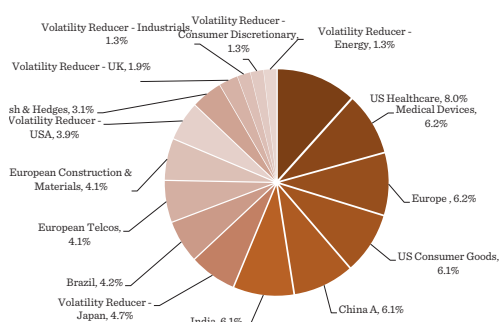


DEVON GLOBAL THEMES FUND

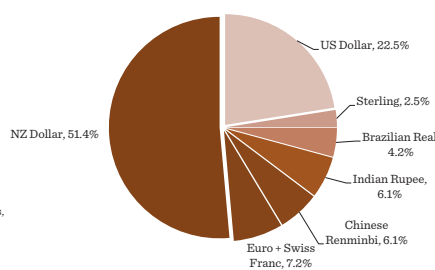
FUND OUTLINE

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

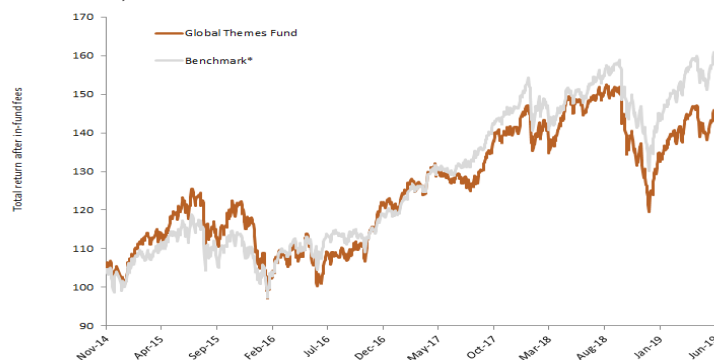
	1 Mth	3 Mth	1 Yr	3 Yr p.a
Global Themes Fund	4.2%	2.4%	-1.0%	11.7%
I-Shares All Country WI	5.0%	4.0%	6.2%	13.3%

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

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 & 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

The US-China trade spat remained at the forefront of investors' minds during June, in the lead up to the G-20 at the end of the month. Essentially, however, we're back to where we were a few months ago, with Presidents' Trump and Xi shaking hands and agreeing to pick up negotiations where they left off previously. We expect the clear will from both sides to 'do a deal' will see equities supported initially, however significant uncertainties and hurdles remain, which will likely take time to work through. This will likely cap equities to the upside. In the meantime, another round of escalation cannot be ruled out.

Outside of trade, June was all about the Fed. A dovish statement out of the FOMC's June meeting pushed equities higher, sealing another strong month in absolute terms. China, Medical Devices, Europe and US Technology were our top-performing themes during the month. However, the Fed is where we see the most risk. With close to two interest rate cuts priced in by markets, it will be hard for the Fed to positively surprise. Economic data has been somewhat lacklustre of late, however we still expect a stabilisation, making the risk of the Fed disappointing equity markets at some point real, in our view.

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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