

MONTHLY REPORT: NOVEMBER 2019

Signposts to watch out for in 2020

Equity investors have enjoyed an incredible ride over the past decade with the US S&P500 index rallying over 300% since early 2009, and New Zealand's NZX50 up by a similar amount. This performance has been supported by a range of sources including record low interest rates, massive liquidity strategies from the major central banks and government fiscal initiatives. As we look into 2020, with many stock markets trading at, or near to, all-time-highs the question many are asking is where we go from here and what are the most significant signposts to look out for.

In a global context the two economies which continue to have the most influence on world growth outcomes are the US and China. Over the past year both these countries have been challenged by deteriorating outcomes. A major catalyst for this has been the Sino-US trade tensions which have created uncertainty across the global supply chain and weighed on corporate profits...[READ MORE](#)

Devon Online Investor Portal

Visit 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	4.9%	28.3%
S&P/ASX200G	AUSTRALIA	3.3%	26.0%
MSCI World Index	GLOBAL	2.8%	15.2%
S&P500	USA	3.6%	16.1%
FTSE100	UK	1.8%	10.2%
NIKKEI 225	JP	1.6%	6.5%
NZ 90 Day Bank Bill NZ		0.1%	1.6%

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

Devon Funds Management Limited, its directors, employees and agents believe that the information herein is correct at the time of compilation; however they do not warrant the accuracy of that information. Save for any statutory liability which cannot be excluded, Devon Funds Management Limited further disclaims all responsibility or liability for any loss or damage which may be suffered by any person relying upon such information or any opinions, conclusions or recommendations herein whether that loss or damage is caused by any fault or negligence on the part of Devon Funds Management Limited, or otherwise. This disclaimer extends to any entity which may distribute this publication and in which Devon Funds Management Limited or its related companies have an interest. We do not disclaim liability under the Fair Trading Act 1986, nor the Consumer Guarantees Act 1993, to the extent these Acts apply. This document is issued by Devon Funds Management Limited. It is not intended to be an offer of units in any of the Devon Funds (the 'Funds'). Anyone wishing to apply for units will need to complete the application form attached to the current Product Disclosure Statement (PDS) which is available at www.devonfunds.co.nz. Devon Funds Management Limited, a related company of Investment Services Group Limited, manages the Funds and will receive management fees as set out in the PDS. This document contains general securities advice only. In preparing this document, Devon Funds Management Limited did not take into account the investment objectives, financial situation and particular needs ('financial circumstances') of any particular person. Accordingly, before acting on any advice contained in this document, you should assess whether the advice is appropriate in light of your own financial circumstances or contact your financial adviser. No part of this document may be reproduced without the permission of Investment Services Group.

AT A GLANCE

Prices as at 30 November 2019

DEVON ALPHA FUND	\$1.8697
DEVON AUSTRALIAN FUND	\$1.5457
DEVON DIVERSIFIED INCOME FUND	\$1.5903
DEVON DIVIDEND YIELD FUND	\$2.0582
DEVON TRANS-TASMAN FUND	\$4.3551
GLOBAL THEMES FUND	\$3.0509

IN THIS REPORT

Market Commentary	Page 1
At a Glance	Page 1
Devon Fund Summaries	
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

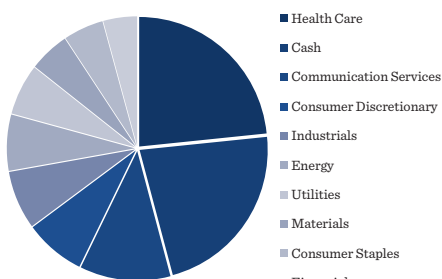
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	39.5%
Australian Equities	38.8%
Currency Hedge	30.7%

Cash	21.7%
Total	100.0%

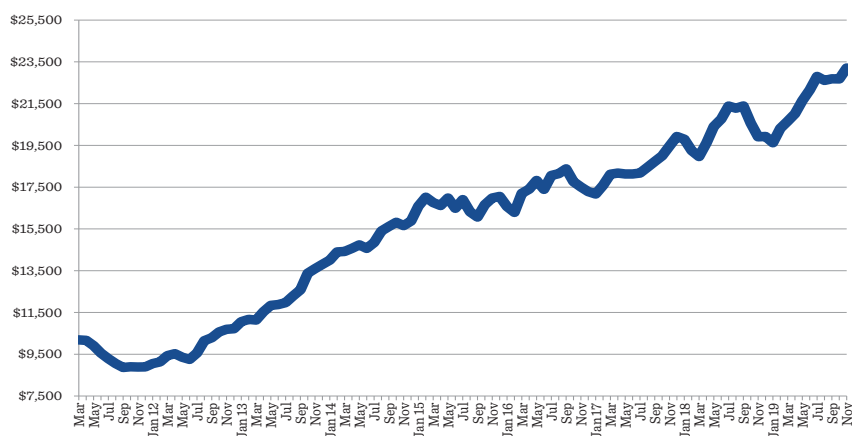
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	2.3%	2.6%	16.6%	9.9%	8.0%
OCR	0.1%	0.2%	1.5%	1.7%	2.1%

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 solid positive return in November as the market digested the last of the year's corporate announcements from AGM's and financial reporting. M&A activity was also high with announcements in both Australia and New Zealand generating considerable opportunity. Our recent investment in Metlifecare benefited from the announcement that they had received a non-binding indicative offer for the company (its shares finished the month up 21%). Our view is that this business has been notably undervalued for quite some time, relative to both its listed peer group and its underlying asset value. A local investment bank has been appointed by Metlifecare to consider the proposal and we expect to hear further commentary from management and/or their Board in the coming weeks. Irrespective of how this corporate activity develops, we are confident in this investment due to its high-quality portfolio of retirement villages and the growth opportunities that exist in this sector.

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.

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

**DEVON
FUNDS.**

www.devonfunds.co.nz



DEVON AUSTRALIAN FUND

FUND OUTLINE

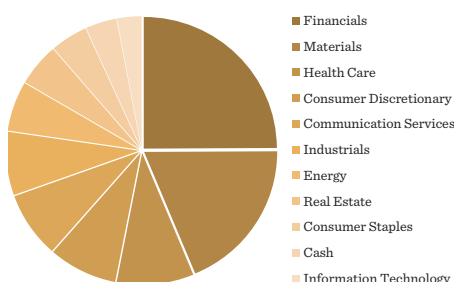
The **Australian Fund** is actively managed and invests in a select portfolio of approximately 25 to 35 companies which are primarily Australian listed companies

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	3.8%
Australian Equities	93.2%	Total	100.0%

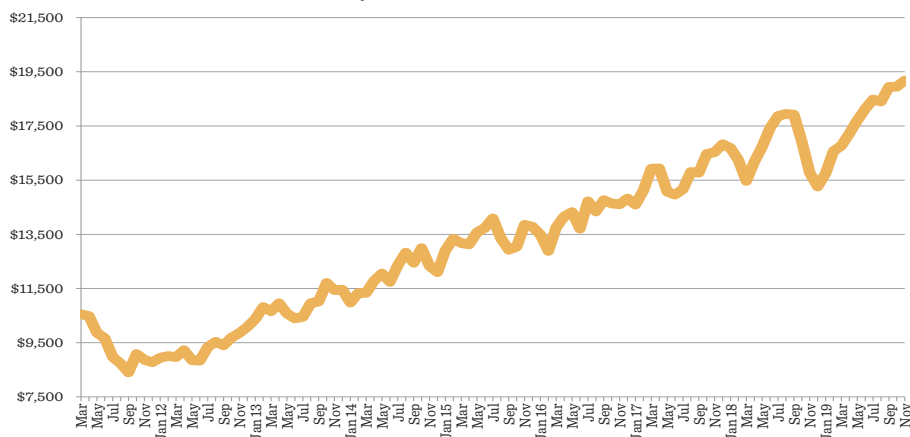
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	1.2%	4.2%	21.5%	9.5%	9.2%
ASX200 Index Gross (NZD)	1.3%	3.4%	24.9%	13.1%	9.2%

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 completed a number of research trips to Australia during November and were encouraged by the operating performances of many of our current portfolio companies. We also identified a number of new investment opportunities during these visits, which are now under review by our team. During the month the Australian Fund generated a strong absolute return (+2%) but performed slightly behind its underlying benchmark. Encouragingly a number of our key holdings made impressive contributions to this as the Australian market rallied to a record high. Amongst these good performers were holdings James Hardie (+16.9%), Amcor (+10.7%) and CSL (+10.7%). Amcor (AMC) rallied over the month after the company reported a solid quarterly result and re-affirmed FY20 EPS guidance of +5% to +10%. AMC also noted they are gaining momentum on their sustainability targets with key customers. Amcor has pledged to develop all its packaging to be recyclable or reusable by 2025.

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.

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

**DEVON
FUNDS.**

www.devonfunds.co.nz

DEVON DIVERSIFIED INCOME FUND

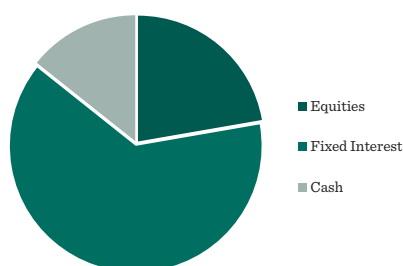
FUND OUTLINE

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	12.7%
Australian Equities	9.2%

Bonds	63.4%
Cash	14.7%

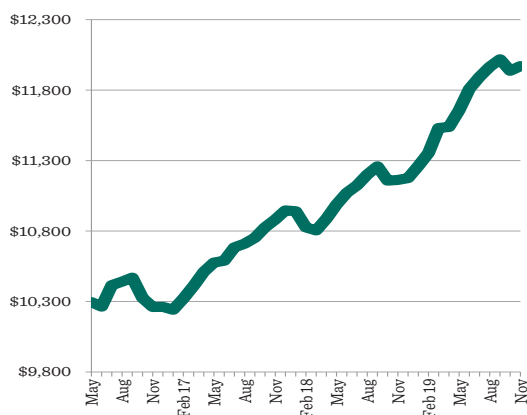
PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Diversified Income Fund	0.3%	0.1%	7.2%	4.9%	5.3%
OCR + 1.5%	0.2%	0.6%	3.0%	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

Global bond rates drifted slightly higher over the month with the US 10-year government yield closing at 1.78%. The Reserve Bank of New Zealand met in November and once again surprised investors as they left the OCR unchanged at 1%. Market expectations had been for a cut to this rate. This was supposedly a close call though by the RBNZ, as within their policy statement they acknowledged that domestic economic conditions remain challenging, but they are prepared to wait-and-see how their recent policy easing and the expectation of government spending in 2020 will present itself in domestic growth next year. The RBA also met, and similarly left rates unchanged after announcing a cut of 0.25% in October. Despite encouraging signs in the Australian property market, Governor Lowe remains wary of the prospect of slower jobs growth and low inflation.

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.

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

DEVON FUNDS.

www.devonfunds.co.nz

DEVON DIVIDEND YIELD FUND

FUND OUTLINE

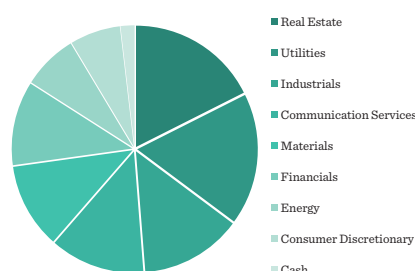
The **Devon Dividend Yield Fund** consists of a select group of up to 25-35 New Zealand and Australian listed companies.

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	56.9%
Australian Equities	41.2%
Currency Hedge	100.4%

Cash	1.9%
Total	100.0%
Yield	6.5%

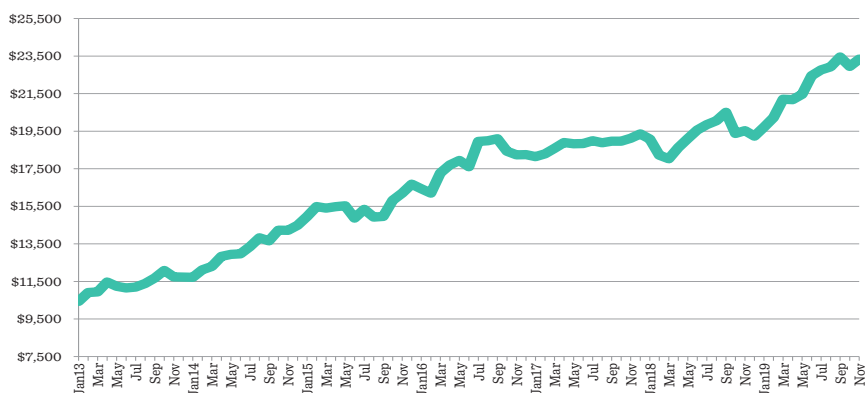
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	1.7%	1.8%	19.5%	8.5%	10.6%
TT Index (Hedged)	4.1%	5.0%	27.1%	15.3%	12.9%

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 generated a positive absolute return during November. One of the strongest contributors over the month was our investment in the large global fund manager, Janus Henderson which returned more than 15%. Companies within this listed sector are typically highly leveraged to the short-term gyrations of the markets in which they invest, but the important part of the Janus story is that it is exposed to an improving fundamental outlook. The company today is the result of the merger of UK based Henderson Group (which had been owned by AMP) and US based Janus Capital Group in 2017. Post-merger the business saw significant key staff departures and poor fund performance which exacerbated asset outflows. Despite these historical pressures, Janus Henderson has pleasingly begun to enjoy significantly improved fund performance, a sharp slowing in client withdrawals and the first signs of positive results from newly restructured business units.

PORTFOLIO MANAGER

Nick Dravitzki



Over the last decade Nick has specialised in investing in high yield equities and is Portfolio manager for the 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.

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

DEVON FUNDS.

www.devonfunds.co.nz



DEVON TRANS-TASMAN FUND

FUND OUTLINE

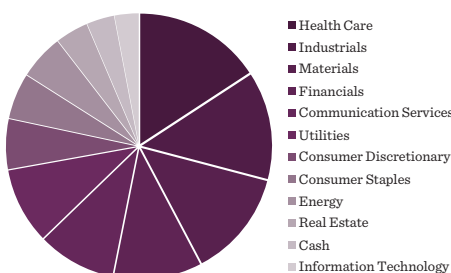
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the NZ and Australian equity markets.

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	51.9%
Australian Equities	44.7%

Cash	3.4%
Total	100.0%

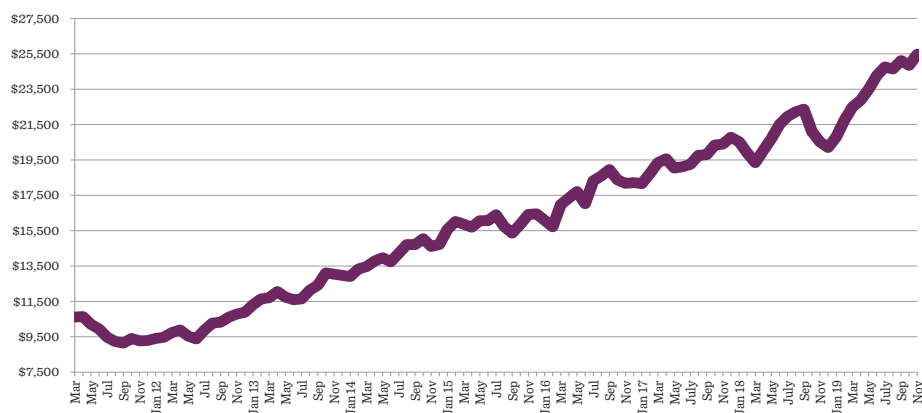
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	2.5%	3.4%	24.1%	11.9%	11.1%
Trans-Tasman Index Gross	3.1%	4.3%	26.6%	15.5%	12.5%

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 strategy generated a solid return for investors over the month but did perform slightly behind its benchmark. Encouragingly, a number of our key investments made good positive contributions. Included among these were Metlifecare and James Hardie, which rallied 21% and 17% respectively. We also purchased a2Milk, ahead of their recent AGM, after their share price had fallen heavily in recent months. This share price rallied strongly subsequent to our purchase. James Hardie finished the month up 17% and is now up 81% over the past 12-months. The major catalyst for this return was the reporting of another strong quarterly result. The outlook for their earnings was upgraded as the company continues to take share in its fibre cement product in the US and operating costs declined due to efficiency gains. The backdrop for US housing is also very supportive with housing starts rising 3.8% to a seasonally adjusted rate of 1.31 million units while building permits rose 5% to a rate of 1.461 million units, the highest level since May 2017.

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.

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

**DEVON
FUNDS.**

www.devonfunds.co.nz

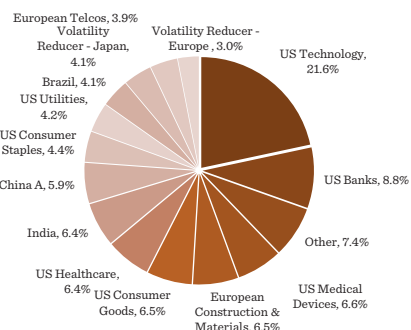


DEVON GLOBAL THEMES FUND

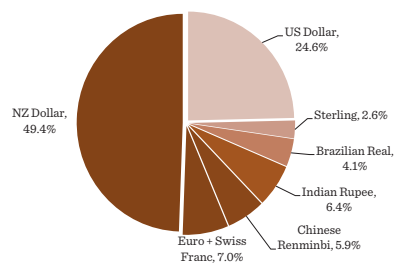
FUND OUTLINE

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

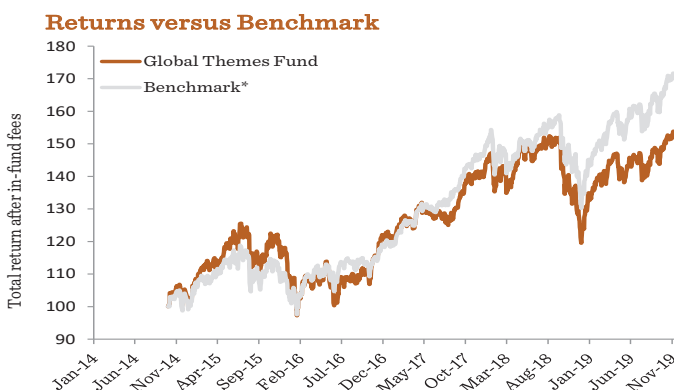
	1 Mth	3 Mth	1 Yr	3 Yr p.a
Global Themes Fund	1.9%	5.8%	12.3%	9.8%
I-Shares All Country WI	2.3%	6.5%	17.2%	14.2%

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 & 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](#)

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

COMMENTARY

What we own and why we own it

Global equities continued their strong rally in November, with investors exhibiting excitement over US-China trade talks, a stabilisation in pockets of economic data, and a better-than-expected US earnings season. Despite the equity market having moved to price in a fair bit of good news (leaving little room for disappointment), we too are feeling more upbeat heading into 2020. We cannot dismiss the realities that we are later cycle, that the trade war could easily escalate again, and that the economic data could roll over, we are comforted by the fact that there are very few signs of an impending recession, monetary policy will stay accommodative for some time yet, and we are seeing signs of fiscal stimulus on the horizon. There will be plenty of factors and events for investors to grapple with in 2020 – the US election being arguably the most important – which will keep volatility elevated. However, we see good prospects for modest positive returns from equities in 2020.

Healthcare was the portfolio's best performing theme during November, on the back of: 1) a solid earnings season, as well as 2) comments from Elizabeth Warren suggesting a delay in the timeline for implementing a 'Medicare for all' scheme should she win the Democratic nomination, and the election, next year. US Technology (on the back of broad risk-on appetite and some good earnings growth numbers) and US Banks (following another leg-up in bond yields) also performed well during November.

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 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.

**DEVON
FUNDS.**

www.devonfunds.co.nz