

MONTHLY REPORT: MARCH 2019

A Trip to China

In managing our clients' NZ and Australian investments it is critically important to have a clear 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 influences investor sentiment in both the New Zealand and Australian share markets.

Portfolio Manager Tama Willis, who has researched China for over 15 years, recently spent a week in Beijing, Shanghai and Tangshan attending presentations and talking to companies and commodity experts. His visit came at a time of surging Australasian commodity exports, however set against a backdrop of slowing global growth and perceived challenges with China in areas such as security (China Sea), technology (Huawei) and direct investment.

Signs of a slowdown?

Since our last visit in 2018, which coincided with the imposition of import tariffs on Chinese goods by the US government, the Chinese economy has slowed down. For example, the recently released February industrial production data was the weakest result since 2009 ... [Read More](#)

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MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	5.6%	18.3%
S&P/ASX200G	AUSTRALIA	0.7%	12.1%
MSCI World Index	GLOBAL	1.4%	4.6%
S&P500	USA	1.9%	9.5%
FTSE100	UK	3.3%	7.7%
NIKKEI 225	JP	-0.0%	0.9%
NZ 90 Day Bank Bill NZ		0.2%	1.9%

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AT A GLANCE

Prices as at 31 March 2019

DEVON ALPHA FUND	\$1.710
DEVON AUSTRALIAN FUND	\$1.399
DEVON DIVERSIFIED INCOME FUND	\$1.576
DEVON DIVIDEND YIELD FUND	\$1.933
DEVON TRANS-TASMAN FUND	\$3.981
GLOBAL THEMES FUND	\$2.803

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DEVON ALPHA FUND

FUND OUTLINE

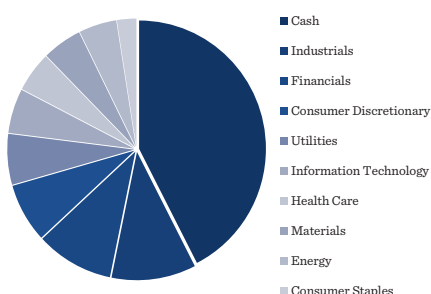
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	30.2%
Australian Equities	36.9%
Currency Hedge	29.9%

Cash	32.9%
Total	100.0%

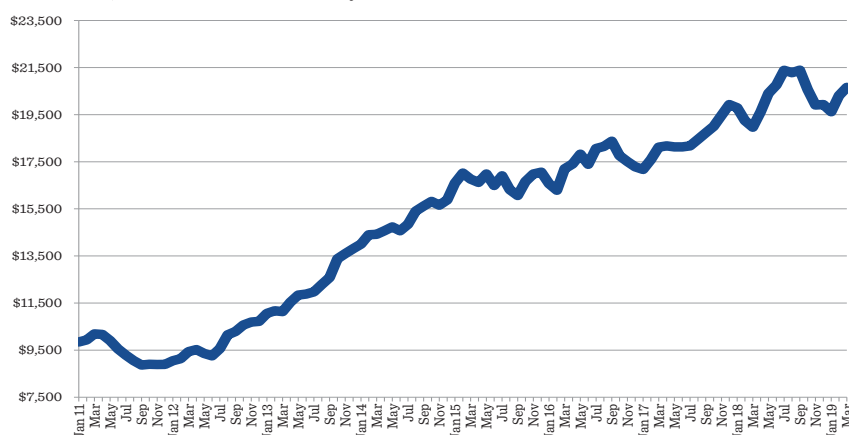
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	1.7%	8.0%	8.9%	6.0%	7.3%
OCR	0.1%	0.4%	1.7%	1.8%	2.4%

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 return during March. Our large position in Contact Energy fared exceedingly well, finishing up almost 13%. A strong set of February operating statistics underpinned expectations for the company to grow their 2019 operating profit by almost 10% and support a strong lift in their dividends. With their SAP system now complete, we assume Contact can continue to remove costs effectively which will further underpin their earnings prospects. Other highlights included another strong run from Vista, which closed up 9.1%. After delivering a solid first-half result in February investors continue to show their support for this business, particularly with respect to their Cinema and Movio divisions.

Our cash holding has recently fallen from 43% to 33% as we have identified new investment opportunities across both New Zealand and Australia.

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

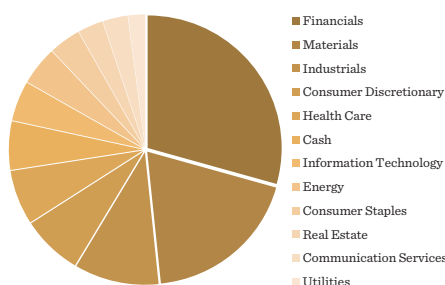
The **Australian Fund** is actively managed and invests in a select portfolio of approximately 25 to 35 companies which are primarily Australian listed companies

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	4.9%	Cash	5.9%
Australian Equities	89.2%	Total	100.0%

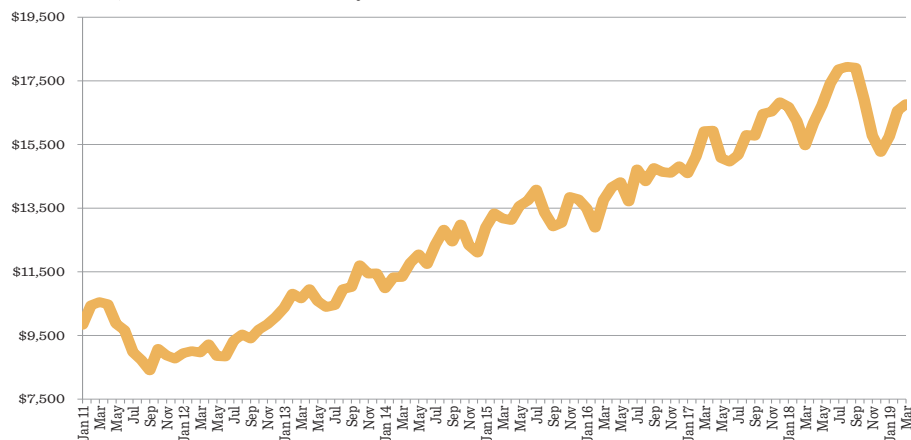
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	1.2%	9.9%	8.4%	6.8%	8.1%
ASX200 Index Gross (NZD)	0.5%	10.0%	9.8%	9.2%	6.9%

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 was modestly positive during the month and we were pleased to generate returns in excess of this benchmark. Key contributors to performance included Scentre Group which rallied 6% and BHP Billiton which finished up 4%.

Our underweight position in the Bank sector also benefited the portfolio in a relative context. There remain considerable headwinds for the Banks over the coming year including falling house prices, rising arrears, slowing credit growth, increased regulatory oversight, customer remediation and potentially higher capital ratios in New Zealand. This portfolio is overweight National Australia Bank but underweight the rest of the sector (CBA, Westpac and ANZ). In commodities we added to our Rio Tinto position following a research trip to China. Near term steel demand looks positive due to an improvement in Infrastructure investment. This is an important driver of iron ore demand.

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

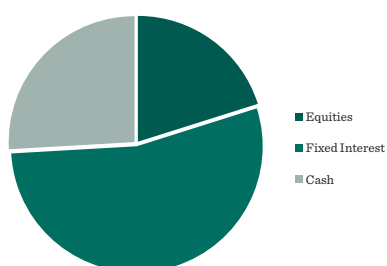
FUND OUTLINE

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	7.3%

Bonds	53.9%
Cash	25.8%

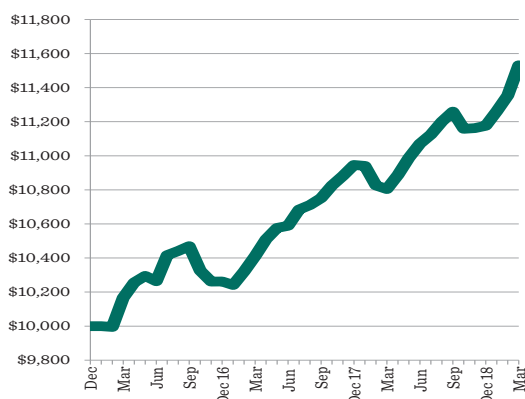
PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a
Devon Diversified Income Fund	1.6%	3.2%	6.8%	5.2%
OCR + 1.5%	0.3%	0.8%	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 strongly during the month with the yield on US 10-year Treasuries finishing at 2.44% (the yield was at 2.75% in early March). The primary reason for this move was comments by the Federal Reserve that they had abandoned projections for further rate hikes this year on expectations of a slowdown in US economic growth. These challenges though are not unique to the US with the European Central Bank also downgrading their growth forecasts for 2019 and Australia delivering their slowest rate of growth since 2017 at 2.3%.

In New Zealand the markets were also surprised by the dovish tone of RBNZ Governor Adrian Orr when he identified that the next adjustment to our cash-rate is most likely to be down. This environment of weaker global growth and low levels of inflation is being reflected in some dramatic market behaviour with almost US\$11 trillion in government bonds currently being priced with negative yields!

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

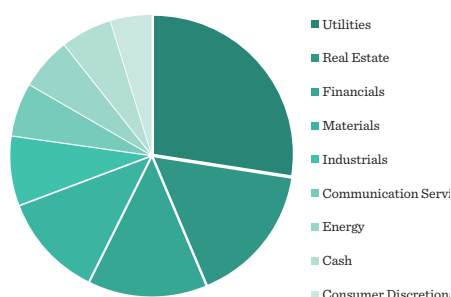
The **Devon Dividend Yield Fund** consists of a select group of up to 25-35 New Zealand and Australian listed companies.

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	60.4%
Australian Equities	33.7%
Currency Hedge	95.5%

Cash	5.9%
Total	100.0%
Yield	6.9%

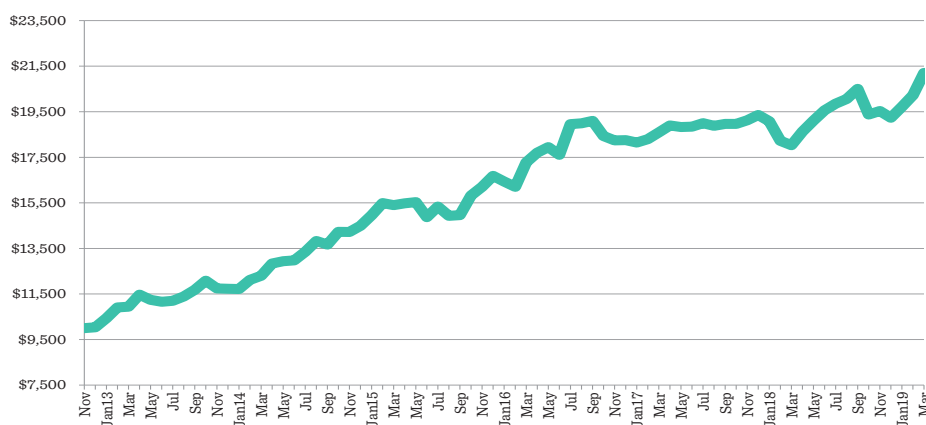
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	4.8%	10.2%	17.6%	7.0%	11.7%
TT Index (Hedged)	3.2%	11.3%	15.2%	12.4%	10.6%

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 performed very strongly over March. Three of the four strongest performers in the market over March, and all key holdings of the Dividend Yield Fund, were Meridian Energy, Genesis Energy and Contact Energy. These companies rallied by 16%, 15% and 13% respectively. The latest catalyst for “dividend yield seeking” by local and global investors was the Federal Reserve’s dovish policy statement on the 20th of March. Typically the broader New Zealand market benefits from this backdrop because it is perceived as a high yielding market relative to others around the globe.

The portfolio also benefitted from its exposure to Spark New Zealand and the continued strong performance from its allocation towards high yielding resource stocks Rio Tinto and BHP. The worst performers over the month included Kathmandu and Westpac. The banking sector remains under pressure due to economic and regulatory headwinds.

PORTFOLIO MANAGER

Nick Dravitzki



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DEVON TRANS-TASMAN FUND

FUND OUTLINE

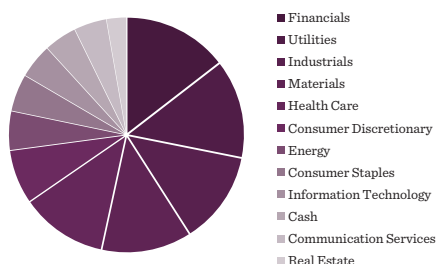
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the NZ and Australian equity markets.

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	51.3%
Australian Equities	44.2%

Cash	4.5%
Total	100.0%

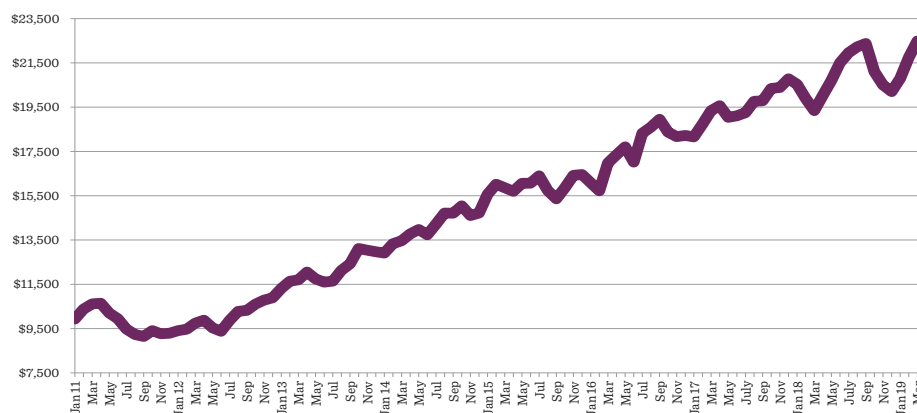
PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	3.4%	11.2%	16.1%	8.7%	10.1%
Trans-Tasman Index Gross	3.0%	10.9%	14.1%	11.3%	10.4%

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

March was a strong month for this strategy and we were particularly pleased with how our largest overweight positions performed, including Meridian (+16%), Contact Energy (+13%) and Vista Group (+9%). Our slightly higher weighting towards New Zealand also paid off with the NZX50 Index outperforming its Australian counterpart.

We recently increased our exposure to Spark New Zealand. We had been underweight this stock earlier in the year but after recent weakness in its share price due to offshore selling pressure and a disappointing full-year result, we were able to purchase shares in this business at an attractive level. Also during the month portfolio manager, Tama Willis, spent a week in China to determine the outlook for that economy and assess the demand profile for commodities. Subsequent to this trip we believe the backdrop for iron ore is supportive and this strategy remains overweight BHP Billiton and Rio Tinto.

PORTFOLIO MANAGER

Tama Willis



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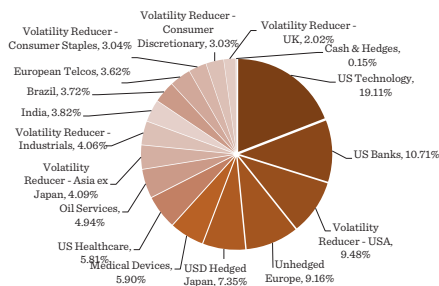
DEVON GLOBAL THEMES FUND

FUND OUTLINE

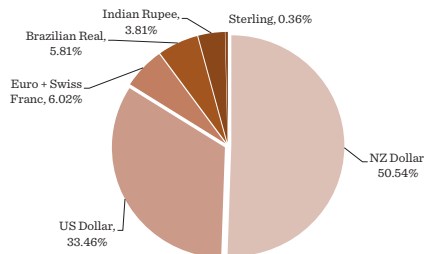
The **Global Themes Fund** invests in Global Financial Assets predominantly Global Exchange Traded Funds (ETF's). We identify macroeconomic or thematic investment ideas with a 2-5 year time horizon, and implement the investment ideas through appropriate high quality assets.

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

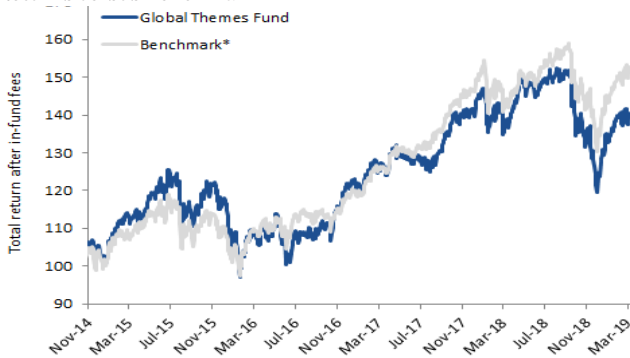


CURRENCY EXPOSURE



NET PERFORMANCE SINCE INCEPTION

Returns versus Benchmark



NOTE: Further information on the Devon Global Themes 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. Before joining JBWere, Andrew was an Investment Analyst at BNZ Private Bank, and prior to that a Supervisor in the audit division at KPMG.

Philip brings more than a decade worth of experience working alongside respected industry participants in roles which encompass economics and strategy. Before joining JBWere, Philip was employed as a Senior Macro Strategist for ANZ Bank.

Hayden joined JBWere in 1996 and has over 20 years experience working in financial markets as a quantitative analyst in investment research. Before joining the firm Hayden worked at The Reserve Bank of NZ and the investment bank Barclays de Zotte Wedd (BZW).

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COMMENTARY

March saw global equity markets continue their January and February rally, albeit with more modest gains. This was despite ongoing uncertainty surrounding Brexit and the US-China trade negotiations, and an inversion of the 3m-10y US Treasury yield curve for the first time since 2007. On the other hand, central banks broadly turned more dovish – the ECB reversed course by making a fresh offer of cheap loans to banks, alongside signaling that it would keep interest rates at their historic lows until next year.

India, Technology and European Telcos were our best performing themes this month. India underperformed during January and February on uncertainty around the upcoming general election, however played catch up during March as valuation interest re-emerged and oil prices stabilised.

At the beginning of March, we made some portfolio tweaks to better position the fund for the stage of the cycle we are in. We introduced a broad US Healthcare exposure, which provides both defensiveness and growth, and is a sector we expect to perform well as earnings growth across the market slows.

Our returns

The Global Themes Fund rose 0.6% in March, finishing the month at a unit price of \$2.8034. This compares with a 1.6% rise in our global equity benchmark.

Our fund has risen 8.0% per annum since inception net of fees, versus 10.0% per annum growth in the iShares MSCI All Country World Index Exchange Traded Fund (50% hedged to NZD).

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 trading close to fair value.

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