

## Green shoots in Australian housing?

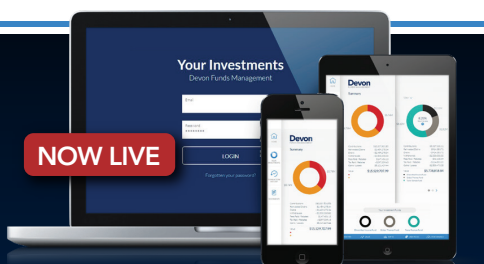
House prices rising too quickly can cause a lot of social stress, as we have seen in New Zealand. On the flip side however material price falls can cause economic stresses that can have wide ranging impacts including lower GDP growth, less job security, a reluctance by banks to lend, lower consumer and business confidence and even a change in voting patterns. The current decline in house prices across Australia's capital cities has been brutal. Not only is this the third longest housing cycle downturn since the early 1980's, but more importantly this cycle has had the sharpest price falls. Recent figures have shown average Sydney prices down by nearly 14% from their peak whilst Melbourne is off by almost 11%; in some cases suburbs and apartments have fallen by well over 20%. Although these adjustments pale in comparison with the price corrections that we saw during the GFC in countries such as the US (which crashed by 32%) or Ireland (which fell by 55%), this negative momentum in Australia has been problematic.

Prior to the housing market correction, the Australian economy grew by an annualised rate of 3.8% in the first-half of 2018 but in the following 6-months that growth fell to just 0.9%, the lowest since the depths of the GFC. This challenge has not gone unnoticed and encouragingly, from an investment perspective, policy makers are responding as have the voters... [READ MORE](#)

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## MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P/NZX50G	NZ	1.0%	16.9%
S&P/ASX200G	AUSTRALIA	1.7%	11.1%
MSCI World Index	GLOBAL	-5.7%	0.3%
S&P500	USA	-6.4%	3.8%
FTSE100	UK	-2.9%	-2.5%
NIKKEI 225	JP	-7.4%	-5.3%
NZ 90 Day Bank Bill NZ		0.1%	1.9%

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## AT A GLANCE

Prices as at 31 May 2019

DEVON  
ALPHA  
FUND

**\$1.7665**

DEVON  
AUSTRALIAN  
FUND

**\$1.4502**

DEVON  
DIVERSIFIED  
INCOME  
FUND

**\$1.5779**

DEVON  
DIVIDEND  
YIELD  
FUND

**\$1.9346**

DEVON  
TRANS-  
TASMAN  
FUND

**\$4.0834**

GLOBAL  
THEMES  
FUND

**\$2.7547**

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## DEVON ALPHA FUND

## FUND OUTLINE

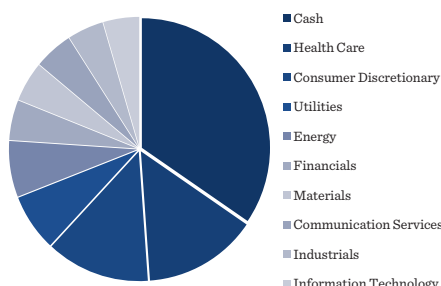
The **Alpha Fund** invests in a concentrated portfolio of approximately 10 to 15 select companies predominantly listed on the NZ and Australian share markets.

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	33.8%
Australian Equities	31.6%
Currency Hedge	29.8%

Cash	34.5%
Total	100.0%

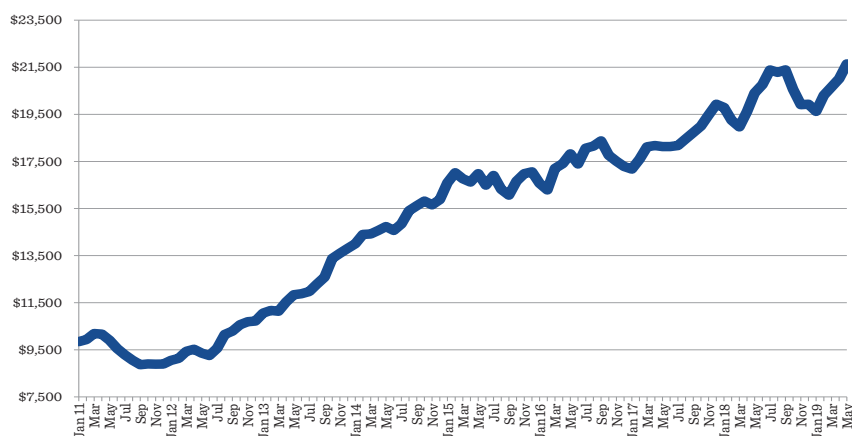
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Alpha Fund	3.0%	6.5%	6.1%	6.3%	7.8%
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

The Alpha strategy generated strong absolute returns during May with a number of our positions performing particularly well. Included amongst these were our investments in Vista, Resmed and Contact, all of which produced double digit returns. Contact has been a strong performer for this portfolio over the past 12-months (+35%), benefiting from its cost reduction strategy, elevated wholesale electricity prices and a sector-leading dividend profile. They also have an exciting new renewable growth opportunity in the Tauhara geothermal field and they are currently drilling a series of appraisal wells as they build towards a final investment decision for this power station in 2020. This opportunity, if approved, should deliver solid medium-term earnings growth for this business.

We continue to hold more than 30% of this portfolio in cash. This represents the patient approach that we are taking towards investment but expect that conditions over the next few quarters will present exciting opportunities for us.

## 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

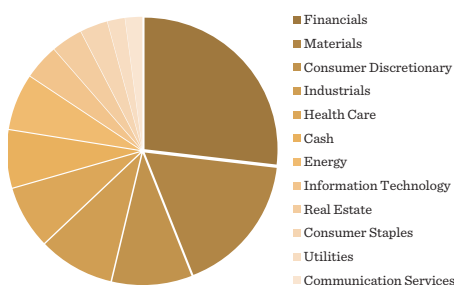


RioTinto

Brambles

CSL™

## ASSET ALLOCATION



## ALLOCATION

New Zealand Equities	4.3%	Cash	7.0%
Australian Equities	88.7%	Total	100.0%

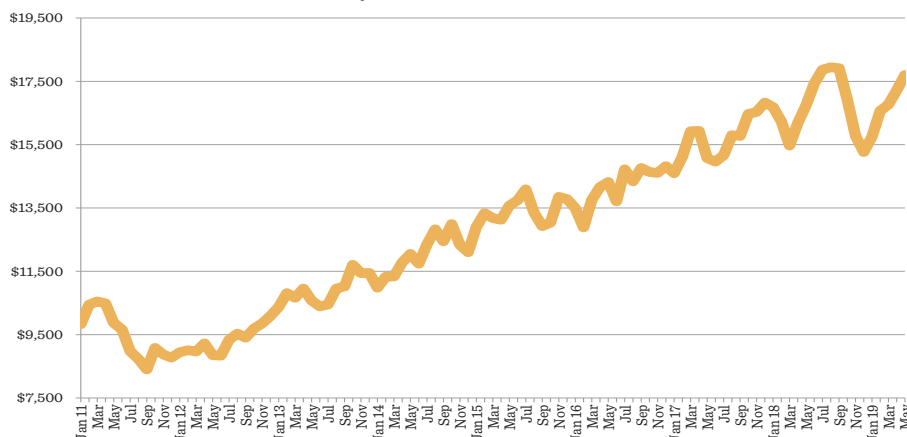
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Australian Fund	2.8%	6.8%	5.8%	7.3%	8.0%
ASX200 Index Gross (NZD)	2.4%	6.8%	9.5%	10.3%	7.1%

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 are pleased with the relative returns that this portfolio generated during May as the market rallied strongly post the surprise election victory by the Liberal-National Coalition. Positive contributions were made by Aristocrat Leisure and Rio Tinto which rallied 13% and 5% respectively. Investor sentiment in Rio improved as the iron ore price rallied to new highs, above US\$100/t. We also see the potential for Rio to return up to 10% of its market capitalisation in dividends this year due to the commodity pricing environment and their recent investment discipline. We remain overweight this company but are carefully monitoring the state of the Chinese economy subsequent to a deterioration in their trade relationship with the US.

Negative contributors during the month included our investment in Macquarie Group whose share price fell by 8% after their management downgraded earnings expectations for the full-year.

## PORTFOLIO MANAGER

Tama Willis



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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

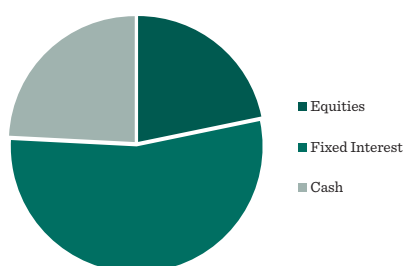
## FUND OUTLINE

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	12.9%	Bonds	54.0%
Australian Equities	8.5%	Cash	24.6%

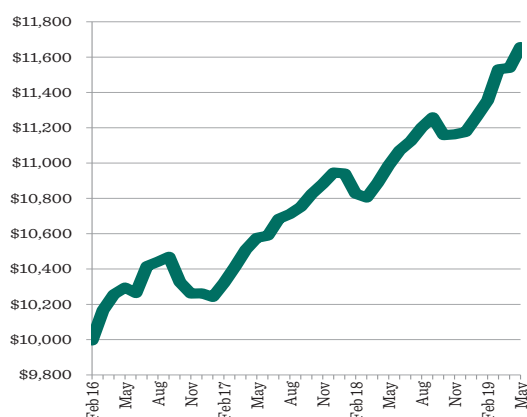
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	2 Yr p.a	3 Yr p.a
Devon Diversified Income Fund	1.0%	2.7%	6.1%	5.0%	4.5%
OCR + 1.5%	0.3%	0.8%	3.3%	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 May as investors responded to the deterioration of the US-China trade dispute. This “safe haven” buying resulted in the interest rate on the US 10-year bond closing the month down at 2.13%, down from 2.50% in late April. This performance occurred in the face of mixed economic data with positives including the US unemployment rate which recently fell to 3.6%, the lowest it has been since 1969.

In New Zealand the Reserve Bank surprised many by cutting the Official Cash Rate from 1.75% to 1.50%. This was the first cut since November 2016 and was justified by the Bank on the grounds that domestic “employment is near its maximum level” and that inflation is expected to remain reasonably subdued over the medium-term. In Australia the major focus for investors was the unexpected success of the Liberal-National Coalition in the Federal Election.

## 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

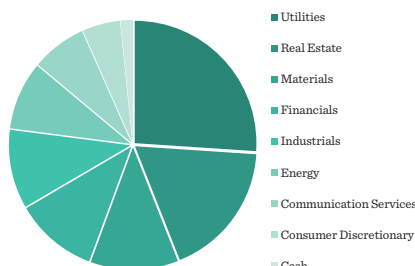
The **Devon Dividend Yield Fund** consists of a select group of up to 25-35 New Zealand and Australian listed companies.

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	59.1%
Australian Equities	39.2%
Currency Hedge	100.1%

Cash	1.6%
Total	100.0%
Yield	7.1%

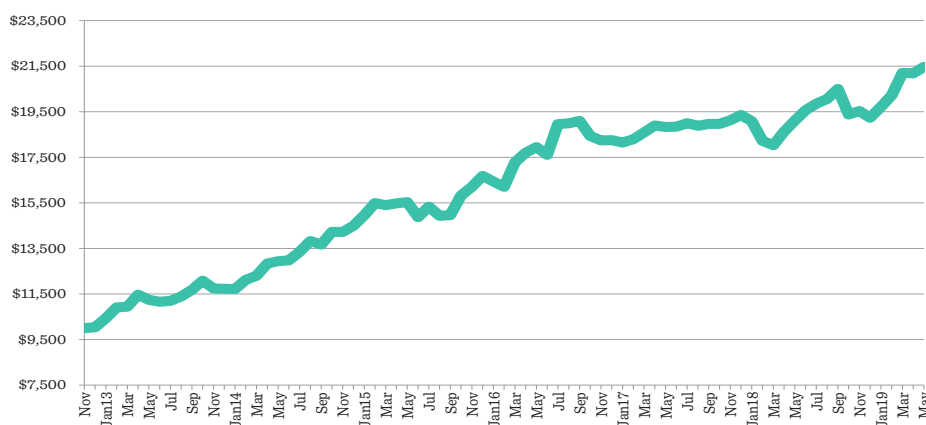
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Dividend Yield Fund	1.4%	6.2%	12.3%	6.1%	10.9%
TT Index (Hedged)	1.4%	6.7%	14.0%	11.7%	11.0%

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 saw another solid monthly return over May as many of the high dividend names in the market continued to perform well. One of our best performing stocks was Vital Healthcare whose share price recovered strongly after confirming that they would not pursue investment into a portfolio of Australian hospital assets. These assets had been acquired by an entity associated with Northwest Value Partners, which is a large shareholder in Vital, and is the external manager of the Vital Healthcare Property Trust. Vital investors had been concerned by the potential conflicting interests of Northwest and Vital and the inevitable requirement of a large capital raise. The “relief rally” that followed the announcement saw Vital’s share price increase by more than 11%.

Another strong performer for this strategy was National Australia Bank, whose price jumped after the re-election of the Liberal-National Coalition in Australia. This outcome was seen by investors as being favorable to the property sector and business in general.

## PORTFOLIO MANAGER

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## DEVON TRANS-TASMAN FUND

## FUND OUTLINE

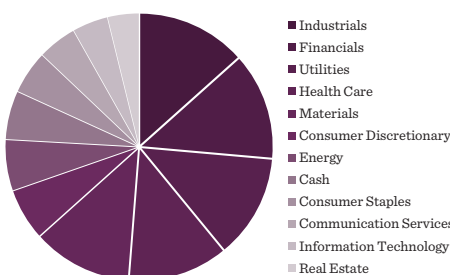
The **Trans-Tasman Fund** provides a broad and actively managed exposure to the NZ and Australian equity markets.

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	49.8%
Australian Equities	44.3%

Cash	5.9%
Total	100.0%

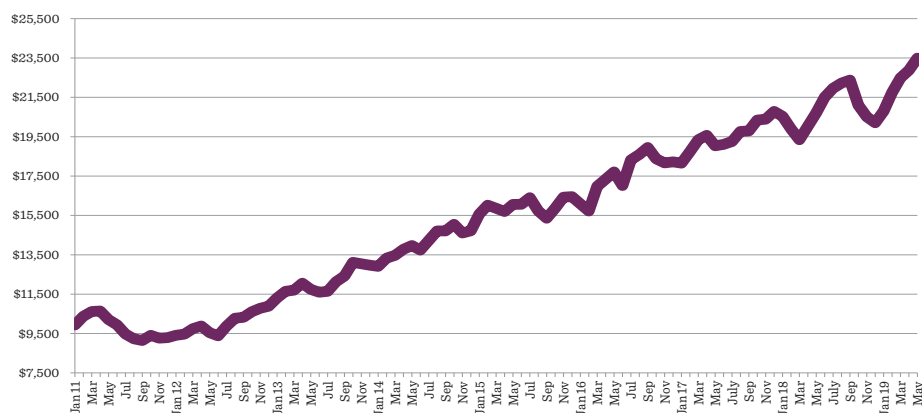
## PERFORMANCE

	1 Mth	3 Mth	1 Yr	3 Yr p.a	5 Yr p.a
Devon Trans-Tasman Fund	2.7%	8.0%	13.3%	8.7%	10.3%
Trans-Tasman Index Gross	1.7%	7.6%	13.2%	11.6%	10.7%

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 portfolio enjoyed strong outperformance of its benchmark during May. The investments which made the most notable contributions included Vista Group which rallied 14% and Aristocrat Leisure which finished up 13%. Aristocrat, one of our largest holdings, published their 2019 Interim Results which highlighted that company earnings were materially better than consensus estimates had been. The US premium gaming segment continues to grow and Aristocrat gained market share with revenue up 18% in this division. The outlook for the digital portion of the business also looks to be well supported with positive initial indications from new game releases. Overall operating revenue was up 30% for the period with profit up an equally healthy 19%. This has allowed the company to reduce their debt and return an additional 16% in dividends to shareholders.

The largest detractor for this strategy during the month was Metlifecare, which fell as sentiment towards the retirement care sector softened.

## PORTFOLIO MANAGER

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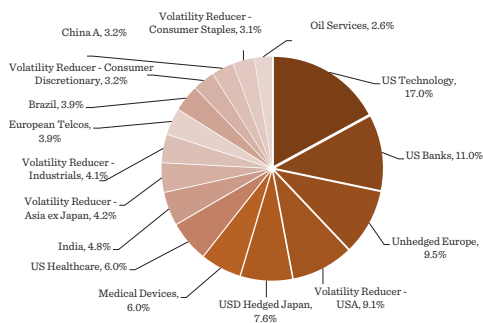


## DEVON GLOBAL THEMES FUND

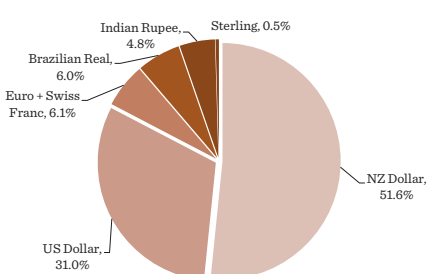
## FUND OUTLINE

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

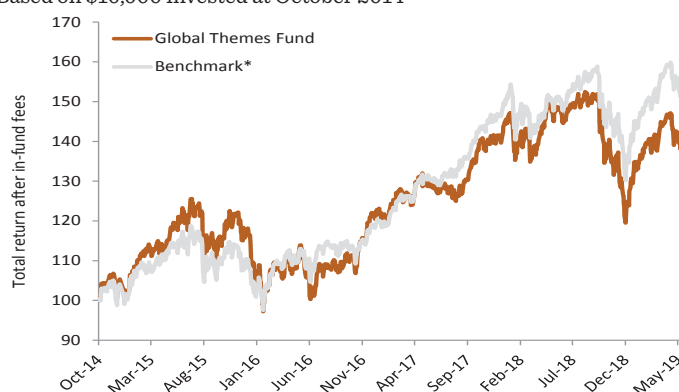
	1 Mth	3 Mth	1 Yr	3 Yr p.a
Global Themes Fund	-5.8%	-1.2%	-4.8%	6.8%
I-Shares All Country WI*	-5.1%	0.6%	2.3%	10.5%

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



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 &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.

## COMMENTARY

## What we own and why we own it

An escalation in trade tensions between the US and China drove market sentiment during May, putting a firm end to the broad upwards trend equity markets have enjoyed since the beginning of the year. It began during the first weekend in May when President Trump, unhappy with modifications made by China to a draft trade deal sent through to US negotiators, tweeted an increase in tariffs on ~\$200b of Chinese imports from 10% to 25%. During the remainder of the month, the process has begun to place tariffs of 25% on the remaining ~\$300b of Chinese imports (currently not exposed to tariffs), the US has placed restrictions on the supply of goods to Huawei, and China has retaliated in kind. All this has left global equities down ~6% (in local currency terms) for the month, with investors pricing in further escalation in tensions and a further slowdown in economic growth. While our base case remains that a US-China trade deal is struck, this will likely take longer than we previously thought, causing volatility in equity markets until such time. That said, we remain constructive on global growth, expecting a pickup towards the end of the year, and don't see trade tensions materially disrupting the cycle.

## 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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