

### MARKET COMMENTARY

## What are the markets expecting in 2015?

We wrote last month about how different the outcomes experienced across financial markets in 2014 were relative to consensus expectations at the start of the year. What we thought we would do this month is progress this discussion to look at what major outcomes investors are expecting over the next 12-months and what risks are associated with those views.

As you know, here at Devon, we build all our client portfolios based on what we refer to as bottom-up research on NZ and Australian listed companies. What this means is that each of the companies we invest in is driven by the fundamental views that we have based on our research. What we don't do is get caught up in trying to forecast what will happen to the major macro drivers such as where stock markets will go, how much economic growth there will be around the world or where interest rates will trade. The reason we don't do this is because, we believe, it's simply too unpredictable to base serious investment decisions on. What we do know is that good quality companies will deliver solid returns over time and that most "experts" get their macro calls wrong (otherwise few of them would be working!). As an example almost no economist or strategist globally saw the biggest financial event of our lifetimes coming – the Global Financial Crisis (GFC).

While our focus is on finding the best listed businesses that we can and thoroughly understanding what they are worth, it is...[Read More](#)

### MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
NZX50 Gross	NZ	3.2%	17.8%
S&P/ASX200	AU	3.3%	12.5%
MSCI World Index	GLOBAL	-0.5%	13.5%
S&P500	USA	-3.0%	14.2%
FTSE100	UK	2.9%	7.4%
NIKKEI 225	JP	1.3%	20.5%
NZ 90 Day Bank Bill	NZ	0.3%	3.4%



AT A  
GLANCE

### UNIT PRICES

#### DEVON ALPHA FUND

**\$1.5591**

#### DEVON AUSTRALIAN FUND

**\$1.2583**

#### DEVON EQUITY INCOME FUND

**\$1.6635**

#### DEVON TRANS-TASMAN FUND

**\$3.3204**

Prices as at 31 January 2015

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### IN YOUR FUND

#### DEVON ALPHA FUND

The Alpha strategy delivered strong performance during January. This was achieved despite the Fund maintaining a large cash weighting and reflected some of our key investments generating particularly strong shareholder returns. Most notable of these was Resmed who released their 2Q15 result during the month. It represented the first full quarter contribution from their new product suite and their flow generators delivered 20% growth. Although mask sales remained relatively subdued, Group sales came in at US\$423m, which was well in excess of consensus expectations. On a rolling-year basis this stock has now rallied in excess of 60%. Also this month, as previously discussed, we have reached the targeted level of funds in the Alpha strategy and have decided to cap the Fund so that no new applications can be accepted. This is to maintain the Fund's flexibility and protect returns for existing clients.

#### DEVON AUSTRALIAN FUND

The Devon Australian Fund rose 6.6% in January as the Australian market recovered ahead of results season and the AUD strengthened against the NZD. The ASX200 index rose 5.8% in NZD terms. In terms of changes the Fund added Ardent Leisure to the portfolio following share price weakness. The domestic business should benefit from a weaker AUD as domestic and international tourism volumes pick up and the Main Event roll-out in the US is a multi-year story. The other key change was to increase the Fund's Westpac holding funded by reducing CBA which looks expensive following a strong run. The top performer across the portfolio was Resmed (+16.4%) which delivered a strong 2Q15. This resulted in substantial short-covering. Other strong performers were Henderson (+13.8%), Scentre Group (+8.6%) and Vista International (+6.6%).

#### DEVON EQUITY INCOME FUND

January was another strong month for both local equity markets and the Equity Income Fund. The Fund returned 4.5% over January, outperforming its benchmark by 1.3%. Unsurprisingly in such a strong month there were many strong performers. The single largest contributor to performance was Mighty River Power which rose 12.8%. The company released some positive operating data in the month but has also benefitted from a continuation of the broad rally in the generator / retailer stocks as investors seek earnings stability and dividend yield. APA Group rose 9% over January. The company completed the final leg of the placement of equity for its recent acquisition of the QCLNG pipeline and once that overhang was cleared the stock price has risen to new highs. Tower also provided a strong return as a 5% move in the stock price was supplemented by an 8c dividend, a total return of approximately 9%.

#### DEVON TRANS-TASMAN FUND

Impressive performance came from a number of key investments including Resmed and Scentre Group. Resmed rallied strongly in January after the company released their 2Q15 results, confirming that their new Airsense 10 product range has been well received by customers. Flow generator sales delivered 20% growth and Group revenue was reported well in excess of consensus estimates. The only major change made to the portfolio was the rotation out of our investment in Commonwealth Bank into Westpac. Although these businesses are highly comparable we believe that at current price levels there is more valuation support for Westpac. The portfolio remains structured with an underweight position in the Metals and Mining sector, which continues its recent underperformance on subdued commodity pricing. Healthcare stocks continue to be well represented given their typically reliable stream of operating cash flows.



### QUARTERLY OUTLOOK

#### Outlook

As central banks around the world remain accommodative, equities continue to push higher. Despite the mixed economic backdrop, investors are continuing to allocate capital to equities as returns appear superior to fixed income markets. We expect that this dynamic probably has further to run but we are increasingly conscious that as markets have delivered multi-year positive returns, corporate earnings have not grown at the same rate.

New Zealand continues to enjoy robust economic growth. We believe this will continue into 2015 however investors need to be conscious of the challenges arising from a strong currency (especially relative to Australia) and lower dairy prices. Corporate New Zealand feels in good shape with our listed stocks enjoying robust margins, reasonably defensive earnings and relatively high dividend yields. These qualities have supported shareholder returns over the past few years but valuations are a concern. New Zealand is expensive and we are exposed to any potential lift in long-term bond yields during 2015.

In Australia, soft domestic demand has weighed on many sectors and together with weakness in resource stocks has seen the ASX underperform most other stock indices in 2014. Looking forward we expect good opportunities. Although operating conditions are unlikely to improve much in the short-term we believe gradual improvement will come through a combination of currency weakness and potentially further cuts by the RBA. Valuations in Australia are more attractive than in New Zealand.

Equity markets will likely be more volatile in 2015 than in 2014. This environment requires care when making investment decisions but we believe that our investment process at Devon is well positioned to benefit from this changing backdrop. We will continue to invest in a range of high quality businesses that are trading at a discount to our view of their intrinsic value.

VISIT: [www.devonfunds.co.nz](http://www.devonfunds.co.nz)



## MONTHLY REPORT

January 2015

### NET FUND RETURNS (AFTER FEES AND BEFORE TAX)

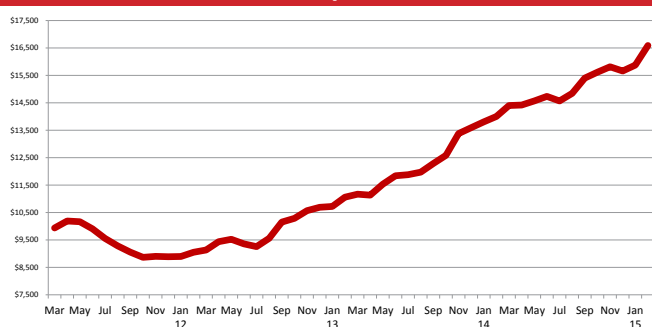
	1 Mth	3 Mth	6 Mth	1 Yr	3 Yr p.a
Devon Alpha Fund	4.5%	4.9%	11.8%	18.5%	22.4%
Devon Australian Fund	6.6%	-0.7%	4.5%	17.5%	13.0%
Devon Equity Income Fund	4.5%	6.4%	13.4%	29.2%	-
Devon Trans-Tasman Fund	5.8%	3.5%	9.4%	20.6%	18.3%

### Market Indices

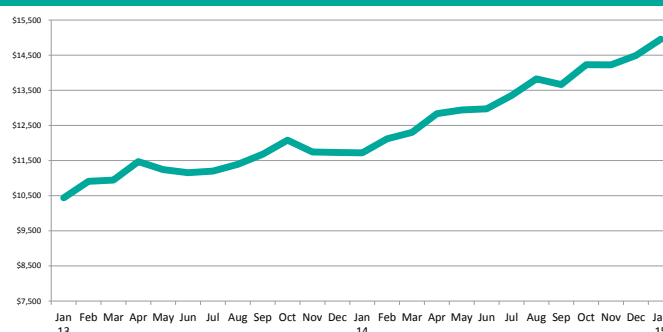
	1 Mth	3 Mth	6 Mth	1 Yr	3 Yr p.a
OCR	0.3%	0.9%	1.7%	3.2%	2.7%
NZX50	3.2%	6.6%	11.1%	17.8%	20.3%
ASX200 (NZD)	5.8%	-3.2%	-0.7%	11.9%	7.8%
TT Index (Hedged)	3.2%	4.3%	6.3%	15.2%	-
TT Index (Un-Hedged)	4.5%	1.7%	5.2%	14.9%	14.1%

### NET PERFORMANCE BASED ON \$10,000 INVESTED AT 1 JANUARY 2011

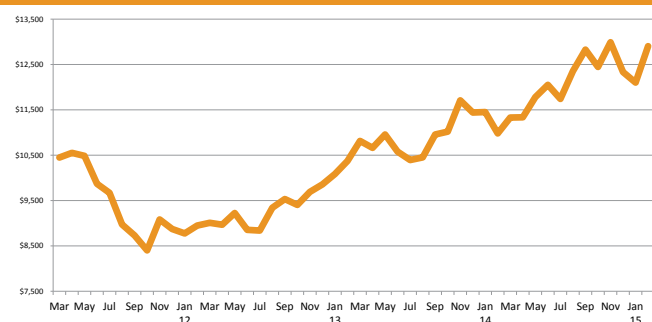
#### Devon Alpha Fund



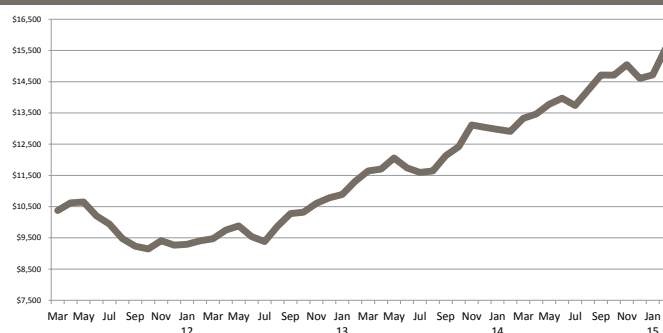
#### Devon Equity Income Fund



#### Devon Australian Fund



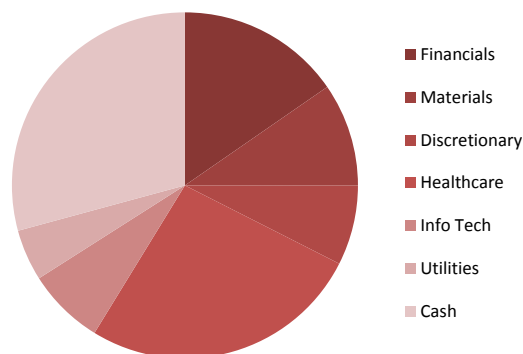
#### Devon Trans-Tasman Fund





### Devon Alpha Fund

#### Sector Allocation



#### Geographic Allocation

New Zealand Equities	37.0%
Australian Equities	33.7%
Cash	29.2%
	100.0%
Currency Hedge	28.3%

#### Top Companies



#### 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 and is actively managed. The Fund aims to generate capital growth over the long term. Currency exposure is actively managed.

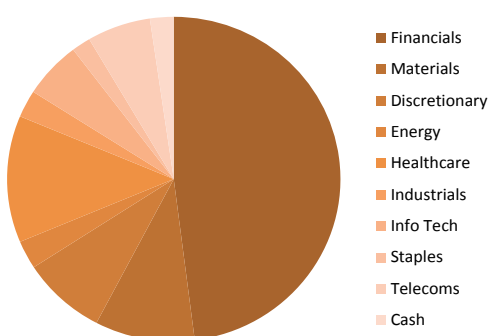
#### PORTFOLIO MANAGER - SLADE ROBERTSON

Slade has a long and successful career in investment management. With over 19 years experience in both the New Zealand and Australian investment industries, Slade's excellent track record is proof of his determination to pursue the best investment opportunities for his clients.



### Devon Australian Fund

#### Sector Allocation



#### Geographic Allocation

Dual Listed	5.7%
Australian Equities	92.1%
Cash	2.3%
	100.0%
Currency Hedge	0.0%

#### Top Companies



#### 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 is typically unhedged.

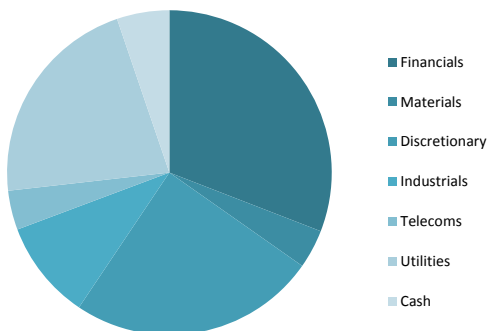
#### PORTFOLIO MANAGER - TAMA WILLIS

A 14-year veteran of 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 Fund. Tama is widely regarded as a leading expert on resource and mining stocks.



## Devon Equity Income Fund

### Sector Allocation



### Geographic Allocation

New Zealand Equities	46.5%
Australian Equities	48.2%
Cash	5.2%
	100.0%
Currency Hedge	93.8%
Yield	6.6%

### Top Companies



### FUND OUTLINE

The Devon Equity Income Fund consists of a select group of up to 25 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.

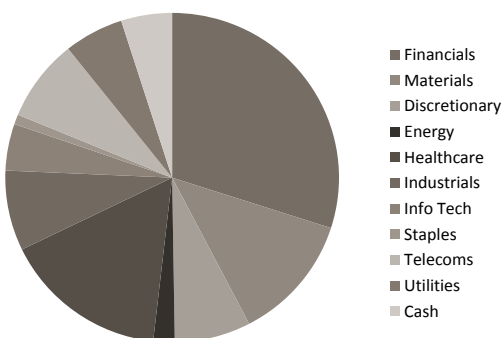
### PORTFOLIO MANAGER - NICK DRAVITZKI

Over the last decade Nick has specialised in investing in high yield equities and is Portfolio manager for the Devon Equity Income Fund. 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 Trans-Tasman Fund

### Sector Allocation



### Geographic Allocation

New Zealand Equities	43.2%
Australian Equities	51.8%
Cash	4.9%
	100.0%
Currency Hedge	0.0%

### Top Companies



### 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.

### PORTFOLIO MANAGER - SLADE ROBERTSON

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