




Devon is delighted to have won the Fund Manager of the Year: Domestic Equities Category, New Zealand 2015. We would like to thank all our clients for their on-going support.

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## AT A GLANCE

### UNIT PRICES

DEVON ALPHA FUND	<b>\$1.5994</b>
DEVON AUSTRALIAN FUND	<b>\$1.3009</b>
DEVON EQUITY INCOME FUND	<b>\$1.7228</b>
DEVON TRANS-TASMAN FUND	<b>\$3.4177</b>

Prices as at 28 February 2015

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### MARKET COMMENTARY

## Reporting Season

Listed companies' release their financial results to investors biannually, in a period informally known as the Reporting Season. With common financial year end dates for listed companies being 30 June and 31 December, Reporting Season has just kicked off with half and full year results being released. In addition to the usual focus by analysts, fund managers and retail shareholders on the financial statements, which of course are now historic, special attention is paid to the outlook statements that companies make as a guide to the year ahead. The financial statements and attached commentary are analysed in a great deal of detail and investors make decisions on how to position their portfolios for the year ahead.

NZ stock prices have risen well in excess of earnings growth over the last few years with the result being that the market Price Earnings Ratio (PE) is now at 19 times earnings, about 27% above the long term average. Over the last 3 years the NZX50 Gross Index is up... [Read More](#)

### MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
NZX50 Gross	NZ	2.3%	17.8%
S&P/ASX200	AU	6.9%	14.5%
MSCI World Index	GLOBAL	5.9%	15.3%
S&P500	USA	5.8%	15.5%
FTSE100	UK	3.3%	5.6%
NIKKEI 225	JP	6.4%	28.8%
NZ 90 Day Bank Bill	NZ	0.3%	3.4%

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### IN YOUR FUND

#### DEVON ALPHA FUND

The Alpha Fund delivered a solid return for investors during the month, with particularly strong performance being generated by our investments in Estia Heath, Vista Group and the recently added, Crown Resorts. The Reporting Season was broadly mixed across New Zealand and Australia but we were pleased with the results being achieved by the majority of our companies. Crown Resorts was a highlight with the business achieving normalised net profit of \$322.4m which was in excess of market expectations. The major positive surprises for Crown came from the performance of their VIP business at their Melbourne property and stronger than expected main gaming floor growth in Perth. During the month the cash weight for this strategy was slightly above 40% as we continue to search for appropriate investment opportunities. The Devon team remains engaged in an intensive program of visiting companies and are currently reviewing a number of interesting prospects.

#### DEVON AUSTRALIAN FUND

The Australian Fund performed strongly along with the ASX200 as the market continued to re-rate following results season. During reporting season Slater and Gordon (+16.5%) delivered a solid H1 result along with a number of acquisitions and flagged the potential to continue to consolidate the UK market in the near-term. Another Fund holding, Macquarie (+18.4%) also updated guidance for FY15 earnings to be at the top end of the +10-20% guidance range. Vista (+10%) delivered on prospectus earnings for 2014 and remains well placed for 2015/2016. Rio Tinto (+13%) and BHP Billiton (+16%) also performed well as cost cutting exceeded expectations. In terms of portfolio changes the Fund added to Crown in February as the valuation became attractive. While the Macau gaming backdrop continues to struggle, the domestic Australian casinos are performing strongly. The Fund also reduced exposure to Henderson as the market re-rated European asset managers.

#### DEVON EQUITY INCOME FUND

February saw a particularly strong performance from the Australian share market, which was up nearly 7% in local currency terms. The performance in NZ dollar terms was a less impressive 3.1% as the Kiwi rallied strongly over the month but the Equity Income Fund benefitted from being fully hedged against those currency movements and finished up 3.6% for the month. Strong performers in the portfolio included Meridian, APA Group and Ooh! Media. All three reported financial results over February. Meridian's result was operationally in line with expectations but the company announced an increase in dividend and proposed to return capital of \$625m over the next 5 years. APA produced a very good result and upgraded its guidance for the full financial year. Ooh! Media is a recently listed outdoor advertising business that was added to the portfolio in December. The company's result covered only a short period as a listed entity but reported earnings that were comfortably above the prospectus forecasts.

#### DEVON TRANS-TASMAN FUND

The Trans-Tasman Fund enjoyed positive absolute and relative performance during the month. This was achieved through strong price appreciation from our investments in a range of stocks including Slater & Gordon, Macquarie Group, Estia Health and Vista. Although local equity markets rallied strongly over the month the company reporting season that occurred in February was actually quite mixed. Despite this fact we were very pleased with the reported performance of most of our businesses. Amongst these was the operational briefing conducted by Macquarie Group which saw the company upgrade its FY15 guidance on account of improved trading in its market facing divisions. Slater & Gordon also positively surprised the market by reporting 1H15 EBITDA of A\$58.5m due to a strong turnaround in Australian General Law and improving margins in the UK. They also announced two additional acquisitions in the UK.



### 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.

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

	1 Mth	3 Mth	6 Mth	1 Yr	3 Yr p.a
Devon Alpha Fund	2.6%	8.7%	10.5%	18.2%	23.1%
Devon Australian Fund	3.4%	8.2%	4.0%	17.7%	14.0%
Devon Equity Income Fund	3.6%	10.2%	13.4%	29.4%	-
Devon Trans-Tasman Fund	2.9%	9.7%	8.9%	20.2%	19.2%

### Market Indices

	1 Mth	3 Mth	6 Mth	1 Yr	3 Yr p.a
OCR	0.3%	0.9%	1.7%	3.3%	2.8%
NZX50	2.3%	8.4%	12.5%	17.8%	20.9%
ASX200 (NZD)	3.0%	7.2%	-0.3%	11.2%	8.3%
TT Index (Hedged)	4.6%	10.5%	10.1%	16.2%	-
TT Index (Un-Hedged)	2.7%	7.8%	6.1%	14.5%	14.6%

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

#### Devon Alpha Fund



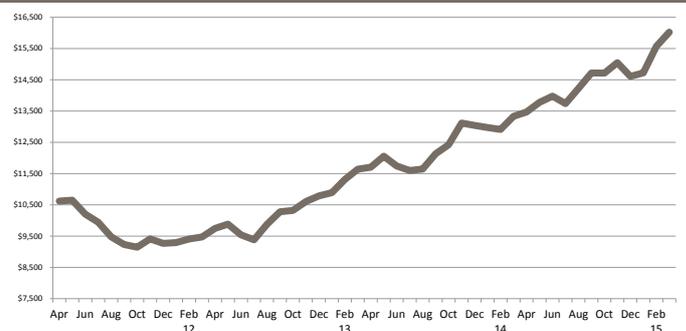
#### Devon Equity Income Fund



#### Devon Australian Fund



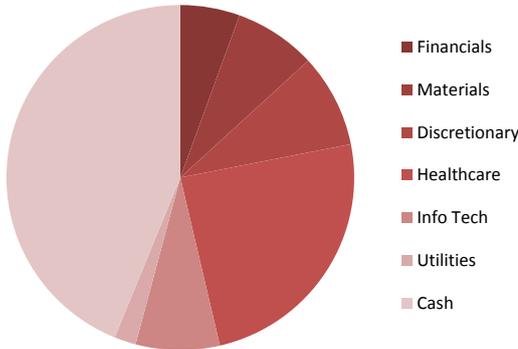
#### Devon Trans-Tasman Fund





## Devon Alpha Fund

### Sector Allocation



### 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.

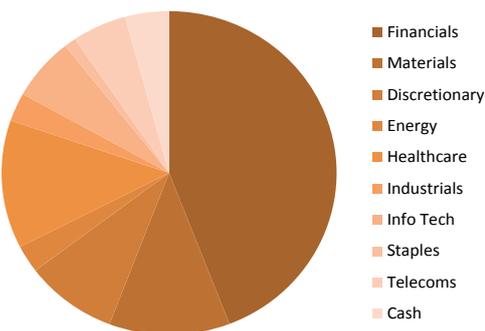


### Geographic Allocation

New Zealand Equities	31.1%
Australian Equities	25.1%
Cash	43.8%
	100.0%
Currency Hedge	29.4%

## Devon Australian Fund

### Sector Allocation



### 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.



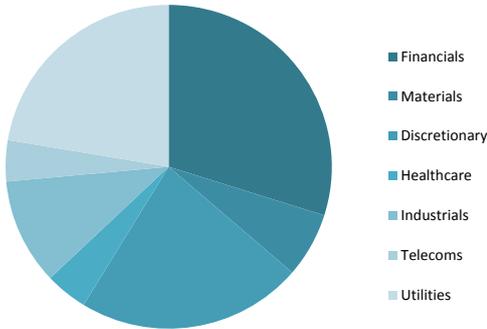
### Geographic Allocation

Dual Listed	6.3%
Australian Equities	89.5%
Cash	4.2%
	100.0%
Currency Hedge	0.0%



## Devon Equity Income Fund

### Sector Allocation



### Top Companies



### Geographic Allocation

New Zealand Equities	48.7%
Australian Equities	43.5%
Cash	7.8%
	100.0%
Currency Hedge	98.6%
Yield	6.3%

### 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.

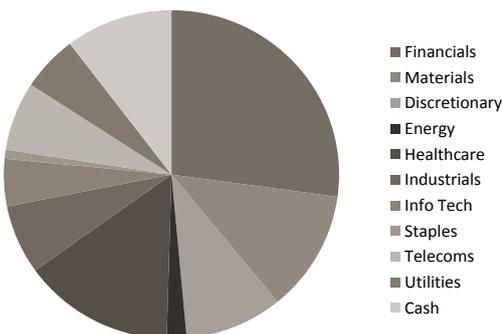
### PORTFOLIO MANAGER - NICK DRAVITZKI

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



### Top Companies



### Geographic Allocation

New Zealand Equities	39.7%
Australian Equities	49.9%
Cash	10.4%
	100.0%
Currency Hedge	0.0%

### 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

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

