

MARKET COMMENTARY

Australia: The Land of Opportunity?

During March members of the Devon investment team travelled to Australia for an extensive research trip. We visited Brisbane, Sydney and Melbourne and met with around 30 companies, spanning across the financials, resources, legal services, retail, media, agriculture, gaming, aged care and property sectors. Following our visit we increased positions in Slater and Gordon and Scentre (the owner of the Australasian Westfield malls) and are also reviewing a number of potentially interesting new investments for inclusion in Portfolios.

Although the Australian equity market has performed very strongly over the year to date and has seen average valuation multiples increase to around 16x earnings (12 months forward), we still believe there are better investment opportunities within that market than New Zealand. The main Australian equity market index, the ASX200, contains stocks valued at close to A\$1.6 trillion – by comparison the NZX50 has a market capitalisation of just NZ\$65bn. A key attraction of the ASX for investors is the breadth of sectors and individual stocks. There is also an interesting small company sector where we believe there are still significant opportunities to make money. We met approximately 10 companies in this category during our visit to Australia, a number of which appear undervalued by the market.

Many of the Australian economic headlines are negative at the moment but this actually creates opportunities for bottom-up stock pickers and after our trip we see a number of...

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MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
NZX50 Gross	NZ	-0.8%	13.5%
S&P/ASX200	AU	-0.1%	14.1%
MSCI World Index	GLOBAL	-0.4%	14.6%
S&P500	USA	-1.6%	12.7%
FTSE100	UK	-2.0%	6.3%
NIKKEI 225	JP	2.8%	31.6%
NZ 90 Day Bank Bill	NZ	0.3%	3.6%



AT A
GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.5751

DEVON AUSTRALIAN FUND

\$1.2849

DEVON EQUITY INCOME FUND

\$1.7132

DEVON TRANS-TASMAN FUND

\$3.3840

Prices as at 31 March 2015

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IN YOUR FUND

DEVON ALPHA FUND

The Alpha Fund delivered a negative absolute return during the month. This was disappointing given the high cash weighting that the portfolio currently has, but did reflect the weak performance of a range of our investments including Crown Resorts and Vista. The strong performance of the New Zealand Dollar relative to the Australian Dollar also weighed on returns given we reduced our hedge levels earlier in the year. Offsetting these disappointments was the ongoing strong performance of our investments in the Healthcare sector including Resmed which was up over 13% and Estia Health which rallied almost 5%. The only major change to the portfolio during the month was the sell-down of our stake in Crown Resorts. After delivering us strong performance in February this share price retreated as concerns over Macau gaming volumes increased. Also in March the portfolio participated in the IPO of financial services business, Eclix.

DEVON AUSTRALIAN FUND

The Australian Fund outperformed the ASX200 by 0.3% over the month and 1.5% over the quarter. Top performers across the Fund included Resmed (+13%), Sonic Healthcare (+6.6%) and Macquarie (+5.2%). A key Fund holding, Slater & Gordon, closed largely flat (+1.3%) but at the end of the month announced a major A\$1.2bn acquisition in the UK which takes its market share of the UK legal services market to 12% (from 5-6%). This will be partly funded through a major rights issue and is expected to be >30% earnings accretive. In terms of new additions Eclix was added to the portfolio during the month. The company is a leading player in Australian and New Zealand leasing markets and management has a strong track record in past roles. Listing at 11x 2015 earnings places the valuation well below peer group and the market.

DEVON EQUITY INCOME FUND

The Equity Income Fund finished the first quarter of 2015 strongly, albeit with a modest decline over the month of March. Notable performers included JB Hi-Fi and Sky Television. Despite continuing concerns about the Australian domestic economy JB Hi-Fi rose nearly 7%. We visited the company recently in Melbourne and came away, again, impressed. Management understand their business very well and have a range of initiatives in place to maintain growth. Principally they are focused on integrating technology into the home which is the key focus of their suppliers. Another strong performer was Sky Network Television, which returned 9.3% including a 2.7% dividend. Sky has been under pressure recently due to concerns about the changing media technology environment so it was pleasing to see it bounce back.

DEVON TRANS-TASMAN FUND

The Trans-Tasman Fund tracked the broader equity markets lower during the month but did experience positive relative returns against its underlying benchmark. There were mixed results across our stocks with strong price appreciation from Burson, Resmed and Isentia Group while these were offset by negative contributions from Crown Resorts, Oil Search and Rio Tinto. The most significant corporate news across the portfolio came from Slater and Gordon who announced their intention to acquire the professional services division of Quindell PLC. We consider this to be a transformational deal resulting in Slater's becoming the largest personal injury firm in the UK and company management expect the deal to be substantially earnings-per-share accretive in its first year of full ownership. The transaction is being partially funded through an equity rights issue, a process which this portfolio will participate in.



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 strong economic growth. We believe this will continue throughout 2015 however the rate of growth will moderate due to a decline in agricultural production and lower dairy prices, an elevated currency and fiscal consolidation. Corporate New Zealand is 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, the equity market has started 2015 strongly as investors positively responded to an interest rate cut by the RBA and the reporting season delivered an acceptable level of earnings growth. This has been achieved despite a backdrop of political uncertainty and subdued demand. Looking forward we expect a more positive set of opportunities in Australia as their companies look to support profit margins through cost management and broad operating conditions stabilize. Valuations in Australia remain 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



MONTHLY REPORT

March 2015

NET FUND RETURNS (AFTER FEES AND BEFORE TAX)

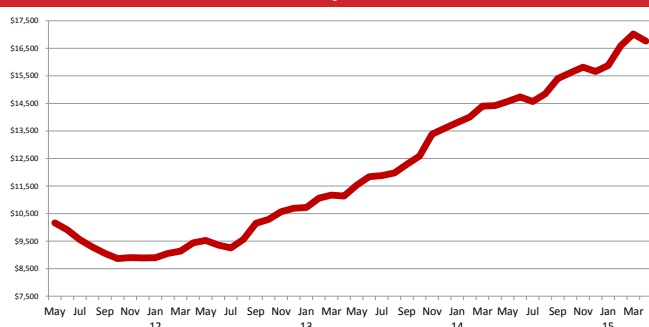
	1 Mth	3 Mth	6 Mth	1 Yr	3 Yr p.a
Devon Alpha Fund	-1.5%	5.6%	7.4%	16.2%	21.1%
Devon Australian Fund	-1.2%	8.9%	5.9%	16.2%	13.7%
Devon Equity Income Fund	-0.6%	7.6%	14.1%	26.8%	-
Devon Trans-Tasman Fund	-1.0%	7.8%	7.8%	17.8%	17.6%

Market Indices

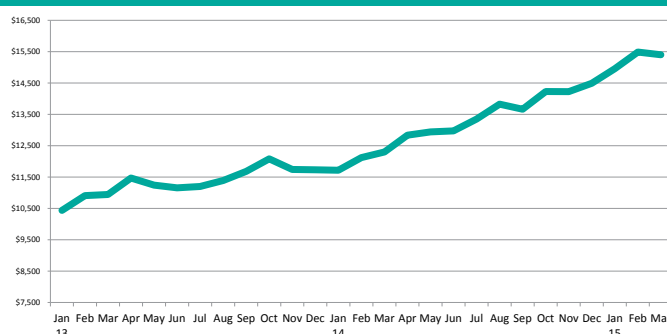
	1 Mth	3 Mth	6 Mth	1 Yr	3 Yr p.a
OCR	0.3%	0.9%	1.7%	3.4%	2.8%
NZX50	-0.8%	4.8%	11.0%	13.5%	18.5%
ASX200 (NZD)	-1.6%	7.3%	3.2%	8.9%	7.8%
TT Index (Hedged)	-0.4%	7.5%	12.4%	13.8%	-
TT Index (Un-Hedged)	-1.2%	6.1%	7.1%	11.2%	13.1%

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

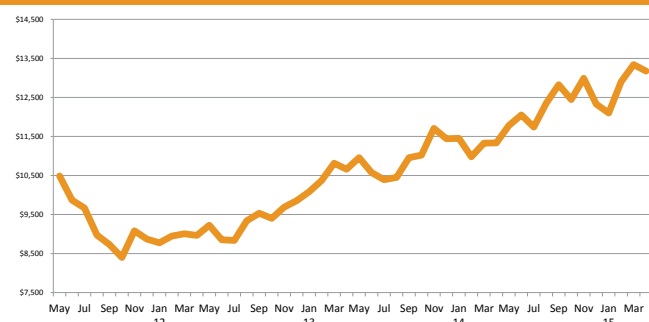
Devon Alpha Fund



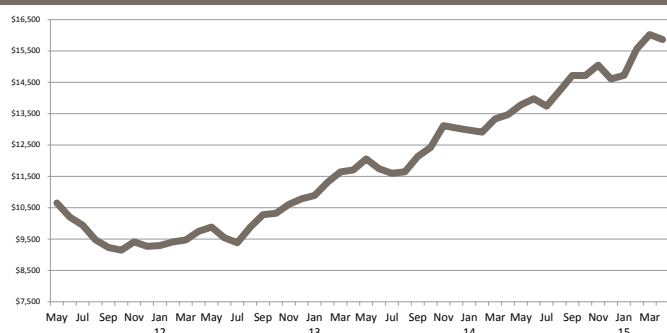
Devon Equity Income Fund



Devon Australian Fund

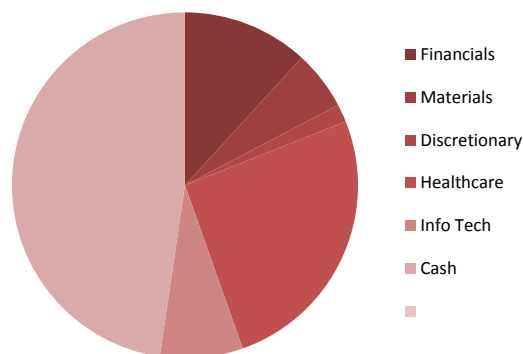


Devon Trans-Tasman Fund



Devon Alpha Fund

Sector Allocation



Geographic Allocation

New Zealand Equities	27.0%
Australian Equities	25.3%
Cash	47.7%
	100.0%
Currency Hedge	30.6%

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.

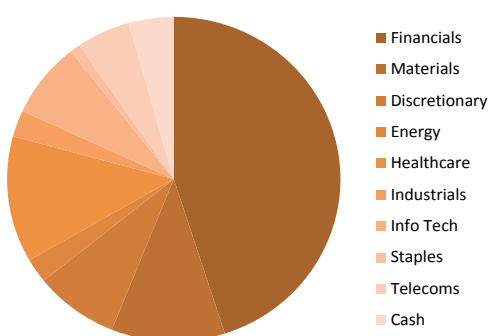
PORTFOLIO MANAGER - SLADE ROBERTSON

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	6.2%
Australian Equities	89.4%
Cash	4.4%
	100.0%
Currency Hedge	0.0%

Top Companies



Owner and Operator of Westfield in Australia and New Zealand



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.

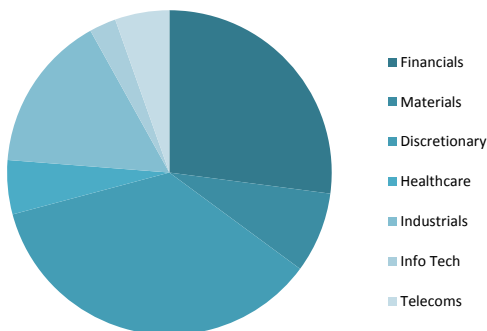
PORTFOLIO MANAGER - TAMA WILLIS

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	51.6%
Australian Equities	38.4%
Cash	10.0%
	100.0%
Currency Hedge	101.5%
Yield	6.5%

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.

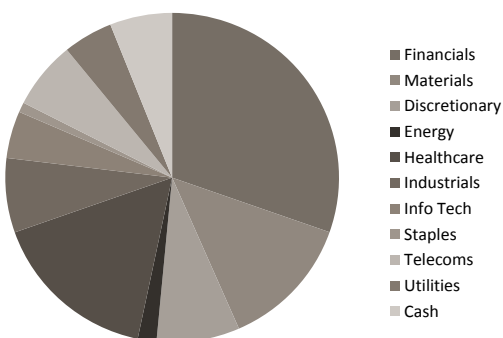
PORTFOLIO MANAGER - NICK DRAVITZKI

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	40.2%
Australian Equities	53.8%
Cash	6.0%
	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

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.

