

MARKET COMMENTARY

Rockstar Economy all Smoke and Noise

With our currency effectively at parity with the Australian dollar and house prices booming everything must be great in the "rockstar" New Zealand economy, right? I'm not so sure. Let's look at the economic growth achieved in 2014. Headline real GDP growth was a very impressive 3.5 per cent. However, population growth was 1.6 per cent so per capita GDP growth was only about 1.8 per cent.

Commodity prices - in particular dairy - had a big run up in 2014 resulting in a positive impact of around \$5 billion to nominal GDP. Working out the contribution to real GDP growth is difficult, but if we assume about half of this fed through directly into GDP, then that accounts for about 0.9 per cent of growth. Likewise the Christchurch rebuild got into full swing and probably added a further 0.6 per cent.

So real GDP growth per capita, excluding the one-off effects of surging commodity prices and the Christchurch rebuild, was about 0.3 per cent. Not quite so flash. The big problem is that the quality of our GDP growth has been low. GDP growth per capita is a much better measure of increased prosperity than simple GDP growth because it adjusts for the growth in our population. New citizens place demands on our social and physical infrastructure and the costs of those demands need to be met from the overall economic pie.

Given that the media and most economists tend to focus on overall GDP growth, it's no wonder politicians are hooked on the drug that is...[Read More](#)

MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
NZX50 Gross	NZ	-0.7%	10.7%
S&P/ASX200	AU	-1.7%	10.2%
MSCI World Index	GLOBAL	1.1%	15.0%
S&P500	USA	1.0%	13.0%
FTSE100	UK	3.2%	6.4%
NIKKEI 225	JP	1.6%	38.6%
NZ 90 Day Bank Bill	NZ	0.3%	3.6%



AT A
GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.5400

DEVON AUSTRALIAN FUND

\$1.2560

DEVON EQUITY INCOME FUND

\$1.7017

DEVON TRANS-TASMAN FUND

\$3.2855

Prices as at 30 April 2015

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IN YOUR FUND

DEVON ALPHA FUND

The most significant change this month to the Alpha portfolio was the purchase of shares in law firm, Slater & Gordon. In late March they announced the acquisition of the Professional Services Division of Quindell in the UK. Subsequent to this transaction Slater & Gordon will have a 12% share of the UK Personal Injury market in addition to their dominant position in Australia. This deal is expected to be significantly accretive to Group earnings. Outside of this the most notable contributor to performance during April came from our investment in Vista Group. This stock rallied after announcing they had entered into a business partnership with Cote Cine Group (CCG). Under the agreement CCG will now distribute Vista and Veezi software in France. This is very positive news as France is the largest box-office market in Europe. The Alpha portfolio continues to hold a large weighting to cash as we review new investment ideas.

DEVON AUSTRALIAN FUND

The Australian market fell 1.7% over the month although weakness in the cross rate resulted in the ASX being essentially unchanged in NZ dollar terms. Vista Group (+9.5%) performed well after it announced a business partnership with a leading French cinema software provider (Cote Cine Group) and Movio released its new product platform: Movio Media (Movio captures the behaviour of over 30 million movie goers). Resmed (-13%) was an underperformer for the Fund last month after it posted a slightly weaker than expected Q3 result although this followed gains of >80% in the previous 12 months. In terms of portfolio changes, the Fund participated in the Slater and Gordon entitlement offer which will help fund the acquisition of PSD, a major UK legal services business. The initial market reaction has been mixed but we remain confident that if management execute on the integration there is substantial upside.

DEVON EQUITY INCOME FUND

April saw the Equity Income Fund provide another solid return, rising 0.5%. One of the month's highlights was a substantial profit upgrade from Tourism Holdings Ltd (THL). THL is not a large position in the Equity Income Fund but has been a very good contributor over the last 2 years as it has seen strong earnings growth. This has been helped by an improvement in management of the company's assets and healthy inbound tourism from THL's primary markets, but the most important driver has been a greatly improved industry structure. Historically the company has faced a very competitive trading environment in its core motor home business with numerous small players operating cheaper and lower quality vehicles but industry consolidation (led by THL) has seen revenue and margins improve considerably. In the latest upgrade the company increased profit guidance for the 2015 financial year from "at least \$17m" to "between \$19.5m and \$20m", an improvement of approximately 16%.

DEVON TRANS-TASMAN FUND

The Trans-Tasman Fund slightly underperformed its benchmark during the month. The most significant contributor to this was a sell-off in Resmed after the company announced their 3Q15 results. Although we were impressed with the ongoing success of their flow generator division, which saw sales up 42% in the US, the market was concerned by a weaker performance in masks. This shift in business mix resulted in an operating margin which was reported below market expectations. Despite some negative commentary around this result we remain confident in the long-term fundamentals within this business. Also of note was news that Tower Limited had incurred additional costs in relation to its exposure to the Christchurch earthquakes. Although this is disappointing, the company offset this by announcing that its underlying business is performing ahead of expectations and that its capital and solvency position remains strong.



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 report strong economic growth. We believe that this will moderate due to a decline in 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

April 2015

NET FUND RETURNS (AFTER FEES AND BEFORE TAX)

	1 Mth	3 Mth	6 Mth	1 Yr	3 Yr p.a
Devon Alpha Fund	-0.8%	0.2%	5.1%	14.1%	20.4%
Devon Australian Fund	-0.4%	1.7%	1.0%	11.4%	12.5%
Devon Equity Income Fund	0.5%	3.5%	10.1%	22.1%	-
Devon Trans-Tasman Fund	-1.1%	0.8%	4.3%	13.9%	16.7%

MARKET INDICES

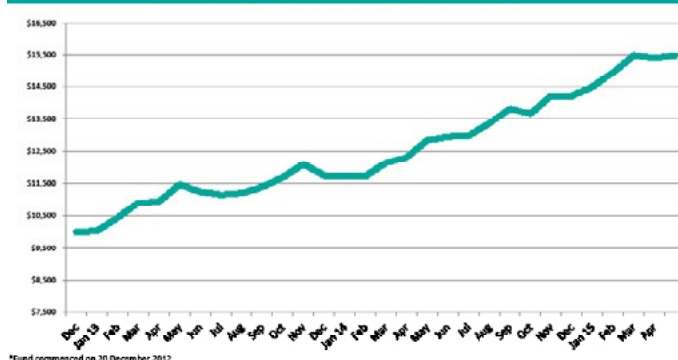
	1 Mth	3 Mth	6 Mth	1 Yr	3 Yr p.a
OCR	0.3%	0.8%	1.7%	3.4%	2.8%
NZX50	-0.7%	0.8%	7.5%	10.7%	17.7%
ASX200 (NZD)	-0.0%	1.4%	-1.8%	5.9%	7.0%
TT Index (Hedged)	-1.2%	2.9%	7.3%	10.5%	-
TT Index (Un-Hedged)	-0.4%	1.1%	2.8%	8.3%	12.3%

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

Devon Alpha Fund



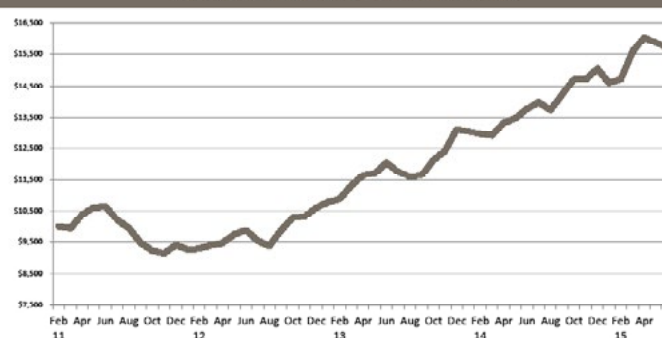
Devon Equity Income Fund*



Devon Australian Fund

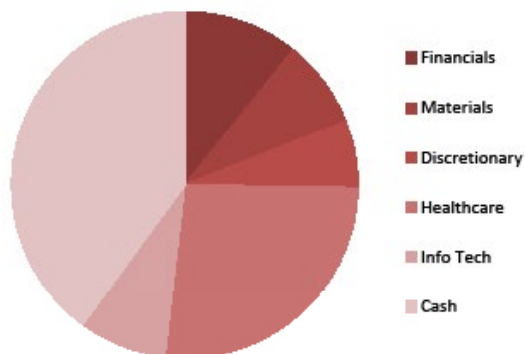


Devon Trans-Tasman Fund



Devon Alpha Fund

Sector Allocation



Geographic Allocation

New Zealand Equities	27.6%
Australian Equities	32.4%
Cash	40.0%
	100.0%
Currency Hedge	0.0%

Top Companies

RESMED



SCENTRE GROUP

Share and Director of Westfield in Australia and New Zealand

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.

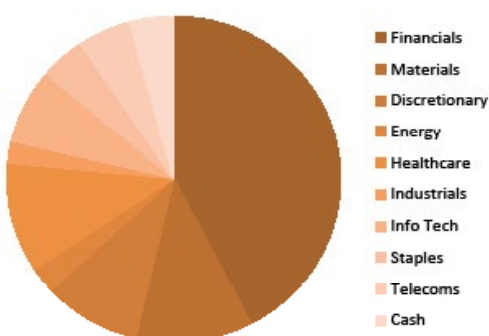
PORTFOLIO MANAGER - SLADE ROBERTSON

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	6.4%
Australian Equities	89.3%
Cash	4.3%
	100.0%
Currency Hedge	0.0%

Top Companies



VISTA GROUP

SCENTRE GROUP

Share and Director 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.

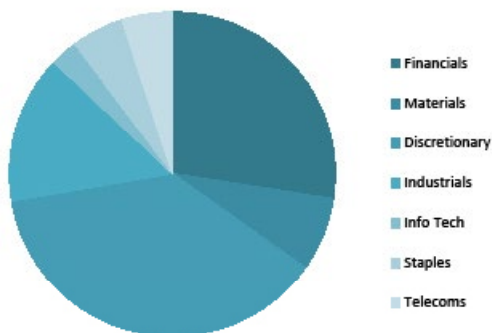
PORTFOLIO MANAGER - TAMA WILLIS

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	54.0%
Australian Equities	42.6%
Cash	3.4%
	100.0%
Currency Hedge	100.0%
Yield	6.7%

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.

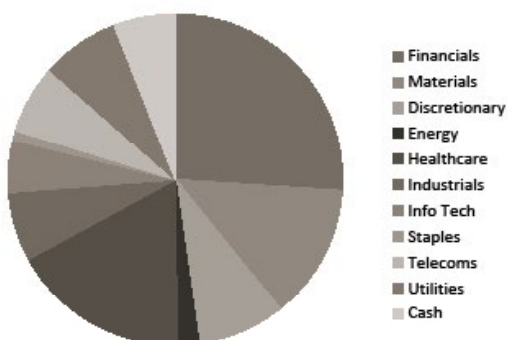
PORTFOLIO MANAGER - NICK DRAVITZKI

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	41.7%
Australian Equities	52.4%
Cash	5.9%
	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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