

MONTHLY REPORT

Keeping you up to date with Devon Funds and the markets

June 2015

MARKET COMMENTARY



INFINZ
2015 CATEGORY
AWARD WINNER

Fund Manager of the Year – Equities

Devon Funds Management is delighted to have won the INFINZ 2015 Award for Fund Manager of the Year – Equities.

Views from the US Trip – June 2015

Investors in our Funds know that we base our investment process around understanding the fundamentals of the companies that we own. Although we only invest in companies listed in New Zealand and Australia, we often need to travel further abroad to properly understand the markets that our companies operate in. During June, two of our portfolio managers travelled to the US as part of this process.

From an investment perspective the US is currently at a fascinating juncture. Economically the US continues to improve albeit at a gradual pace. Consensus forecasts are for real GDP to grow at 2.2% this year and then 2.8% in 2016, with the expansion feeling reasonably self-sustaining as employment continues to grow solidly. Recent data supports the confidence that we saw on the ground with retail sales and consumer confidence all being reported at favourable levels. In one of our meetings we met with premium shopping centre owner, Westfield Corporation and their view was that...[Read More](#)

MARKET INDICES

Index	Region	Monthly Return	1 Yr. Return
S&P NZX50 Gross	NZ	-2.0%	11.4%
S&P ASX200	AU	-5.3%	5.7%
MSCI World Index	GLOBAL	-2.9%	9.0%
S&P500	USA	-1.9%	7.4%
FTSE100	UK	-6.4%	0.2%
NIKKEI 225	JP	-1.4%	35.7%
NZ 90 Day Bank Bill	NZ	0.3%	3.7%



AT A
GLANCE

UNIT PRICES

DEVON ALPHA FUND

\$1.5279

DEVON AUSTRALIAN FUND

\$1.3150

DEVON EQUITY INCOME FUND

\$1.6349

DEVON TRANS-TASMAN FUND

\$3.3627

GLOBAL THEMES FUND

\$2.3977

Prices as at 30 June 2015

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IN YOUR FUND

DEVON ALPHA FUND

The Alpha strategy experienced negative returns during June. We were disappointed with this, as we had conservatively positioned the portfolio to reflect valuation challenges across the markets. The key reason for the performance was the substantial sell-off in Slater & Gordon. During June, management hosted an investment day for this business and investors were disappointed by a forecast of weaker than expected cash flow over the next 6-12 months. Also adding to market concerns were reports that the company had historically made an error in its UK financial statements and that ASIC was also reviewing their accounting practices. We have now exited our position in Slater & Gordon. On a more positive note, the portfolio continues to enjoy strong performance from Vista Group and we continue to remain confident in the growth opportunities for this company. As at month end the Alpha cash weighting was almost 50%.

DEVON AUSTRALIAN FUND

The Australian Fund rose 1.2% in NZ dollar terms over the month compared to the ASX200 index which was essentially flat in NZD (but down 5.3% in local currency). This performance reflects a number of our investments delivering good performance including Vista (+12%) and Sonic Healthcare (+5%). Sonic Healthcare rallied after they announced the acquisition of Medisupport in Switzerland for almost A\$400m. The transaction was priced at 8x EBITDA and is expected to be 8% accretive to earnings in FY16 before synergies. Partially offsetting this was a very disappointing performance from Slater & Gordon. We attended an investor day in Sydney and the market was disappointed by a forecast of weaker than expected cash flow over the next 6-12 months. Also adding to market concerns were reports that the company had historically made an error in its UK financial statements and that ASIC was also reviewing their accounting practices. We have subsequently reduced our position in Slater & Gordon.

DEVON EQUITY INCOME FUND

The Equity Income Fund performance over June was impacted by weak underlying markets as both the Australian and New Zealand stock markets posted negative returns. The Australian market was particularly weak, down 5.5% in local currency. The Fund is fully hedged against movements in the Australian/New Zealand dollar. This has helped protect the Fund's performance over recent years as the Kiwi dollar rose strongly, however it meant that it didn't receive any benefit from the 5.5% decline in the Kiwi dollar. Detractors over the month included Meridian Energy and Mighty River Power as concerns over the future of the Tiwai Pt aluminium smelter (which consumes approximately 15% of NZ's total electricity generation) weighed on the electricity sector, and Slater and Gordon (SGH), an Australian listed legal services business that has come under pressure since acquiring a large but troubled UK legal business. SGH has been removed from the Fund. Positive contributors included Vector and Ooh! Media.

DEVON TRANS-TASMAN FUND

Solid relative performance was achieved during the month due to a number of our investments generating positive returns. These included Sonic Healthcare which rallied after they announced the acquisition of Medisupport in Switzerland for almost A\$400m. This now makes Sonic the largest independent lab operator in that market. The transaction was priced at 8x EBITDA and is expected to be 8% accretive to earnings in FY16 before consideration of any synergies. Offsetting this positive contribution was very disappointing performance from Slater & Gordon. During June, management hosted an investment day for this business and investors were disappointed by a forecast of weaker than expected cash flow over the next 6-12 months. Also adding to market concerns were reports that the company had historically made an error in its UK financial statements and that ASIC was also reviewing their accounting practices. We have subsequently reduced our position in Slater & Gordon.



QUARTERLY OUTLOOK

Outlook

The environment for equities remains constructive although an increasing level of caution is required due to elevated valuation levels. A major driver of support over recent years has been accommodative central bank policies and although we expect the Federal Reserve to begin to lift cash rates over the next 12-months we believe that the monetary conditions will remain supportive for asset values over the medium-term. Global growth is improving although economic conditions remain vulnerable to shocks, such as the possibility of a major slowdown in Chinese growth or debt default in peripheral Europe.

The New Zealand economy is facing a range of growth challenges. These include the recent falls in the dairy price and a declining contribution from the rebuild of Christchurch. In response to these, and in consideration of a headline inflation rate which is below the target range, the RBNZ has begun to ease monetary conditions. We expect additional interest rate cuts to occur this year and for the New Zealand Dollar to depreciate further. Although our listed stocks continue to be of high quality we need to be very careful of earnings which are leveraged to the domestic cycle and of valuations which remain expensive.

In Australia the economy remains subdued and operating commissions are challenging. This has seen a number of businesses downgrade earnings recently. We remain of the view though that better opportunities will present themselves from this market over the next 12-months due to better relative valuations and efforts being made to support margins through improved operating efficiencies across many businesses.

Equity markets will continue to be volatile over the course of 2015. This should present opportunities for us at Devon to leverage off our fundamental approach to identify high quality business trading at discounts to their intrinsic value.

VISIT: www.devonfunds.co.nz



MONTHLY REPORT

June 2015

NET FUND RETURNS (AFTER FEES AND BEFORE TAX) *

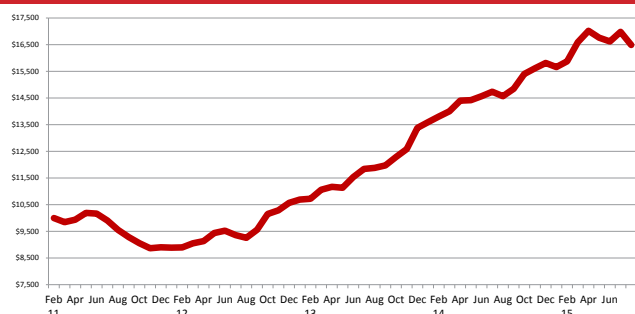
	1 Mth	3 Mth	6 Mth	1 Yr	3 Yr p.a
Devon Alpha Fund	-2.9%	-1.6%	3.9%	13.2%	21.2%
Devon Australian Fund	1.2%	4.3%	13.6%	17.0%	15.9%
Devon Equity Income Fund	-4.3%	-3.4%	3.9%	16.1%	-
Devon Trans-Tasman Fund	0.0%	1.3%	9.1%	16.9%	19.6%
Global Themes Fund	0.7%	7.0%	16.1%	-	-

MARKET INDICES

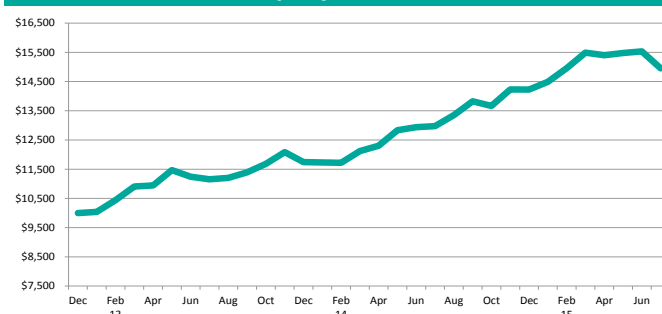
	1 Mth	3 Mth	6 Mth	1 Yr	3 Yr p.a
OCR	0.3%	0.9%	1.7%	3.5%	2.9%
S&P NZX50	-2.0%	-1.8%	2.8%	11.4%	19.0%
ASX200 (NZD)	0.0%	4.3%	11.9%	11.4%	10.7%
TT Index (Hedged)	-3.7%	-4.2%	3.0%	8.5%	-
TT Index (Un-Hedged)	-1.0%	1.2%	7.4%	11.4%	14.9%
All Country World Index	0.0%	5.8%	11.5%	-	-

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

Devon Alpha Fund

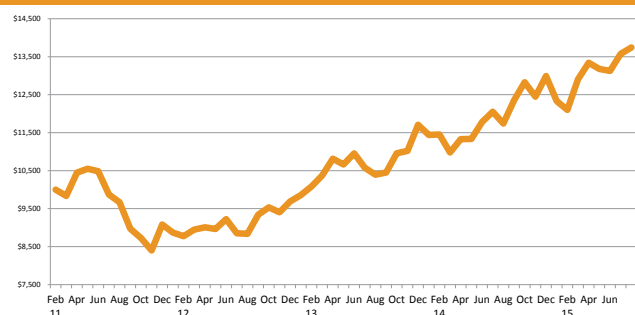


Devon Equity Income Fund*

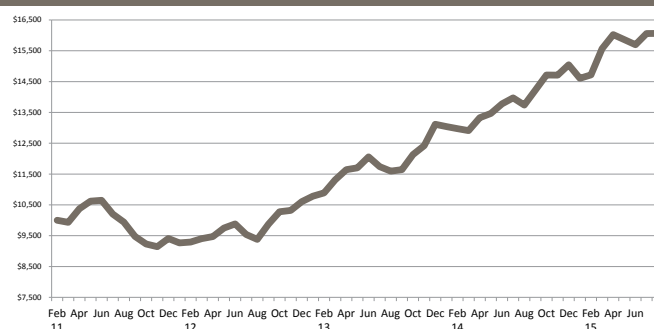


*Fund commenced on 20 December 2012

Devon Australian Fund



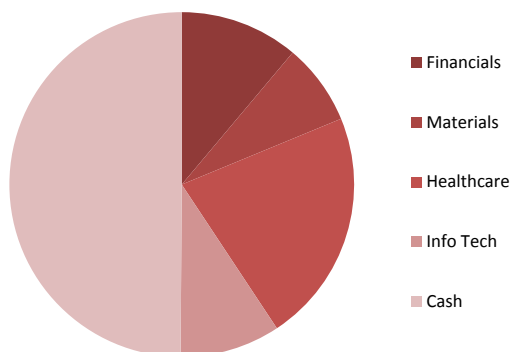
Devon Trans-Tasman Fund



*Past performance is not a reliable indicator of future returns.

Devon Alpha Fund

Sector Allocation



Geographic Allocation

New Zealand Equities	28.2%
Australian Equities	21.9%
Cash	49.9%
	100.0%
Currency Hedge	96.1%

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.

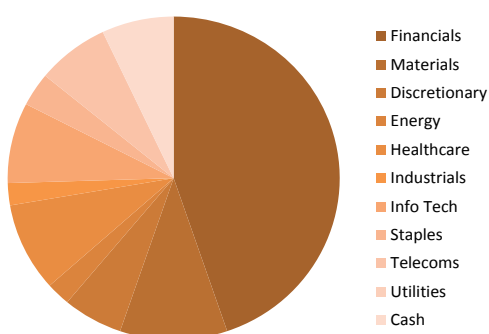
PORTFOLIO MANAGER - SLADE ROBERTSON

Slade has a long and successful career in investment management. With over 20 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

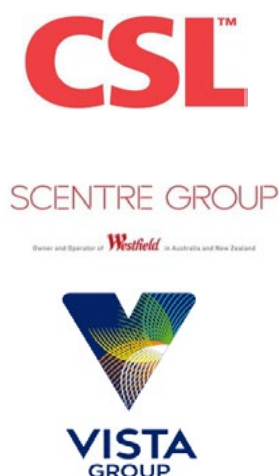
Sector Allocation



Geographic Allocation

Dual Listed	7.0%
Australian Equities	86.0%
Cash	7.0%
	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.

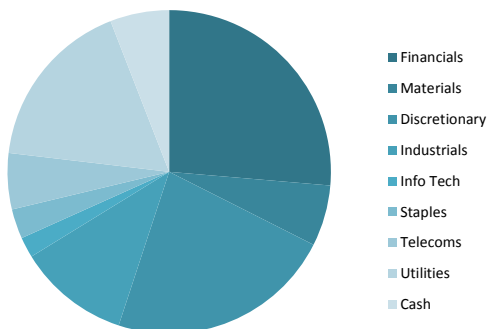
PORTFOLIO MANAGER - TAMA WILLIS

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	50.9%
Australian Equities	43.2%
Cash	5.9%
	100.0%
Currency Hedge	97.5%
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.

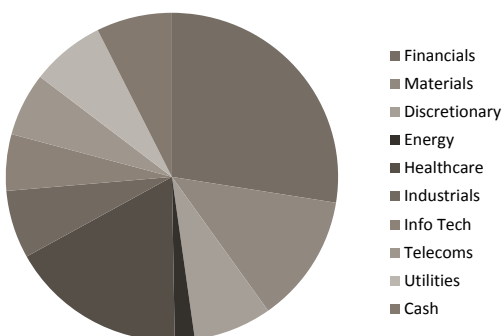
PORTFOLIO MANAGER - NICK DRAVITZKI

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	39.7%
Australian Equities	52.9%
Cash	7.4%
	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.

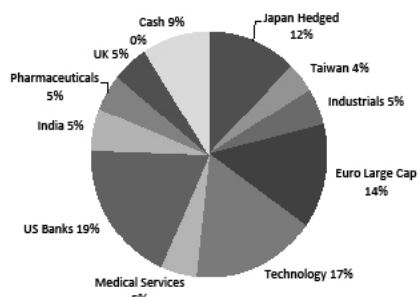
PORTFOLIO MANAGER - SLADE ROBERTSON

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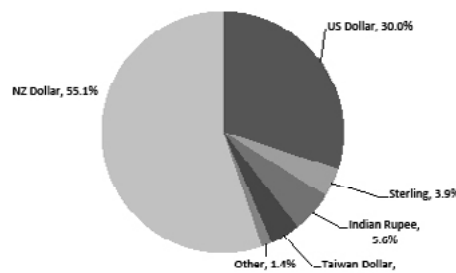


Global Themes Fund

Sector Allocation



Currency Exposure



Net Performance Since Inception

Returns versus Benchmark



* I-shares All Country World Index ETF, 50% hedged to NZD
Source: Datastream, Iress, JBWere Investment Strategy Group

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 an 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 to the fund.

SENIOR INVESTMENT ADVISER - BERNARD DOYLE

Bernard oversees equity strategy and global tactical asset allocation for JBWere New Zealand. Prior to this role, Bernard was the New Zealand Equity Strategist for Goldman Sachs and Partners, where his team was rated #1 for Strategy and Economics by INFNZ for a number of years. Bernard has 18 years experience in financial markets. He graduated in 1993 with Honours in Economics from Victoria University of Wellington.



WHAT WE OWN AND WHY

US Banks were a strong performer for us in June, rising ~10% in New Zealand dollars. We think this thematic is in a good spot now with a combination of strong US loan growth, rising bond yields and valuations all aligning behind our investment case. We remain comfortable with a significant overweight. That said, we would be surprised to see a breather in performance if US bond yields were to rally materially on Greek distress.

Our European investments are set for heavy weather with the breakdown in negotiations between Greece and the creditor alliance. How this situation evolves will dominate fundamentals in Europe, and on that basis we see good grounds for tactically positioning for better prices. On that basis we have reduced our European Banks holding and let cash build in the portfolio until visibility around Greece improves. Longer term, we remain comfortable with direct exposure to the Eurozone. Most encouragingly, we are seeing clear picture of an improving macroeconomic environment. This, combined with ongoing support from the European Central Bank, keeps the medium term prospects positive for the region.

RETURNS

The Global Themes Fund rose 0.7% in June to a unit price of \$2.3977. This compared with a flat month in global equity markets. The Fund has risen 20.2% since inception in October 2014, versus 14.0% in the I-Share All Country Exchange Traded Fund 50% hedged to NZD.

CURRENCY EXPOSURE

The Global Themes Fund uses currency as another thematic lever. We continue to remain happy fully hedging our exposure to Euro and Yen.

The New Zealand dollar fell sharply through June, helped by a rate cut from the RBNZ. We chose to increase our hedge position back to 50% on the back of this weakness. This, together with our higher cash weighting, gives us a total exposure to NZD of 55%.

While we continue to see downside in the NZD, the sell-off is beginning to look stretched from a tactical standpoint. On that basis we will look for opportunities to increase our hedging from here – especially on further weakness.